

## Exhibit A - Summary of Recommendations

Set forth below are summaries of all recommendations from the preceding report. They are listed in the order they appear in the report with corresponding page number. The Task Area of each recommendation or related series of recommendations is set forth for ease of reference.

Page	Recommendation
<b>A – Investment Issues</b>	
<b>1. The Investment Policy Statement</b>	
25	<i>The IPS Purpose section should be amended to state clearly for whom and why the Plan exists (i.e., STRS’ mission and purpose) or at a minimum reference the mission and purpose stated in the Board’s Policies.</i>
27	<i>The STRS IPS Investment Objectives section should be expanded to clearly incorporate STRS’ actuarial, accounting and financial objectives. The language of the IPS investment objectives section should include (a) earning a rate of return in excess of inflation that equals or exceeds the actuarial rate of return over an established investment horizon, (b) earning a rate of return that enables the System to meet liabilities and fulfill minimum funding requirements (as well as possibly the goal of achieving a certain funded ratio), (c) maintaining sufficient liquidity to satisfy annual cash flows, and (d) earning a rate of return that equals or exceeds the System’s long term policy index with an acceptable level of risk.</i>
27	<i>The STRS IPS Investment Objectives section should document STRS’ official Policy Index using representative index benchmarks for each asset class.</i>
29	<i>The IPS should identify the key documents that must be produced (IPS, Asset Allocation Study, Actuarial Study, and Asset Liability Study), the party responsible (consultant, actuary, etc.), the frequency with which key documents are developed and/or reviewed, and how they are incorporated into the System’s investment policies. The following is a suggested frequency of review schedule for some of the documents that are key to the investment process:</i> <ul style="list-style-type: none"> <li>• <i>Conducting an asset liability study – once every five to seven years,</i></li> <li>• <i>Conducting an asset allocation study – once every two to three years</i></li> </ul>
29	<i>The IPS should reference delineation of investment decision making roles and responsibilities set forth in the Statement of Governance and the Board Policies.</i>
29	<i>The IPS should define the lines of reporting among the Board, Investment Staff, and the investment consultant.</i>
29	<i>If the Board of Trustees and Investment Staff rely on interim updates to key financial data, the IPS should specify in an addendum the source of the data, what it supplants and how it is relied upon.</i>



Page	Recommendation
33	<i>The STRS IPS could be a more significant summary document of the System’s investment program if it were to account explicitly for the amount of risk in the program and how it may impact the financial condition and funding requirements.</i>
35	<i>The IPS should explicitly acknowledge the specific funding requirements that the investment program is designed to satisfy. It may also include language that addresses the need to review how well the System has performed each year in terms of complying with funding requirements, and the explicit steps that the Board and Investment Staff will take to address underperformance<sup>1</sup>.</i>
<b>2. Portfolio Risk</b>	
	<i>None</i>
<b>3. Investment Performance</b>	
74	<i>Consider adding additional international equity portfolio characteristics to the regular quarterly reporting</i>
76	<i>We recommend that the Fund consider the MSCI All Country World ex. U.S. Index (50% hedged) as a possible secondary or new primary benchmark to measure the performance and risk of the composite international equity program since the MSCI All Country World ex-U.S. Index includes both developed and emerging market country allocations which are slightly broader in number of emerging market countries than the current International Equity Hybrid Index.</i>
82	<i>IFS recommends that Fund staff review the current fixed income reporting provided to the Board and staff and work with its outside consultants to include additional fixed income reporting as determined necessary.</i>
88	<i>As part of the Annual Investment Plan and the Fund’s investment objectives, the Fund may wish to reconsider an expanded role for “value added” or “opportunistic” real estate strategies if compelling investment opportunities on a risk adjusted basis are identified.</i>
93	<i>Although the Real Estate program’s performance has registered solid gains over the past five year period, ending June 30, 2005, versus the custom real estate benchmark, IFS suggests attempting to identify the sources and reasons for the Real Estate program’s increased volatility over the past one to two years as a way to further monitor and control risk.</i>
100	<i>IFS recommends Fund staff consider ways to improve monitoring the program’s allocation, portfolio structure and risks.</i>
104	<i>IFS recommends the Fund consider formally adopting a new benchmark to benchmark risk and performance in the Alternative program and to better reflect the benchmarking process outlined in the IPS such as the Wilshire 5000, Russell 3000 or Russell 2000 small cap index, plus an additional risk</i>

<sup>1</sup> STRS investment staff informed IFS that STRS submits reports to ORSC that address the status of 30 year funding requirements.



Page	Recommendation
	<i>premium of 500 basis points to compensate the Fund for additional risk in the private markets which is being assumed. The Cambridge Associates Private Equity and Venture Capital benchmarks could also be utilized.</i>
<b>4. Investment Structure and Costs</b>	
117	<i>Continue to evaluate the use of passive and active management in the equity and fixed income portfolios.</i>
120	<i>Consider reevaluating the number of external small cap domestic equity managers to determine whether there is unnecessary overlap and whether it is cost effective to retain them all.<sup>2</sup></i>
<b>5. Use of External Consultants</b>	
136	<p><i>Russell’s contract with STRS should be amended to ensure that the contract reflects all the services/advice STRS expects its consultant to provide, including, but not limited to, advice from Russell on:</i></p> <ul style="list-style-type: none"> <li>• <i>Guidelines for external investment managers;</i></li> <li>• <i>Review of the investment strategy and processes employed by STRS internal portfolio management teams;</i></li> <li>• <i>Evaluate the value-added by internal investment management at STRS;</i></li> <li>• <i>Review of proxy voting practices; and</i></li> <li>• <i>Review of internal brokerage practices, transition management advice and STRS’ use of soft dollar services.</i></li> </ul>
144	<i>Russell’s contract with STRS should be amended to require Russell to provide annual disclosure of its business relationships with all investment managers or other providers of investment services. This contractually-required disclosure should include information from Russell on the specific amounts paid to Russell by those investment managers employed by STRS and on the specific services provided to those managers.<sup>3</sup></i>
<b>6. Asset Allocation</b>	
150	<i>The next asset allocation study, or asset liability study, should provide STRS with additional risk statistics by which to assess the Board’s tolerance, particularly to the downside, of not achieving an expected return. It should also show probability statistics that establish the likelihood of achieving an expected return over different time periods and include the recommended target asset allocation in the scenarios that are tested.</i>
156	<i>If the consultant is confident with its sub asset capital markets projections and they are deemed essential to the expected return of the investment program,</i>

<sup>2</sup> Since our fieldwork and initial due diligence, we were informed by STRS staff that there has been a significant consolidation of the manager accounts for domestic equities. Five external manager accounts have been terminated between the time of our interviews and the writing of this report.

<sup>3</sup> STRS’ sister fund, SERS, has developed an excellent investment consultant disclosure policy and annual disclosure document which would be used as a template. SERS also uses Russell.



