



Agenda Item 7

February 18, 2015

ITEM NAME: Board Education Program

PROGRAM: Board Education

ITEM TYPE: Information

EXECUTIVE SUMMARY

This agenda item provides an overview of the requirements of AB 1163 and explains the implementation plan for the Board Education Program.

STRATEGIC PLAN

This item is not part of the Strategic Plan. The Board Education Program is designed to implement AB 1163, which went into effect on January 1, 2015. Although not part of the Strategic Plan, development of the Board Education Program is consistent with Strategic Plan Goal B -- to cultivate a high performing, risk intelligent, and innovative organization -- as well as with sound governance practice.

BACKGROUND

On July 18, 2014, the Governor approved AB 1163, adding Government Code section 20100 to the PERL effective January 1, 2015. The statute requires that CalPERS adopt an education policy and imposes continuing education requirements for the Board Members. The Board amended its Education Policy in December 2014 to conform to section 20100. Similar legislation was previously adopted in 2012 for local systems governed by the County Employees' Retirement Law of 1937.

ANALYSIS

Section 20100 requires that:

- CalPERS adopt an education policy for the Board Members,
- All Board Members receive 24 hours of education within the first two years of assuming office and for every subsequent two-year period in which the person serves on the Board, and
- CalPERS keep a record of Board Members' compliance with the policy and post the policy and an annual report of training completed to the CalPERS website.

These requirements also apply to the Board Member designees.

The statute provides that the policy, at a minimum, shall identify appropriate topics for Board Member education, which may include, but are not limited to:

- Fiduciary responsibilities
- Ethics
- Pension fund investments and investment program management
- Actuarial matters
- Pension funding
- Benefits administration
- Disability evaluation
- Fair hearings
- Pension fund governance
- New Board Member orientation

The statute does not dictate the means by which the education is accomplished, leaving that to CalPERS policy. As noted above, in December, the Board amended its existing Education Policy to incorporate the statutory requirements in section 20100.

After considering various options for developing the Board curriculum and consulting with the Board President, we have engaged the University of California Davis, Graduate School of Management (UC Davis GSM) to develop and deliver a customized Board Education Program that will include pertinent topics, with the exception of Fiduciary Training which will continue to be provided by the Board's external Fiduciary Counsel. In addition, certain other statewide legislatively mandated training such as Political Reform Act and Sexual Harassment Prevention, will continue to be offered separately.

This engagement will build upon an existing relationship with UC Davis GSM for the development and ongoing delivery of the INVO Smart Program. Over 130 staff from the Investment Office and other parts of the organization have taken this course and it has been extremely well received.

As currently envisioned, the Board Education Program will consist of three-to-four modules each calendar year, presented by UC Davis GSM faculty, along with pertinent CalPERS staff and Board Consultants. Training will be targeted during regular Board weeks or during offsite meetings. Sessions will be video recorded to allow for any Board Members or designees not present to view the video for training credit.

Other options considered include the following:

- Develop the training in house, using staff resources only. We believe that it is important for the Board Education Program to include external perspectives and expertise. This will facilitate a comprehensive approach and add credibility to the Program.
- Use existing external conferences and programs to meet the requirement. Although there are conferences and programs that provide important training and education for pension fund fiduciaries, they do not coincide with all the pertinent areas. The partnership with UC Davis GSM will allow for training that is customized to CalPERS unique issues. We also believe the credibility of the Program will be enhanced through partnership with an academic institution.

In addition to the core curriculum that will be developed for the Board Education Program, it is anticipated that Board Members and designees will continue to avail themselves of training and educational opportunities in addition to the CalPERS sponsored program.

Next Steps:

- Develop curriculum and materials
- Determine schedule for delivery of training
- Develop monitoring process and posting mechanism

BUDGET AND FISCAL IMPACTS

Staff has requested \$225,000 for ongoing funding during the annual budget process. This anticipated cost covers the work to be performed by UC Davis GSM for curriculum development and delivery of two years of the curriculum. Staff resources required to coordinate and implement the Program will be absorbed by the existing budget. The cost should decrease after the first two years because basic content will have been developed, although content will continue to be updated as issues change.

Two hours of fiduciary training will be provided annually by the Board's Fiduciary Counsel. The cost is included within the existing Fiduciary Counsel contract.

BENEFITS/RISKS

This Program is required to comply with Government Code section 20100, which is consistent with fiduciary duty and sound governance. Benefits include additional education for Board Members as well as for staff who may attend the Program, and further leveraging an already productive relationship with a well-respected academic institution. The program will be customized to CalPERS' unique needs, will be conveniently located, and may result in some decrease in travel expenses required to attend external conferences.

We see little if any risk associated with developing this Program. As with any new endeavor, it may take some time to fully evolve the Program.

ATTACHMENTS

- Attachment 1 – Copy of AB 1163
- Attachment 2 – Board Education Policy

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