



GLOBAL
GOVERNANCE
ADVISORS

Pension Governance Best Practices

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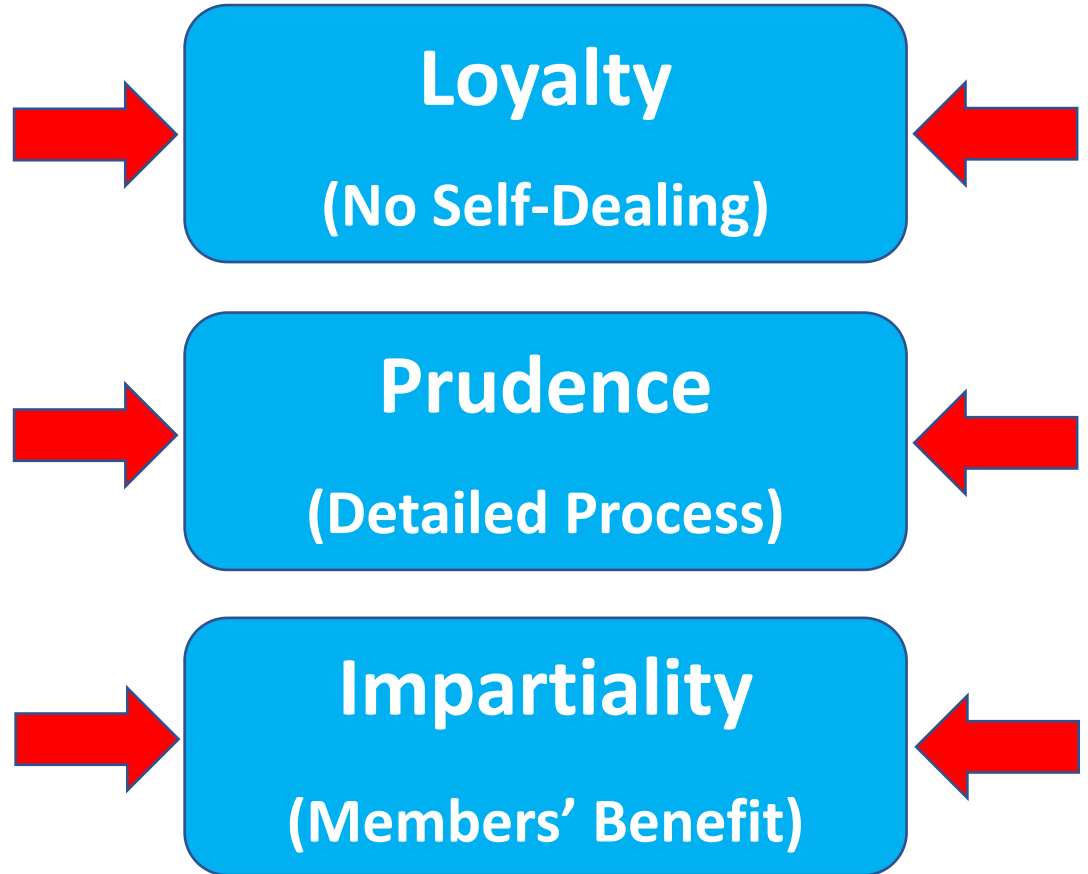


MUNICIPAL POLICE
EMPLOYEES' RETIREMENT SYSTEM

March 20, 2024

Remember Your Duties

Basic Fiduciary Duties



HB 42 AND ALIGNMENT TO BEST PRACTICES



House Bill 42 Proposed Governance Change



Bill Proposes to alter MPERS Board composition:

- Add 4 Mayoral Positions
- Result in 6 Total Mayoral Positions
- Dilute Employee Representation

***Is This Aligned With Current
Pension Governance Best
Practices?***

***Is This Aligned With Current
Pension Governance Trends?***

(2007) The State Of Global Pension Fund Governance

- Poor Governance can cost pensions 1 to 2% annually
 1. Financial oversight
 2. Board composition and skills
 3. Board evaluations
 4. Clarity in board and management roles
 5. High-performance cultures with competitive compensation


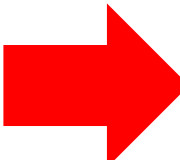


Ambachtsheer, Capelle, and Lum
The State Of Global Pension Fund Governance Today

Good Governance Helps Generate ... A Lot!