Page	Recommendation
	<i>the Board may want to come to an agreement with the consultant that this information will be developed and presented in all future studies.</i>
157	<i>Given the potential for alternative assets to provide better returns with less risk than traditional assets, it may be meaningful for the System’s consultant to model the Fund’s asset allocation with increased amounts of private equity and hedge funds to determine if there is an optimal percentage of these assets.</i>
161	<i>The 2005 Asset Liability Study helps to improve many of the deficiencies of the earlier study. IFS continues to recommend that STRS engage in an asset allocation study at least every three years. IFS continues to recommend that an asset allocation study provide volatility analysis, e.g., showing how a 1% change in expected rates of return in both directions would impact the System’s key targets and funding requirements: liabilities, assets, unfunded liability, and funded ratio.</i>
164	<i>As a result of the 2005 Asset Liability Study, STRS increased its allocation to alternative investments from 2% to 3%. Future studies should continue to assess whether it adds value to the total Fund to increase the allocation further.</i>
166	<i>The STRS rebalancing policy is clear and followed closely, however STRS may want to reconsider having a policy that allows the investment staff to rebalance as frequently as intra-monthly.</i>
<b>7. Brokerage Practices</b>	
171	<i>We recommend that STRS arrange, at least periodically, to measure the transactions costs of its external, active domestic and international equity investment managers and use those measurements to assist in monitoring and controlling the managers’ use of STRS commissions.</i>
175	<i>Enhance the policy by articulating the factors staff should consider when voting on and ranking brokers.</i>
179	<i>The STRS policy and procedures governing the selection of emerging and women-owned brokers should articulate additional objective criteria and policies regarding such selections and each candidate’s ability to provide best execution.</i>
180	<i>For reasons parallel to those cited above regarding selection and ranking of minority-owned firms, we believe that the STRS brokerage policy should articulate specific criteria to govern selection and ranking of in-state brokers. These criteria should be designed so using Ohio-based broker dealers is allowed only insofar as such firms provide STRS best execution, as objectively measured.</i>
<b>8. Due Diligence Procedures/Selection of Investment Service Providers</b>	
188	<i>Expand the manager selection policy memo to a full policy and procedure document covering all aspects involved in the manager selection and hiring process, including the specific objectives, authority, and controls. Roles and</i>

Page	Recommendation
	<i>responsibilities in the process should be designated by position rather than by name.</i>
188	<i>Amend the manager selection policy to reference the language in the Statement of Fund Governance delegating investment decision making for the selection, management and termination investment managers.</i>
<b>9. Statutory Provisions and Administrative Rules</b>	
195	<i>See recommendations in Section 11 to amend the current law to remove the in-state bank requirement and to authorize the retirement systems to select their custody banks.</i>
195	<i>If the law cannot be changed as we recommend, the Board should formally request a memorandum of understanding with the State Treasurer which would provide that for the input of the retirement systems into the search, selection, and ongoing monitoring of the custody bank, including by not limited to (a) all negotiations and discussions with the custody bank, (b) participation in the preparation of requests for proposals for custodial services, (c) analysis of the responses to such RFPs, (d) the process for selecting the custodian and monitoring the services provided, and (e) the development of guidelines for the periodic evaluation of the custodian’s services.</i>
196	<i>While the existing statutory framework is in effect, the Board should request that the Treasurer’s staff meet with the Fund’s staff to establish additional procedures to eliminate duplication of effort in reconciling and auditing the custody bank’s work.</i>
198	<i>The Board should review and amend its Statement of Investment Objectives &amp; Policy and/or the Investment Staff Policies and Procedures to reflect the legislative provisions related to investments in businesses owned and controlled by women or minorities. If it has not already done so, the Board should direct the staff to establish and implement the plan regarding investments in businesses owned and controlled by women or minorities which the amendment to the Statement of Investment Objectives &amp; Policy may require. The Board should also develop and implement a system for monitoring and evaluating the implementation of these statutory requirements, taking special care to assure that the monitoring and evaluation processes themselves do not encourage imprudent investment decision-making.</i>
201	<i>The Board should consider amending the portions of its Policy entitled, “Board Member Travel and Expenses” which authorizes up to three trips out-of-state each year for education programs in view of the mandatory in-state education requirement.</i>
205	<i>The Board should review the Ohio and Emerging Brokerage Firm Procedures to assure that they are consistent with the Ohio Investment Manager and Broker Policy and Program, and that they (i) harmonize with the certification and list procedures adopted by the several retirement systems pursuant to S.B.</i>



Page	Recommendation
	<i>133, and (ii) do not impair the quality of services provided to STRS.</i>
206	<i>The Board should revise the Ohio Investment Manager and Broker Policy and Program to delete the requirement that at least one Ohio-qualified investment management firm be included among the finalists in every search for an external asset manager. The Board should identify and implement steps to assure that Ohio-qualified managers are aware of opportunities to submit proposals to manage STRS assets and the processes and criteria STRS uses to select external managers.</i>
208	<i>We recommend that the statute be amended to authorize STRS to retain independent out-side legal counsel without the prior approval of the State Attorney General.</i>
208	<i>In the alternative, if the statute is not amended, or until the statute is amended, we recommend, working with the AG and the Fund's in-house counsel, the Board delineate the respective roles and responsibilities of the AG and STRS' in-house counsel, and develop a memorandum of understanding which establishes a procedure for the Board to obtain independent out-side counsel if and when a conflict arises with the AG.</i>
209	<i>STRS' staff should monitor and report to the Board changes in the flow of responses to requests for proposals to provide investment management services to STRS. In addition, requests for proposals for investment management services should require all respondents to acknowledge that they are familiar with the lobbyist registration requirements and certify that they will comply with them to the extent applicable. The staff should also periodically review respondents' registration filings under the new law which reference STRS decisions in order to determine what, if any, information should be disclosed by STRS with respect to reported lobbying activity, using random sampling as appropriate to assure that the time and effort spent on this effort is commensurate with the value to STRS of the information derived from the review.</i>
211	<i>Upon obtaining clarification of the positions within STRS that are covered by the definition of "state retirement system officers," the Position Descriptions for those positions should be modified to state explicitly that candidates for those positions must be qualified for licensing by the Division of Securities.</i>
<b>10. Conflicts of Interest</b>	
216	<i>STRS should adopt a prohibited transaction policy to define the term "parties in interest." The policy should be modeled on the definition of "parties in interest" contained in ERISA.</i>
217	<i>STRS should also develop a process for analyzing transactions with "parties in interest" to assure that their terms and conditions satisfy the legal standard of comparability to the terms of similar transactions between unrelated parties.</i>

Page	Recommendation
<b>11. Custodian</b>	
228	<i>We recommend that the applicable Ohio statutes be amended to remove the requirement that financial institutions retained to provide custodial services must have a presence in Ohio.</i>
228	<i>We recommend that the applicable Ohio statutes be amended to grant authority to select, contract with, manage, and terminate the financial institution(s) that will provide master custody services to the retirement systems which are subject to the oversight jurisdiction of the ORSC.</i>
228	<i>As an alternative to granting the retirement systems the power to independently select the custody bank, we recommend that the statute be amended to (a) allow the pension fund to select the custodial bank from a list of candidates developed by the Treasurer of State, pursuant to specific written criteria established by the respective pension fund defining the services required, and (b) require the consent of the retirement system as a prerequisite to effecting a change of their respective custody bank.</i>
228	<i>To maintain accountability and oversight, we recommend amending the applicable statutory language regarding the Ohio Treasurer of State custody bank reporting requirements to provide for periodic review, spot check, and audits rather than complete transaction data transfer.</i>
<b>12. Internal Controls and Risk Management</b>	
237	<i>The Board should takes steps to elevate the chief audit executive position on par with the department heads being audited both in title and organizationally. The Board and the Executive Director should make a conscious effort to reinforce the concepts of internal control and internal auditing and their importance to the organization beginning with the senior management team. The organization should depict the Internal Auditor reporting by a solid line to the Board and a dotted line to the Executive Director.</i>
240	<i>STRS should increase the audit staff responsible for investments, benefits, and information technology, commensurate with its size, needs, complexity, and industry practice. An average size would be fourteen (14) auditors based on 2.3% of total staff size at the time of this review.</i>
240	<i>STRS should develop an audit plan that is appropriate for its size and complexity, i.e., one that reflects an appropriate internal audit staffing level.</i>
240	<i>Once the appropriate size and plan are achieved the internal audit department should undergo a Quality Assessment in accordance with professional standards.</i>
240	<i>STRS should supplement its Internal Audit capabilities with outsourcing audits in accordance with an approved audit plan until staff size and capabilities come up to speed.</i>



