



## State Teachers Retirement System of Ohio (STRS Ohio)

### Implementation of Fiduciary Audit Recommendations/Governance Considerations

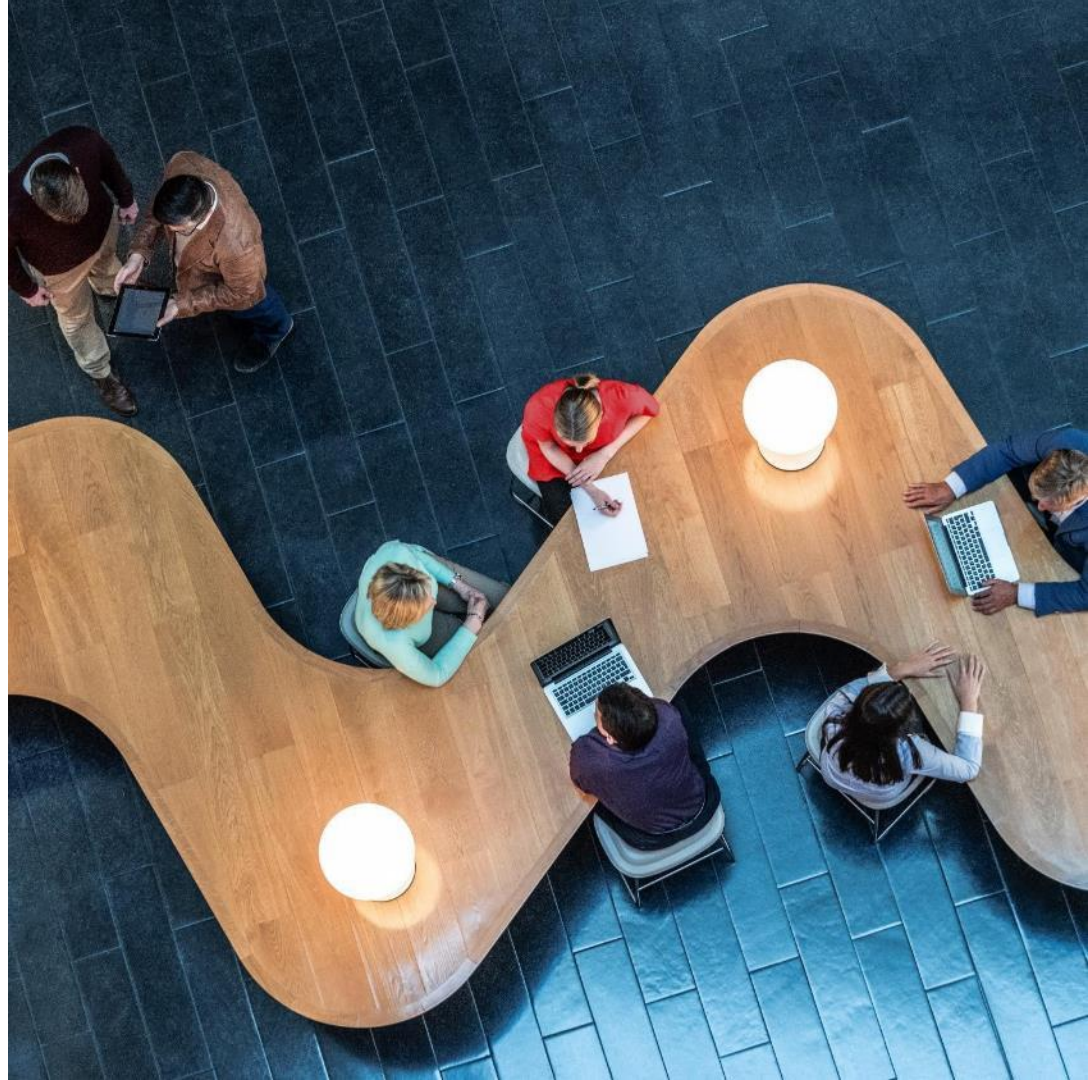
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November 16-17, 2023

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# 1

## Background



# Background

Aon's Fiduciary Services Practices (Aon) was engaged as the STRS Ohio Board Governance Consultant.

As part of the Scope of Work, Aon's purpose at the November Retirement Board Education & Planning Meeting is to facilitate a discussion of board governance topics, taking into consideration the 2022 Fiduciary Performance Audit recommendations related to board governance.

This presentation is to serve as a working outline for the expected discussion at the November session. Your feedback as Trustees is vital to this process, so we will be seeking your thoughts and direction on each of the board governance topics.

Please note that this is our initial discussion and additional discussions will be scheduled with the Board for these and other governance items.