(2019) Public Pension Board Composition & Returns

- Good Governance can gain pensions **24 bps in their 10-yr returns**

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1. **Structure:** one fiduciary board for both investment and administrative oversight
 2. **Size:** 6-10 members
 3. **Stakeholder Representation:** at least one ex-officio member and only 20%-70% active and/or retired participants
 4. **Financial Expertise:** at least two members with financial or actuarial experience
 5. **Tenure:** 8-10 years of tenure, on average

Jean- Pierre Aubry, and Caroline Crawford
Does Public Pension Board Composition Impact Returns?

***Given its Identified Impact
Pensions Need to Make
Good Governance a
Priority If They Want to Be
Sustainable***



Study: The State Of Global Pension Fund Governance Today

Board Composition & Skills

- Strong correlation between governance quality and fund performance
 - Haphazard selection process and composition is a problem
 - “Weak oversight functions continue to lead to difficulties in sorting out the competing financial interests of differing stakeholder groups, and result in organization dysfunction.”





Study: Does Public Pension Board Composition Impact Returns?

Board Structure

- Single fiduciary Board is recognized as a best practice:
 - All pension activities (investment & administration) are considered together and not siloed

Board Size

- Pension Board size ranged from 5 to 19:
 - Average size was 10
- Ideal recommended size is 6 to 10 which:
 - Allows for stakeholder representation
 - Small enough to function efficiently

C E N T E R *for*
R E T I R E M E N T
R E S E A R C H
at B O S T O N C O L L E G E

Board Member Composition

- Adequate stakeholder representation is also a best practice:
 - Plan participants, government officials, and general public members should all have a voting presence
 - Average Boards
 - Over 50% were plan members
 - 15% were ex-officio members
 - 31% were general public

C E N T E R *for*
R E T I R E M E N T
R E S E A R C H
at B O S T O N C O L L E G E

HB 42 Proposes to grow the board from 15 to 19, increase the competing financial interests, and increase mayoral representation with no regard for required knowledge or skill.