Page	Recommendation
241	<i>Each department head should establish operational, financial and compliance objectives. Risks to achieving established objectives should then be identified.</i>
242	<i>The System’s overall mission, goals, and objectives should be integrated into the risk assessment.</i>
242	<i>A formal tool for department heads to periodically provide risk reports to senior management should be developed.</i>
244	<i>Implementation of any new paradigm is not without cost. Therefore, we recommend that STRS consider the relative benefits and costs of implementing the ERM Integrated Framework prior to doing so.</i>
<b>13. Investment Accounting</b>	
	<i>None</i>
<b>B – Management Issues</b>	
<b>1. Board Governance, Policies and Oversight</b>	
256	<i>We recommend that the Board require that the Board’s “investment expert designees” and “investment expert members” be required to disclose any campaign contributions either they or their employers have made to the officials who have appointed them. In addition, the firms that employ those, and any other, Board members should be barred from doing business with the assets of any of the Ohio state-wide retirement systems while on the Board and for a period of at least three years thereafter.</i>
258	<i>We recommend that the Committee Principles be revised to require that the committee chairs be receptive to input on the agenda from committee members.</i>
259	<i>We recommend the Board re-examine the committee structure periodically to determine if more or different committees should be established to improve the Board’s decision-making. Possible additions to the list of committees include a Budget Committee and an Information Technology Committee.</i>
261	<i>We recommend the Board direct the Executive Director to maintain a record of responses to questions posed by members of the public at the Board’s public meetings, indexed by date and subject to permit verification of compliance with the Board’s policies, to preserve a record of statements made and to promote consistency in information provided to the public.</i>
<b>2. Organizational Structure and Resources</b>	
277	<i>We recommend consideration be given to using a pay for performance model for non-investment personnel that includes an incentive component.</i>
278	<i>The Real Estate Counsel should be subject to the overall supervision of the General Counsel as part of the General Counsel’s function of overseeing and managing the System’s legal affairs.</i>
282	<i>The Investment Company Institute and the SEC recommend a third party notification process. It requires that employees with a personal securities</i>



Page	Recommendation
	<i>account direct each financial institution with whom the employee maintains such an account to send monthly statements to the individual designated as the Compliance Officer for accounts in which the employee has a direct or indirect beneficial ownership interest. This third party notification provides a further “check and balance” in maintaining a successfully executed policy. We recommend that the Board adopt such a policy for its employees and add it to its policies and procedures.</i>
<b>3. Ability to Attract and Retain Employees</b>	
	<i>None</i>
<b>4. Monitoring of Investments and Reporting</b>	
298	<i>The Performance Evaluation Reports should include sub asset class and manager level returns for all asset classes.</i>
301	<i>STRS should discuss with Russell including in the International Review report risk statistics, such as risk/return ratios, Sharpe ratios, standard deviation.</i>
303	<i>The External US Equity and Fixed Income Manager Review should provide more consistent and longer time periods for performance data, risk statistics and additional equity manager style information as longer-term data becomes available.</i>
304	<i>All performance reports should provide some type of risk measure, beta or standard deviation compared to a benchmark, by investment portfolio (internally managed and externally managed), asset class and Total Fund. Knowing portfolio risk compared to that of the benchmark would help the Board begin to evaluate how much risk is being taken to generate returns.</i>
304	<i>Other useful metrics include style scores compared to a benchmark; valuation measures such as Price/Earnings ratios, Debt/Equity ratios, Dividend Yield, and Weighted Average Capitalization. Reviewed regularly and consistently in conjunction with performance and risk measures, these metrics can help a board to evaluate return in light of the risk being taken to achieve out performance.</i>
309	<i>The Board should adopt a method of budgeting for investment expenses that does not use changes in asset values as the standard. Rather, the budget should reflect a realistic, long-term assessment of the needs of the System and the resources available to meet them.</i>
<b>5. Reporting to the ORSC</b>	
319	<i>We recommend that ORSC, with the assistance and advice of appropriate representatives of its target audiences (e.g., the Governor, the Legislature, constituent groups), confirm the continued need and value-added of each of the reports it is currently required to produce.</i>



Page	Recommendation
319	<i>We recommend that the ORSC develop a strategic plan (for the coming three and five years), setting forth its goals, objectives and strategies to insure that the information required from the retirement systems is material input to the ORSC reporting requirement and oversight function and to serve as a benchmark for measuring the efficiency and effectiveness of its oversight activities.<sup>4</sup></i>
322	<i>Completed audits and projects should be articulated including what was audited, the overall result, and what material recommendations were made. Any critical issues identified should be pointed out, and the action or planned action to remediate the situation described.</i>
322	<i>We recommend that the report include what was decided, what further work was directed, etc, and not just what was presented to the committee.</i>
323	<i>We recommend that the audit plan include a brief description of what will be audited and why a particular subject was selected.</i>
324	<i>We recommend the current executive summary include performance for consecutive time periods (i.e. successive years) in addition to cumulative periods (i.e., varying periods all ending on the report date).</i>
326	<i>We recommend the development of a summary report designed as a “legislative oversight summary” of key events, highlights and exceptions to be included as a cover attachment to the current executive summary in the EAI report (i.e., the lettered pages of the EAI report) for distribution to senior executives, legislators and others having oversight responsibility.</i>
326	<i>We recommend the semiannual review of the systems’ investment programs also include findings regarding each retirement system’s investment policy statement, including the adequacy of the objectives and criteria set forth in the policy and whether the systems’ actual investment program is consistent with and in compliance with the IPS.</i>
327	<i>If the intent of Section 171.04(D) is to limit oversight to measuring and evaluating investment performance and does not extend to the policies, objectives, and criteria of each system’s investment program, then the language of the statute should be amended to clarify the scope of the oversight.</i>
328	<i>We recommend ORSC, in coordination with each system, evaluate whether to undertake a project to develop or refine (if such a model already exists) basic cost accounting systems that support measurement of investment costs as well as other cost centers management may need to control.</i>
328	<i>We recommend that ORSC continue to work with EAI and the systems to develop a meaningful net performance report, including appropriate explanatory information to guide its proper use, and publish this annually as a separate report or appendix to the existing semi-annual report.</i>

<sup>4</sup> See, The Texas Pension Review Board Strategic Plan – [www.prb.state.tx.us/about/strategicplan](http://www.prb.state.tx.us/about/strategicplan)



Page	Recommendation
331	<i>We recommend that ORSC work with its independent actuary and the retirement systems' actuaries to develop annual reporting of actuarial and demographic information at a summary level.</i>
332	<i>We recommend ORSC review with the appropriate governmental and legislative representatives the use and purpose of these reports, with the goal of either amending the requirements to serve a beneficial purpose or eliminating the reports.</i>
333	<i>We recommend ORSC design a content and form of health benefits reporting – including the assumptions and results of actuarial projections for future costs – that facilitates long term planning and control, and that appropriate action be taken to implement this reporting across systems.<sup>5</sup></i>

<sup>5</sup> This recommendation should be considered in light of new Government Accounting Standards Board (GASB) accounting standards (GASB 43 and GASB 45) that will go into effect beginning in fiscal year 2006-2007 and in fiscal year 2007-2008.