# 2

## Board Committees



# Current Board Committees

The Board has the following standing and ad hoc committees:

1. Disability Review Panel
2. Final Average Salary
3. Audit Committee
4. Investment Committee
5. Staff Compensation and Benefits Committee
6. Health Care Committee
7. Ad Hoc Board Governance Committee
8. Ad Hoc Board Education & Planning Committee
9. Ad Hoc Legislative Committee

# Audit Recommendations/Aon's Perspective —

Aon has listed audit recommendations in order of our view of priority and logical implementation of final Board decisions.

Recommendation	Aon's Perspective
1. The Board should formally delegate policy and decision due diligence and more oversight responsibilities to its committees to reduce full Board meeting time and improve decision-making and oversight.	Agree
2. The Board should eliminate the Board's Disability Review Panel (DPR) and delegate the appeals process to staff and the medical review board and focus the Board more on oversight of the policies and procedures, including approval of selection of the medical review Board. This will enable to the Board to focus on process and oversight where it determines that delegation is prudent.	Agree and will discuss options for implementation
3. The STRS Board should eliminate the Final Average Salary Committee and delegate the approval responsibilities to staff.	Agree

# Audit Recommendations/Aon's Perspective —

Aon has listed audit recommendations in order of our view of priority and logical implementation of final Board decisions.

Recommendation	Aon's Perspective
4. The Board commit to a functioning standing board committee approach, with a streamlined structure with five standing committees and new charters should be developed that clearly articulates the responsibilities of each committee.	Agree there should be standing committees with a streamlined structure and new charters. Different view on number and composition of the ultimate standing committees.



# Fiduciary Audit Recommendations re: Standing Committees

## **Fiduciary Audit Recommendations:**

1. Audit
2. Investment Committee
3. Board Governance Committee
4. Finance and Compensation Committee
5. Members Services Committee

## **Aon's Recommendations:**

1. Audit
2. Investment Committee
3. Board Governance
4. Legislative Committee

# Current Board Committees – Aon Recommendations

Committee	Recommendation
Disability Review Panel	Dissolve and Delegate to Staff
Final Average Salary	Dissolve and Delegate to Staff
Audit	Maintain and Expand Scope
Investment	Maintain and Increase Utilization
Staff Compensation & Benefits	Dissolve and use Full Board
Health Care	Dissolve and use Full Board/Dashboard
Ad Hoc Board Governance	Make standing committee and add to scope of authority, including assuming responsibilities currently assigned to the Ad Hoc Board Education & Planning Committee
Ad Hoc Board Education & Planning	Dissolve and delegate to Board Governance Committee
Ad Hoc Legislative	Make standing committee

# Aon's Recommended Standing Committees

Audit
Investment
Board Governance
Legislative

## Audit Recommendations/Aon's Perspective —

Aon has listed audit recommendations in order of our view of priority and logical implementation of final Board decisions.

Recommendation	Aon's Perspective
5. The Board Chair should meet with each trustee, especially when they are first elected or appointed, and discuss their interests and experience in consideration of their appointment to committees.	Agree and is supported through initial Board feedback
6. Revise the Officer Policy and practices for participation and leadership of committees based on Board member skills and competencies to be identified and supported through a robust process for skills assessment and continuing education.	Agree and is supported through initial Board feedback
7. The Board Governance Manual should be revised consistent with the existing practice where the Board Chair proposes committee membership each year and makes the recommendation to the full Board for approval.	Agree

## Audit Recommendations/Aon's Perspective —

Aon has listed audit recommendations in order of our view of priority and logical implementation of final Board decisions.

Recommendation	Aon's Perspective
8. Each committee should elect its chair annually; the Board Chair should not be the chair of any Board committees, except for the Board Governance Committee if that new committee is implemented.	Agree
9. Appointed trustees should be considered as potential committee chairs, especially when they have the most relevant experience in the area of responsibility of the committee.	Agree
10. Revise the Officer Policy to permit broader participation in Board leadership.	Currently elected members may serve as Board Chair or Vice Chair. Our view is that if the Board agrees to the recommendation to consider appointed trustees as potential committee chairs, this recommendation might not be needed.

## Audit Recommendations/Aon's Perspective —

Aon has listed audit recommendations in order of our view of priority and logical implementation of final Board decisions.

Recommendation	Aon's Perspective
11. The Board Governance Manual should be revised consistent with the existing practice where the Board Chair proposes committee membership each year and makes the recommendation to the full Board for approval.	Agree
12. Once a well functioning committee structure is realized, the Board should consider reducing the frequency of its full Board meetings to bi-monthly.	Agree. This is also generally supported by initial Board feedback. However, the implementation and operation of the standing committee structure and trust in the process first needs to be realized before this can be ultimately implemented.