TRENDS IN PENSION GOVERNANCE

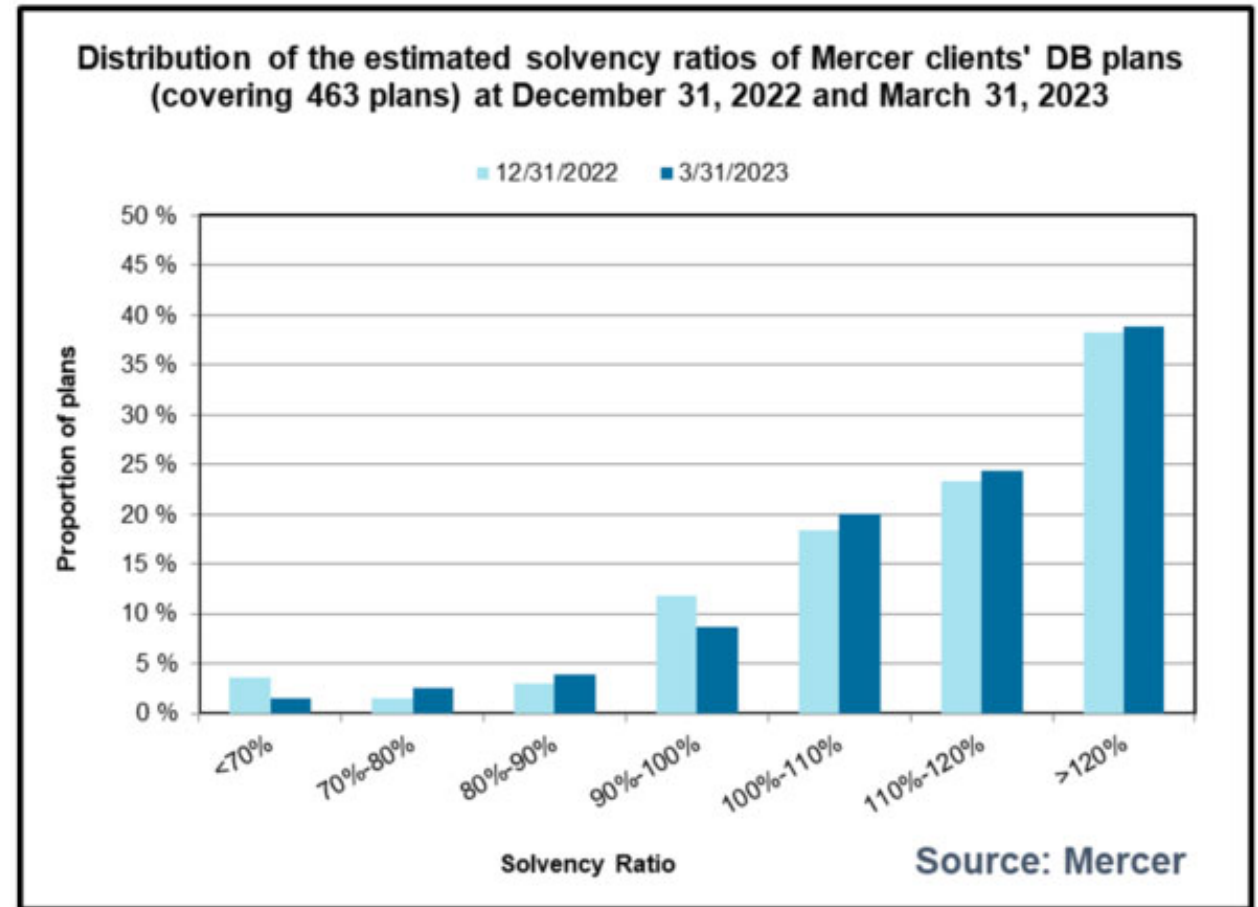


***Leading Transformed
Funds Initially Focused On
Removing Politics (Political
Representatives) From
Their Boards.***

Successful Transformation Did Not Mix Well With Politics

2023 Mercer Pension Report

- Transformed funds are healthy
- >83% of all Canadian funds are over 100% fully funded
- Median is 116%
- 9% are between 90 to 100%
- 4% are between 80 to 90%
- 4% are below 80%



Member representation was sustained while political control and representation was diminished.



Police & Firemen's Retirement System of New Jersey

- In response to New Jersey's financial situation, the PFRSNJ decided to become a standalone System.
- In the words of its new Chair, Ed Donnelly
 - “We ran the risk of becoming a victim like the pensions in Detroit.”
 - “We needed to get politics out of our system.”
- New 12 Member Board
 - 5 Governor Appointees
 - 7 Appointed & elected representatives





Kentucky County Employees Retirement System

- In response to Governor intervention and pension sustainability in question, CERS separated.
- New 9 Member Board
 - 6 Governor Appointees
 - All appointees are selected from a list compiled by the Kentucky League of Cities, Association of Counties, and School Boards Association
 - 3 elected representatives





Detroit Police & Fire Retirement System

- Insolvency protection legislation included the creation of an external investment committee.
- New 9 Member Committee (20 Years)
 - 5 Independent Governor Appointees (Two must reside in Michigan)
 - 2 retirement and 2 active member representatives
 - If not in agreement, US Bankruptcy Court, Eastern District of Michigan
- **Result is that the system is consistently recognized as a low performing system.**



DB PENSION HUMANAN RESOURCE TRENDS

HR Pressures are Forcing U.S. Employers to Change

Recent Willis Towers Watson Survey

- Increased willingness to leave for benefits & growth opportunities
- Talent acquisition costs much more than employee retention
- A growing number are adding or considering adding lifetime income benefits to DC plans
 - 30% of plan sponsors offer one or more solutions
 - 60% are considering solutions



What do lifetime income DC plans sound like?

The current “great resignation” has most likely increased interest.



Dallas Police & Fire Retirement System

- FBI raided an external real estate management office
- Caused a community panic which led to:
 - Serious reputational damage
 - A run on its voluntary DROP program
 - A sustainability crisis
- Grandfathered the existing DB plan and converted to a DC plan for new members
- Could not attract/retain public safety personnel
- **Forced to increase base pay for all public safety employees**



State of Alaska

- Removed the offer of DB pensions and implemented DC pensions for economic/sustainability reasons
- Could not attract and retain personnel it needed throughout the state
- **Is now reinstating DB plans at a great cost to the state**
 - Cost is associated to transition requirements and activities





Employees' Retirement System of Rhode Island

- Moved to a hybrid retirement plan in 2012 and state employee turnover has spiked
- A recent actuary report:
 - Estimates that only 31 out of 100 new hires will remain employed in state government in 20 years
 - In contrast, an earlier report estimated that 41 out of 100 new hires will remain employed in state government in 20 years



The National Institute on Retirement Security noted that

“pensions serve as worker magnets in terms of recruitment and retention for public sector jobs that typically offer lower salaries than private sector jobs” and that the expected attrition “certainly will have an impact on the quality of public services.”

CONCLUSION

As proposed, HB 42:

- Will misalign MPERS with current governance best practices
- Potentially impact MPERS' ability to perform
- Misalign MPERS with current public pension trends
- Potentially impact Louisiana's ability to attract and retain public policing personnel moving forward



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