**OHIO STRS CUSTOM PEER GROUP SURVEY RECIPIENTS**

**Ohio Public Employees Retirement System (OPERS)**

**Colorado PERA**

**Georgia TRS**

**Maryland State Retirement and Pension System**

**State of Michigan**

**New York State Teachers Retirement System**

**North Carolina Retirement System**

**Public School Employees Retirement System of PA (PSERS)**

**Teacher Retirement System of Texas**

**Tennessee Consolidated Retirement System**

**Virginia Retirement System**

**State of Wisconsin Investment Board (SWIB)**

**OHIO STRS CUSTOM PEER GROUP SURVEY RESPONDENTS**

**Ohio Public Employees Retirement System (OPERS)**

**Georgia TRS**

**Maryland State Retirement and Pension System**

**State of Michigan**

**Public School Employees Retirement System of PA (PSERS)**

**Teacher Retirement System of Texas**

**Virginia Retirement System**

**State of Wisconsin Investment Board (SWIB)**

## Comparison of Current Custodian’s Capabilities vs. Top-tier Custody Bank Capabilities

Sophisticated pension funds require top tier banks because they have developed sets of excellent, well integrated measurement and control services, they have established very highly controlled systems for efficient handling of ordinary transactions, the day by day process of settling trades, collecting income, handling proxies, and reporting values and results. Other banks, even regional banks with significant personal trust operations, have less sophisticated, more manual processes for such operations.

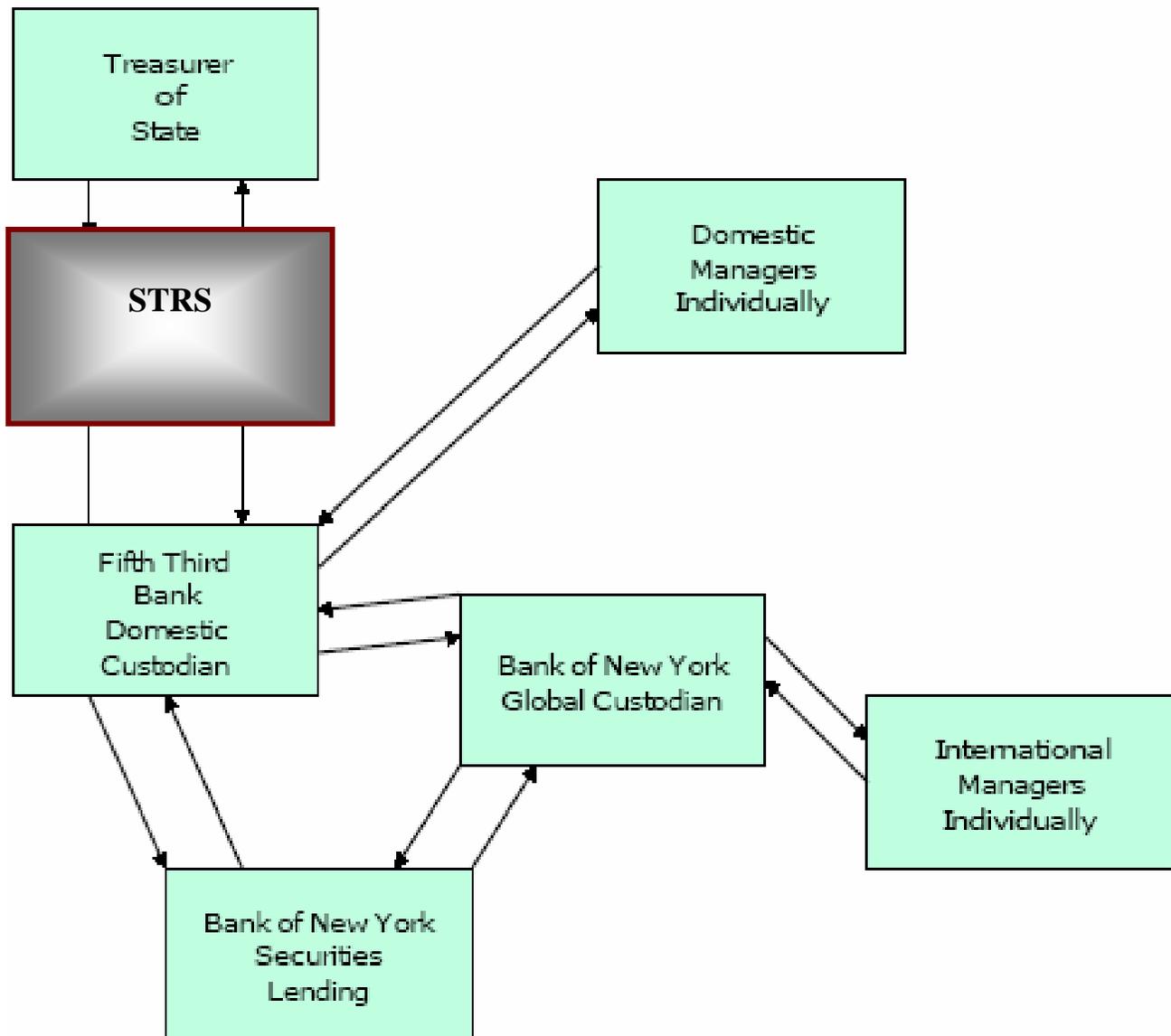
The table below, entitled *Comparison of Current Custodian’s Capabilities vs. Top-tier Custody Bank Capabilities*, provides a summary comparison of the current Ohio statutory custody model and an alternative model based on the use of one of the leading global custodians. The comparison illustrates the areas which can add costs and risk to the process.

<b>Comparison of Current Custodians Capabilities vs. Top-tier Custody Bank Capabilities</b>		
<b>Custody Area</b>	<b>The Ohio Treasurer of State/Ohio Bank/Others</b>	<b>Integrated Global Custody</b>
Domestic custody, clearance, income and record keeping	System designed for small volume of relatively simple transactions	System designed for large volume, real time electronic interface with virtually all financial institutions
Global sub-custody clearance, income and record keeping	Single client arrangement with a recognized global custody bank	Integrated system of branches and sub-custodians covering high volume, quality tested communications and integrated reporting
Securities lending	Limited, special purpose data communication with third party agents	Combination of custody bank securities lending and tested, high volume communication with third party agents



<b>Comparison of Current Custodians Capabilities vs. Top-tier Custody Bank Capabilities</b>		
<b>Custody Area</b>	<b>The Ohio Treasurer of State/Ohio Bank/Others</b>	<b>Integrated Global Custody</b>
Supporting analytical services	Few if any available directly; interface with third party providers must be created in each case	Many available directly or through third party providers over regular, proven interfaces
Reporting and reconciliation to the statutory custodian and the Fund	Daily with transaction by transaction detail reporting and reconciliation between custody bank and managers, between custody bank and global sub-custodian, and between custody bank and the Fund, in case the of case of internally managed portfolios	Typically monthly data and exception reporting to the Fund based on detailed reconciliation between custody bank and managers
Frequency and reason for turnover	Potential for periodic change based on The Ohio Treasurer of State overall state bank relationship management	Infrequently in order to maintain continuity of systems and usually based on quality of services
Access to historical data, such as to support class action claims	Typically lost or difficult and expensive to maintain with custody bank changes unless maintained internally at System	Continuity of relationship affords long term access to historical data, although custody bank changes have same loss of access effect