*Note there are more fiduciary audit committee specific recommendations (e.g., Audit Committee) that will be addressed once the standing committees are finalized.*

# 3

## Trustee Education



# Audit Recommendations/Aon's Perspective

Recommendation	Aon's Perspective
<p>1. Develop an overall onboarding and continuing education plan for the full Board and for each individual trustee. Establish a formal process for self-assessment, including a skill inventory, and tie the annual education plan to identified developmental needs and the strategic plan.</p> <ul style="list-style-type: none"><li>a) Identify individual needs and priorities that consider new trustees, leadership roles, and committee membership</li><li>b) Include the curriculum and source of training (e.g., in-house, external conference, webinar, online training)</li><li>c) Overall timetable and progress reporting compared to plan.</li></ul>	<p>1. Agree overall and is supported through initial Board feedback. Aon can work with the Board Governance Committee to build out the Trustee Education Plan, with ultimate adoption by the full Board.</p>



# Audit Recommendations/Aon's Perspective

Recommendation	Aon's Perspective
<p>2. Rotate the for agenda for training topics for the annual retreat year over year to present new information and perspectives in addition to core subjects. For example, Board retreat should cover:</p> <ul style="list-style-type: none"><li>• Training on fiduciary duties that is periodically refreshed and covers the practical implication of fiduciary obligations, including relevant examples of situations that trustees could encounter.</li><li>• Development of Board priorities and strategic plans.</li><li>• Strategic issued education based on near-term priorities/issues.</li><li>• Subcommittee and Board member self-evaluations.</li><li>• Planning for continuing education for individual members and the Board as a whole.</li></ul>	<p>2. Agree overall. These duties can be performed by the Board Governance Committee.</p>

# 4

## Parliamentary Procedure- Robert's Rules



# Parliamentary Procedure-Robert's Rules of Order

- The Board received parliamentary procedure training at a recent board meeting.
- If the Board decides that Robert's Rules should govern where applicable and consistent with law, we recommend engaging a parliamentary expert to assist with implementation. We recommend that the parliamentary expert attend board meetings to provide necessary guidance.
- We also recommend that the parliamentary expert work with legal staff and the Ohio Attorney General legal representative to ensure coordination of law with implementation of Robert's Rules.
- The Board should continue to explore whether Robert's Rules for small boards would be effective.
- The Board can ultimately create their own procedural rules and policies that can be adopted into the governing by-laws and board policies.
- Finally, we believe there should be parliamentary procedure training for committee chairs. We are available to work with the parliamentary expert to provide appropriate training.

# Parliamentary Procedure-Robert's Rules of Order

The current Officers, Terms of Office, Duties Policy provides that the Chair shall utilize his or her best efforts to see that the Board operates consistently with federal law, the Ohio Revised Code, the Ohio Administrative Code, applicable legal precedent, or Board Policies. Robert's Rules may act as a guide for conducting Board meetings.

There is a motion to amend the language to read as follows: "On matters of parliamentary procedure when not governed by the Open Meetings Act, STRS statutes (ORS 3307), rules (OAC 3307) or other applicable state law, the Board will follow the most current edition of Robert's Rules of Order, unless otherwise noted in these Board Policies and Procedures."

# Parliamentary Procedure-Robert's Rules of Order

STRS General Counsel has offered the following language to modify the Officers Policy, should the Board desire to move forward.

- A. The Chair shall utilize his or her best efforts to see that the Board operates consistently with applicable federal and state law, including the Ohio Revised Code, and the Ohio Administrative Code, applicable legal precedent, ~~or~~ and Board Policies. On matters of parliamentary procedure, when not governed by any of the foregoing, the rules contained in the current edition of Robert's Rules of Order Newly Revised will govern when applicable.
1. Meeting discussion content will be only those issues that, according to Board Policies, clearly belong to the Board to decide, not the Executive Director.
  2. Deliberation will be timely, fair, orderly and thorough.
  - ~~3. Robert's Rules may act as a guideline for conducting Board meetings.~~

# 5

## Executive Director Performance Evaluation Process



# Proposed Executive Director Performance Evaluation Methodology



# 6

## Key Performance Indicators





# Key Performance Indicators (KPI)



## **KPI's can be described as metrics used to track performance**

- KPI's are internally developed and managed
- KPI's are often built from past strategic planning documents and can provide structure in facilitating future strategic planning discussions
- KPI's connect goals with work performance and progression
- Because KPI's track successes based on predetermined benchmarks, they serve as an effective way to determine success