# Ohio State Teacher Retirement System Pension Fund Custody Structure Flows of data on transactions, holdings and values



***Additional Examples of How the Current Statutory Custody Model has Impaired STRS' Ability to Invest the Assets of the Fund Effectively and Efficiently.***

- Fifth Third is able to provide the basics of securities custody at a level generally commensurate with a regional bank personal trust operation. Their agreement with the Ohio Treasurer of State identifies their responsibilities with regard to receiving and delivering securities, collecting income, valuing the portfolio, and maintaining accounting records. Fifth Third also provides interfaces with STRS, the Ohio Treasurer of State, and the sub-custody banks.
- A number of services that top tier custody banks regularly offer are not available to STRS directly from Fifth Third. Global custody and securities lending are and must be done on a sub-custody basis by other banks. Such basic services as portfolio analytics, trading cost measurement and risk management are not available except through STRS' own systems or from outside vendors. In all these cases, decisions to use separate vendors is not driven by cost and quality, but by the custodian bank's not having the volume of custody business to justify the time and money cost of developing the capability.
- The Ohio Treasurer of State has maintained an international sub-custody relationship for STRS with the Bank of New York (BONY) since at least 1997. STRS has elected to also use this relationship with BONY for purposes of its domestic and international securities lending. BONY is one of the recognized top tier custody banks. STRS has fewer custodial relationships than OP&F and SERS.
  - While STRS has been allowed to maintain the same custody bank for many years, the current statutory custody model results in STRS facing the possibility of a change on a continuing basis.

- Changing custody banks is very costly in terms of time, disruption and money. These costs are a combination of out of pocket fees, transactions costs within the investment portfolios, and opportunity costs of staff and management time, the bulk of which are borne by the System involved.
  - Approximately 10 years ago STRS, the Ohio Treasurer of State, consistent with the statutory custody model, selected Fifth Third to provide domestic custody services to STRS.
    - During the document and interview process IFS did not glean any rationale for the change of STRS' domestic custody bank to Fifth Third.
    - It is our understanding that it resulted in increased costs and no service enhancements or demonstrated benefit.
    - We were informed that Fifth Third had to build systems and controls and interfaces with other institutions in the Ohio Treasurer of State' complex custody system.
    - STRS also faced systems changes, such as rebuilding the data feeds that existed among its in-house Maximis portfolio accounting system, BankOne and CRA Rogers Casey.
    - STRS and Fifth Third invested a lot of effort into creating a manageable arrangement for handling STRS domestic custody needs. Despite Fifth Third's efforts to create a workable system, its capabilities still seriously lag fairly routine services provided by a top tier custody bank. In this area we found:
      - ✓ Quality standards for basic settlement and income collection are lower.
      - ✓ Reporting capabilities such as trade date accounting cannot be done on a timely basis.
      - ✓ Supplemental services such as guideline compliance monitoring and management do not exist.

- ✓ Being limited to basic domestic custody, it is unable to alleviate the complexity and risk of transaction fails<sup>1</sup> that exist in the complex, multiple institution system necessary to cover all the custody needs of a large, complex portfolio.
- Other costs associated with changing custody banks include:
  - actual transaction and change of registration costs,
  - data transfer and reformatting, and
  - the many hours of staff time and weeks if not months associated with the logistics of moving securities, records, receivables, data, reporting, controlling and monitoring processes, securities loans, sub-custody agreements,
  - disturbance of communications links to investment managers, brokers, sponsors, beneficiaries, and hundreds of other large and small relationships.
- Custodian changes disrupts the recordkeeping systems that are necessary to support activities requiring long term data recovery, this is particularly true in the securities class action litigation and claims processing area.
  - We learned during the interview process that Fifth Third cannot adequately meet the Fund's securities class action litigation support needs.<sup>2</sup>

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<sup>1</sup> Transaction fails occur when one party to a trade does not settle the trade at the required time. Various securities are sold subject to the trade closing on a defined date, ranging typically in U.S. markets from same day to three business days after trade date. Trades are actually effected between agents such as brokers and custody banks who maintain accounts in depositories where securities records are maintained electronically. If, for example, a custody bank is supposed to deliver securities sold by an investment manager and does not do so on the designated day, the trade fails. If as a result of a fail, the party not responsible for the fail incurs a loss or expense, the responsible party may be required to make the other whole.

<sup>2</sup> When banks do not have adequate long term data search and retrieval capabilities and structures to support an institutional investors securities class action protocol, pursuing lead plaintiff status and recovery becomes even more difficult.



- Further examples of the functions associated with changing custody banks that require STRS time and often cash expenditures are listed below:
  - ✓ Time to find, hire, and negotiate documentation;
  - ✓ Establishing account structure and reporting requirements;
  - ✓ Setting up communications protocols with investment managers, performance measurement services, brokers and other service providers;
  - ✓ Developing securities inventories and verifying receipts and delivers;
  - ✓ Changing registered owner;
  - ✓ Implementing and testing reporting links;
  - ✓ Coordinating short term (unsettled trades, accrued income) and long term (securities litigation, dividend reclaim) transitional activity;
  - ✓ Working parallel operations; and
  - ✓ Staff time in coordinating the process.



State Retirement Systems Oversight <sup>1</sup>		
State	Oversight Entities	Role and Responsibilities of Entities and/or Information Required
Alabama	The State Examiner of Public Accounts	<ul style="list-style-type: none"> <li>Perform an annual audit, report any expenditures or contracts that violate law to the Governor and Legislative Committee on Public Accounts.</li> </ul>
	Legislative House Ways and Means Committee and the Senate Finance and Taxation Committee	<ul style="list-style-type: none"> <li>Oversight of public pension related matters</li> </ul>
Alaska	The Governor and the Legislature have oversight responsibility for the Retirement Management Board. <sup>2</sup> The Legislature provides oversight of the Alaska Permanent Fund.	<ul style="list-style-type: none"> <li>THE ARMB submits reports to governor, the Alaska Legislature, the Legislative Budget and Audit Committee by first day of each legislative session</li> </ul>
Arizona	The Governor as well as several Legislative Committees <sup>3</sup> have continuing oversight responsibility for the retirement system.	<ul style="list-style-type: none"> <li>Each fiscal year an annual report must be submitted which must include, but is not limited to, the actuarial valuation of assets and liabilities, investment information, and statistical and financial data necessary to understand the operation and status of the retirement system (Arizona Revised Statute § 38-714).</li> </ul>
Arkansas	Legislative Joint Committee on Public Retirement and Social Security and the Legislative Council and its Rules and Regulations Subcommittee.	<ul style="list-style-type: none"> <li>Preparation of fiscal notes for each retirement bill setting forth the estimated cost or fiscal impact.</li> </ul>
	Department of Finance and Administration	<ul style="list-style-type: none"> <li>Contracting, procurement, and compensation approval</li> </ul>
California	The California State Controller	<ul style="list-style-type: none"> <li>State and local public retirement systems submit audited reports to the State Controller within six months of the end of their respective fiscal years.</li> </ul>

<sup>1</sup> The data set forth in this table is for informational purposes only; it is based on our best knowledge derived from conducting state-by-state INTERNET research as well as third party publications, including the Biennial Report of the Texas Pension Review Board, “Protecting Retirees’ Money, 5<sup>th</sup> edition, prepared by Cynthia L. Moore, Washington Council, National Council on Teacher Retirement, and data from the National Conference of State Legislators website. Information regarding other entities with pension oversight responsibility in a particular state may not be reflected in the table because the information was not readily discoverable from the INTERNET search. Information regarding compensation, staffing, and costs are provided where it is available. Interim/Temporary entities that have expired are included for informational purposes.