# KPI's in Practice



- KPI's can be utilized by first establishing a baseline, as well as targets (benchmarks)
- Track KPI's through the STRS Dashboard to provide a clear visual of progress being achieved
- Focus on critical items, not every task warrants KPI status
- KPI's on the STRS Dashboard will requires regular updating and monitoring by staff
- Vital Dashboard stay up to date
- Provide regular status reports to the Board regarding the progress and achievement of KPI's

# Assist not Distract

**Caution** – data collection and evaluation from KPI's should not distract from the overall mission and vision of STRS.



# Example of Generalized KPI Organization



1

Solvency of  
the fund

2

Member  
satisfaction

3

Member  
engagement

4

Employer  
engagement

5

Liquidity

6

Level of  
retirements

7

Payroll  
growth

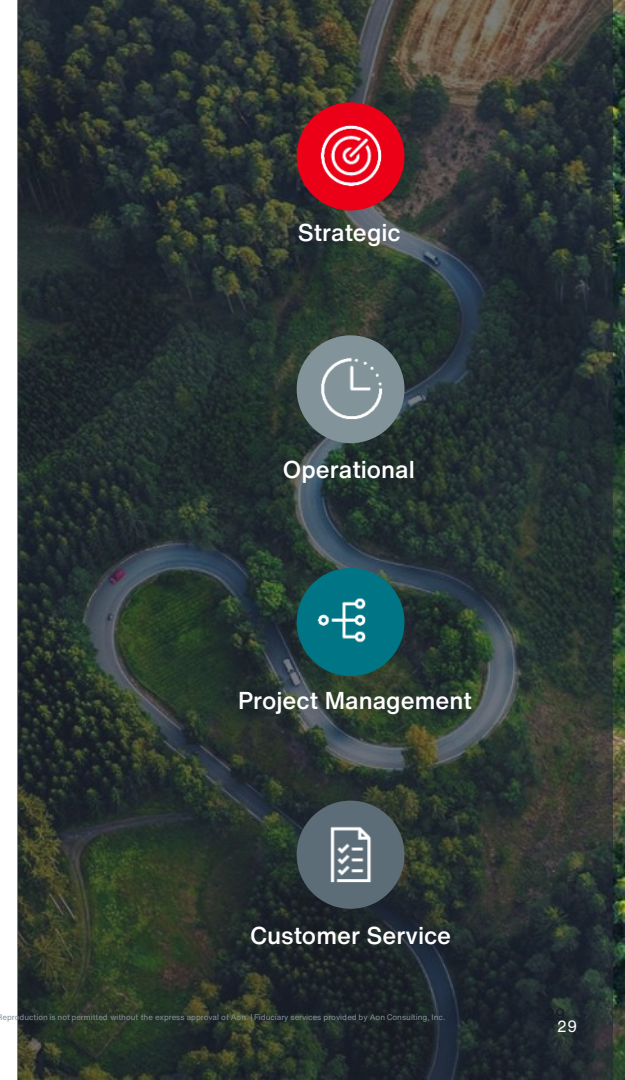
8

Budget/  
administrative  
expenses

# Example of Categorical KPI Organization

KPI's can be characterized as:

- Strategic — tend to be high level and broad based
- Operational — focus on internal efficiencies
- Project Management — for example, IT or capital projects
- Customer Service — Evaluate performance and member/stakeholder satisfaction



# Potential Categorical KPI's for STRS

- Strategic
  - Funding level
  - Overall investment performance
  - Comparison to peer groups
  - Maintain tax qualified status



Strategic



Operational



Project Management



Customer Service

# Potential Categorical KPI's for STRS

- Operational
  - Ensure administrative expenses fall within the average range as measured by CEM or another reputable source
  - Achieve budget reasonableness and compliance
  - Realize a clean financial audit
  - Maintain readiness in case of disaster recovery



Strategic



Operational



Project Management



Customer Service

# Potential Categorical KPI's for STRS

## Project Management

Goals dependent on nature of the project, e.g., IT, building etc.

- o Timeliness
- o Cost effectiveness



Strategic



Operational



Project Management



Customer Service



# Potential Categorical KPI's for STRS

- Customer Service
  - Accurate benefit payment with less than 3% error rate
  - Process time for disability
  - Member communication and transparency
  - Accuracy of data provided to members, e.g.; web site information regarding investments, meetings



Strategic



Operational



Project Management



Customer Service

# KPI Selection

- Ensure KPI's align with existing strategic goals
- Quantify the KPI to a concise and clear metric; not too broad and not too narrow
- Avoid unnecessary detail that could confuse understanding or tracking of the KPI
- When stated appropriately, KPI's should result in actionable items or operational next steps



Strategic



Operational



Project Management



Customer Service

# 7

## Next Steps



# Next Steps

- After receiving direction from the Board at this November session, Aon will begin the necessary drafting and execution of the decisions, and work with relevant parties, as necessary.

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