<sup>2</sup> The Public Employees’ Retirement Board and the Teachers’ Retirement Board were abolished effective July 1, 2005. Their duties and responsibilities were transferred to the Department of Revenue. These Boards, along with the Investment Board, were replaced with the nine-member Alaska Retirement Management Board (ARMB). The ARMB is responsible for the supervision of the state retirement systems and the state’s new defined contribution plan.

<sup>3</sup> The Senate Finance Committee, the Joint Legislative Budget Committee, the Senate and House Appropriations Committees, the Public Institutions and Retirement Committee, and the Joint Legislative Audit Committee.



State Retirement Systems Oversight <sup>1</sup>		
State	Oversight Entities	Role and Responsibilities of Entities and/or Information Required
		<ul style="list-style-type: none"> <li>The State Controller is required to review the triennial valuation of each public retirement system and consider the actuarial assumptions used.</li> </ul>
	California State Assembly Public Employees, Retirement and Social Security Committee	This Committee has primary jurisdiction over retirement issues in the California Assembly. Oversight ability in pension issues is limited. For example, the Committee does not have access to an independent actuarial analysis of legislation and it depends upon the actuarial analysis provided by the system's actuary.
Colorado	Legislative Audit Committee	<ul style="list-style-type: none"> <li>Reviews funding status and investment performance</li> </ul>
	House and Senate Finance Committee	<ul style="list-style-type: none"> <li>Meets with State retirement system annually.</li> </ul>
Florida	The Florida Division of Retirement - Bureau of Local Retirement Systems	<ul style="list-style-type: none"> <li>Monitors the actuarial soundness of local retirement systems;</li> <li>Reviews the actuarial impact of any proposed changes to the systems;</li> <li>Approves the distribution of insurance premium tax revenues to qualified municipal police officer and firefighter pension plans; and</li> <li>Issues an annual report to the Legislature detailing its activities, findings, and recommendations concerning all local government retirement systems</li> </ul>
Georgia	Governor and General Assembly	<ul style="list-style-type: none"> <li>Receives annual report from retirement system reflecting the condition of the system, the financial transactions conducted during the preceding year, a summary of actuarial valuation</li> </ul>
Idaho	Governor and State Legislature	<ul style="list-style-type: none"> <li>Review annual report of activities, including financial report</li> </ul>
Indiana	The Indiana Pension Management Oversight Commission	<p>The Commission oversees public retirement funds in Indiana.<sup>4</sup> Its oversight duties include, but are not limited to the following:</p> <ul style="list-style-type: none"> <li>Study the investment and management practices of the boards of the public retirement funds;</li> <li>Determine what constitutes adequate wage replacement levels at retirement (including benefits from public retirement funds and social security) for public employees;</li> <li>Study the impact of federal law and proposals concerning pensions, annuities, and retirement benefits;</li> <li>Study the retirement funds established in IC 36-8 (public safety code);</li> <li>Study methods and levels of funding for public retirement funds;</li> <li>Study the funding status for police and fire pension funds;</li> <li>Review the state's deferred compensation program; and</li> <li>Study other topics as assigned by the Legislative Council or as directed by the Commission's chairman.</li> </ul>

<sup>4</sup> IC 2-5-12



State Retirement Systems Oversight <sup>1</sup>		
State	Oversight Entities	Role and Responsibilities of Entities and/or Information Required
		<b>COMPOSITION:</b> The Commission is composed of 12 members: four Representatives, four Senators, and 4 lay members. <b>EXPERTISE:</b> The four lay members must be experts in the areas of finance, investments, or pension fund management. The chair of the Legislative Council appoints the chair of the Commission. <b>STAFFING:</b> The Commission is provided staff support by the legislative service agency, and is authorized to employ consultants. <b>COSTS:</b> The legislative services agency provides staff support to the Commission.
Illinois	Commission on Government Forecasting and Accountability (previously the Pension Law Commission) <sup>5</sup>	In addition to its other functions, the Commission is charged with reviewing the laws and practices relating to public pensions, retirement and disability benefits for people serving in State or local government and their survivors and dependents. The Commission evaluates existing laws and practices and makes recommendations on proposed changes to the Illinois Pension Code and annually issues a Report on the Financial Condition of the Illinois public pension systems. <b>COMPOSITION</b> The Commission consists of 12 members as mandated by the Legislative Commission Reorganization Act of 1984. The four legislative leaders each appoint three members. <b>STAFF:</b> 13
	Illinois Division of Insurance	In addition to its other functions, the entity provides an oversight role as the repository for the retirement systems' investment policy statements and investment managers' contracts, which must be filed with the Division.
	The Senate Pensions and Investment Committee	Has jurisdiction over the state retirement systems
Iowa	The Governor and the Legislature	The Legislative Appropriations Committee reviews the retirement system's budget; the Joint State Government Committee reviews legislation concerning plan design; and interim study committees are used to review the pension funds, including actuarial reports, proposed benefit changes, research developments in other states and the private sector, and recommendations regarding system reform (e.g., 2003, 2001, 2000, and 1997).
Kansas	Governor and Legislature	An annual report regarding the retirement system's operations is submitted to the Governor, the Chair of the Legislative Coordinating Council, the Secretary of the Senate, and the Clerk of the House of Representatives. <sup>6</sup>
Kentucky	Governor and Legislature	Legislation affecting the retirement system is subject to the jurisdiction of the Appropriations and Revenue Committees and the Education Committees. The retirement system's annual report is required by law to set forth the fiscal transactions of the preceding year, the amount of accumulated cash and securities, a balance sheet showing the financial condition of the system, and a summary of the actuarial report.

<sup>5</sup> Effective February 1, 2004, the responsibilities of the Pension Laws Commission (a bipartisan entity comprised of 16 members appointed by the four leaders of the General Assembly, which was responsible for conducting studies of the laws and practices pertaining to pensions and related retirement and disability benefits) were absorbed by the Commission on Government Forecasting and Accountability (renamed from the Illinois Economic and Fiscal Commission).

<sup>6</sup> GFOA has recognized the Kansas PERS report for its comprehensiveness numerous times.



State Retirement Systems Oversight <sup>1</sup>		
State	Oversight Entities	Role and Responsibilities of Entities and/or Information Required
		Copies must be provided to the Governor, the State Auditor, the Chairs of the Appropriations and Revenue Committees and the Education Committees of both Houses of the Legislature.
Louisiana	Louisiana Commission on Public Retirement (created in 1991 and reconstituted in 2003)	<p>The 11-member Commission is charged with studying retirement issues and reviewing and prioritizing proposed legislation prior to the session. Notwithstanding the Commission, in practice, the House and Senate retirement committees take the lead in pension policy decisionmaking. The Commission's responsibility is to review the administration, benefits, investments and funding of the public retirement systems in Louisiana. It is responsible for making recommendations and annual reports to the Joint Legislative Retirement Committee on those issues. It is also responsible for reviewing the efficiency and accountability of the various systems, differences in benefits within individual systems, issuance of bonds, and the need for retirement legislation. It includes legislators, the state treasurer, actuaries, attorneys with experience in public pension design and management and the president of the public affairs research council.</p> <p><b>COMPOSITION:</b> The Commission is composed of the Chair of the Senate Retirement Committee (or his designee); the Chair of the House Retirement Committee (or his designee); the State Treasurer (or his designee) the Legislative Actuary; an actuary designated by the state systems; an actuary designated by the statewide systems; two attorneys with experience in public pension fund design and management chosen by the Chair of the House and Senate Retirement Committee (from a list of thirteen names recommended. by the state and statewide systems); one person chosen by the Chair of the House and Senate Retirement Committee from a list of four names recommended by LMA and Police Jury Association of LA; and the President of PAR (or his designee).</p>
Maine	Legislative joint Standing Committee on Labor and the Joint Standing Committee on Appropriations and Financial Affairs	Consideration of the purpose of legislation affecting the retirement system, whether or not its impact is equitable treatment of the members, the funding of the costs of benefits, consistency of proposed legislation with other provisions applicable to the retirement system, etc.
Maryland	General Assembly's Special Joint Committee on Pensions (functioning since 1985)	<p>The Committee is responsible for the review of issues affecting the state pension systems.</p> <p><b>COMPOSITION:</b> 15 member committee, composed of the Senate Chair, the House Chair, six members appointed by the Senate President, and seven members appointed by the House Speaker. <b>STAFF:</b> two people.</p>
Massachusetts	The Massachusetts Public Employee Retirement Administration Commission ((PERAC) was created in 1996)	<p>PERAC was created for and is dedicated to the oversight, guidance, monitoring, and regulation of each of 106 public pension systems within Massachusetts. PERAC has six units:</p> <ul style="list-style-type: none"> <li>• <b>The Investment Unit</b> - responsible for (a) the annual report on the investment activity of the retirement boards; (b) promulgation of regulations governing investment of system assets; (c) approval of requests from boards for expansion of investment authority; and (d) audits of investment activities of the boards;</li> <li>• <b>The Actuarial Unit</b> - responsible for (a)actuarially valuating the retirement systems; (b)analyzing costs associated with legislative initiatives; (c)approving funding schedules adopted by retirement</li> </ul>



State Retirement Systems Oversight <sup>1</sup>		
State	Oversight Entities	Role and Responsibilities of Entities and/or Information Required
		<p>boards which are designed to eliminate unfunded liabilities and transition systems from "pay as you go" funding to actuarial based funding; (d) establishing annual appropriations owed to the retirement systems by governmental units; and (e) approving individual benefit calculation;</p> <ul style="list-style-type: none"> <li>• <b>The Disability Unit</b> - responsible for (a) medical panel appointments as part of the disability review process; and (b) post retirement examination and rehabilitation evaluation of disability retirees;</li> <li>• <b>The Fraud Unit</b> - responsible for Pension Fraud Program;</li> <li>• <b>The Legal Unit</b> - responsible for all litigation; issuance of legal opinions and memoranda; legislative and regulatory analysis; drafting of legislative and regulatory proposals; and advising the Commission and retirement boards on legal issues; and</li> <li>• <b>The Communications Unit</b> - responsible for maximization of communication potential of the internet; media relations; organization of educational seminars for retirement board members and staff; develop educational materials for retirement board members and staff; and produce retirement guides for employees, retirees and beneficiaries.</li> </ul> <p><b>COMPOSITION:</b> Seven members - three of whom shall be appointed by the governor, three of whom shall be appointed by the state auditor, and one of whom shall be chosen by the first six members and who shall be chairman. Of the three persons appointed by the governor, one shall be the governor or his designee, one shall be a representative of a public safety union, and one shall be qualified by having training and experience in the investment of funds as a result of having been principally employed in such occupation for a period of at least ten years. Of the three persons appointed by the state auditor, one shall be the state auditor or his designee, the president of the Massachusetts AFL-CIO or his designee, and one shall be a representative of the Massachusetts Municipal Association.</p> <p><b>STAFF:</b> 50 employees: 11 in administration; three within the actuarial unit; six within the investment unit; six within the disability unit; four assigned to the legal unit; two in the fraud unit; 10 in audit; five in information system; and three in communications.</p> <p><b>COSTS:</b> The Commission's budget is funded from the investment income account of the state employees and state teachers' system.</p>
Michigan	Governor and Legislature	Annual summary of the financial and actuarial condition of the system must be submitted to the Governor and the Legislature. The House and Senate committees (including but not limited to Appropriations, Education, Health Policy, Higher Education) have authority to review and approve legislation affecting the retirement systems.



State Retirement Systems Oversight <sup>1</sup>		
State	Oversight Entities	Role and Responsibilities of Entities and/or Information Required
	Governor formed the Michigan Commission on Public Pension and Retiree Health Benefits (November 16, 1999) – <i>Expired Temporary Commission</i>	Nine-member commission <sup>7</sup> responsible for examining various issues involving the oversight, funding, management, and fiscal integrity of the public pension and retiree health benefit systems within Michigan, including reviewing state laws affecting retirement systems; assessing the adequacy of funding; and making recommendations, where appropriate, for changing state laws affecting retirement systems. <b>STAFF:</b> Staffed by personnel within the Department of Treasury to be designated by the State Treasurer. The Report of the Commission was issued February 20, 2001 and the Commission was disbanded.
Minnesota	The Minnesota Legislative Commission on Pension and Retirement Commission (MLCPR) (initially created as an interim commission, established as a permanent entity in 1967) <sup>8</sup> ;	A ten member Commission, the MLCPR's duties include but are not limited to -- <ul style="list-style-type: none"> <li>• Reviewing and making recommendations on pending proposed public pension legislation, with particular reference to analysis of their cost, actuarial soundness, and adherence to sound pension policy, and reporting its findings to the legislature;<sup>9</sup></li> <li>• conducting ongoing research on pension policy issues;</li> <li>• providing legislative oversight for Minnesota's system of public employee pension plans;</li> <li>• arranging for the preparation of regular actuarial valuations and periodic experience studies of the statewide and major local public pension plans;</li> <li>• assessing the sufficiency of current public pension plan funding and recommends required modifications;<sup>10</sup></li> <li>• filing a report at least biennially to each session of the legislature; and</li> <li>• creating and maintaining a library for reference concerning pension and retirement matters, including information about laws and systems in other states.</li> </ul> <b>COMPOSITION:</b> Five members of the House of Representatives (appointed by the Speaker of the House) and five members of the Senate (appointed by the Subcommittee on Committees of the Senate Rules Committee). <b>STAFF:</b> 3.5 permanent staff positions. <sup>11</sup> The Commission retains a consulting actuarial firm for the performance of regular actuarial valuations and related actuarial work (selected by periodic competitive bid process. <b>COSTS:</b> Approximately two-thirds of the pension commission's budget for actuarial services is recouped from the statewide and major local public pension plans <sup>12</sup> and redeposited in the State's General Fund.

<sup>7</sup> Established pursuant to Executive Order No. 1999-13 (rescinding Executive Order 1999-8, effective July 29, 1999). Members are appointed by the Governor and serve at the pleasure of the Governor.

<sup>8</sup> Laws 1967, Chapter 549; Coded as Minnesota Statutes, Section 3.85

<sup>9</sup> In recommending proposed pension legislation, the Pension Commission rules require bicameral support for any proposal, necessitating affirmative support from a majority of both House and Senate Commission members.

<sup>10</sup> The general practice of the committees of the Minnesota Legislature with jurisdiction over public pension issues is to informally refer proposed public pension legislation to the Pension Commission for its review and recommendation before further action on those initiatives.



State Retirement Systems Oversight <sup>1</sup>		
State	Oversight Entities	Role and Responsibilities of Entities and/or Information Required
Mississippi	Senate Finance Committee and the House Appropriations Committee	The retirement system is required to prepare an annual report that includes detailed financial information, a summary of all investments, a statement of income and expenditures and a balance sheet showing the financial condition of the system by means of an actuarial valuation. The annual report is distributed to all employers.
Missouri	The Missouri Joint Committee on Public Employee Retirement (created in 1983);	<p>The 12 member committee is a joint agency of the Minnesota Legislature. The MJCPER is responsible for –</p> <ul style="list-style-type: none"> <li>• Make a continuing study and analysis of all state and local government retirement systems;</li> <li>• Devise a standard reporting system to obtain data on each public employee retirement system that will provide information on each system's financial and actuarial status at least biennially;</li> <li>• Determine from its study and analysis the need for changes in statutory law; and</li> <li>• Make any other recommendations to the General Assembly necessary to provide adequate retirement benefits to state and local government employees within the ability of taxpayers to support their future costs.</li> </ul> <p>The Committee compiles a comprehensive report of its activities for the General Assembly each year in which the General Assembly convenes in regular session. The report addresses (1) status of membership, (2) funding status, including a comparison of the progress or lack of progress in the plan's funding process from year to year, (3) statutory and regulatory compliance, (4) statutory investment requirements, (5) federal issues impacting the systems, and (6) state issues. The Committee uses a computerized database to accumulate information regarding benefits levels, assets, liabilities, membership, investment allocation, advisors, custodial and broker fees. The systems under the jurisdiction of the Commission are required to complete survey questionnaires and file actuarial valuations and financial statements each year. The survey questionnaire is designed to be in compliance with the reporting requirements of GASB 25.</p> <p><b>COMPOSITION:</b> The Committee consists of six senators appointed by the President Pro Tem of the Senate and six members of the House of Representatives, appointed by the Speaker of the House.</p>
Montana	Governor and Legislature	Retirement System and the Board of Investments are required by law to submit an annual report to the Governor and Legislature. The content of the reports is prescribed by law. The Retirement System report which details (1) the fiscal transactions for the two preceding fiscal years, (2) the amounts of accumulated cash and securities of the retirement system, and (3) the last fiscal year's balance sheet showing the system's assets and liabilities. The Investment Board report must disclose investment performance for the past fiscal year, summarize in-state investment activities, and provide public access to audited financial statements.

<sup>11</sup> The Pension Commission staff is also available to assist other legislative committees and non-Commission legislators on pension-related topics and issues.

<sup>12</sup> Over 700 public employee pension plans.



State Retirement Systems Oversight <sup>1</sup>		
State	Oversight Entities	Role and Responsibilities of Entities and/or Information Required
	Committee on Public Employees Retirement Systems (CPERS) - interim committee - repealed in 1999.	Established in 1993 for the purpose of adopting policy principles and report and make recommendations to the legislature to provide a framework whereby the Legislature could establish fair, consistent, and fiscally sound retirement policy
	State Administration, Public Retirement Systems, and Veterans' Affairs Interim Committee	Replaced CEPRS, charged with the responsibility for monitoring public retirement issues. Issued report November 2000 setting forth pre-session consideration of retirement plan proposals.
Nebraska	Governor, State Treasurer, and the Legislature (specifically the Appropriations Committee and the Nebraska Legislative Retirement Committee)	In addition to a fiscal note, an actuarial study is a prerequisite for any legislation that enhances benefits. Audit Reports conducted by the State's Auditor must be submitted to the Legislature. A periodic compliance audit must be conducted to determine compliance with state and federal laws. The State Investment Officer files very detailed monthly reports with the Governor and the State Treasurer.
Nevada	Governor, Legislature, Interim Retirement and Benefits Committee (when the Legislature is not in session)	Annual report filed with the Governor and Legislature. The annual report includes a description of the plans, the actuarial valuations for each plan, significant legislative changes, the investment policy for each plan, a statement of receipts, disbursements, material lease commitments and contingent liabilities.
New Hampshire	Secretary of State and the Legislature	Comprehensive annual financial report (which includes the audit and actuarial reports) is filed with the Secretary of State; a biennial report on the status of the retirement system is filed with the legislature.
New Jersey	Legislature, the Treasurer, and the Investment Council	The retirement systems prepare annual financial reports, annual actuarial reports, triennial experience studies, and undergo annual audit. The Division of Investments prepares a monthly report of all investment transactions, including commissions paid; the Division is also audited annually, and prepares an annual report.
New Mexico	Legislature (Legislative Finance Committee) <sup>13</sup>	Annual report, including fiscal transactions, accumulated costs, securities held, and the overall financial status of the retirement system is provided to the Legislature.
New York	Legislature and the Insurance Department	The retirement systems must issue an annual report setting forth schedules of assets, liabilities, litigation, and costs. The Insurance Department reviews and issues a report and makes recommendations regarding the retirement systems operations and has the authority to establish standards with respect to actuarial assumptions, accounting practices, administrative efficiency, investment policy, financial soundness, and fiduciary responsibilities. Legislation must contain a fiscal note setting forth the annual cost.

<sup>13</sup> This year, the Governor vetoed legislation that would have created the "State Investment and Retirement Systems Oversight Committee" as a joint interim legislative committee. It would have included five voting members from each legislative house and five nonvoting members; one each from the State Investment Office, PERA, Secretary of Finance and Administration, State Treasurer's office and the Educational Retirement Board. The committee would have been responsible for creating a plan for oversight of the retirement fund activities of the organizations represented by the five nonvoting members, and analyzing the financial status of those funds and develop recommendations for improved investment practices to ensure the financial soundness of those funds. All future legislation affecting state investment practices, the permanent funds or the retirement funds would have to be presented to the committee for review and analysis prior to the session in which such legislation was introduced.



State Retirement Systems Oversight <sup>1</sup>		
State	Oversight Entities	Role and Responsibilities of Entities and/or Information Required
North Carolina	Legislature	Actuarial notes are required for legislation with potential fiscal impact. An annual report is required that sets forth the fiscal transactions of the prior year and the amount of cash and securities, as well as an accounting of the financial condition of the retirement system.
North Dakota	Governor and Legislature	Annual report, including the annual audit and the actuarial valuation is submitted to the Governor. The Legislative Committee on Employee Benefits reviews the annual actuarial valuation and issues an actuarial cost report on any legislation that may affect a retirement system. The Legislative Audit and Fiscal Review Committee as well as the Legislative Budget Committee also has oversight authority over the retirement systems.
Oklahoma	The Oklahoma State Pension Commission	Responsible for oversight of the state's seven pension systems. Formed to provide guidance to public officials, legislators, and administrators in developing public retirement system objectives and principles, identifying problems and areas of abuse, projecting costs of existing systems and modifications to those systems, and recommending pension reform programs. No member of the governing body of a state retirement system is eligible for appointment to the Commission. In 2003 the requirement that the Commission's review retirement-related legislation was repealed. <sup>14</sup> <b>COSTS:</b> The administrative support costs of the Commission are apportioned by the State Auditor and Inspector among the six statewide pension systems in proportion to their total assets for the preceding fiscal year. <b>EXPERTISE:</b> The Commission is directed by statute to hire one or more pension fund management consultants to assist the Commission in accomplishing its objectives. Statutes also direct that the State Auditor and Inspector provide the administrative support required by the Commission.
Oregon	Governor and Legislature	<ul style="list-style-type: none"> <li>The Retirement System must also provide for an annual audit of the retirement <a href="#">fund</a> and an annual report to the Legislative Assembly and to all members of, retirees of, and all employers participating in, the <a href="#">system</a>. The annual report must contain financial statements prepared in accordance with generally accepted accounting principles. The financial statements must include the report of any independent auditor. The report distributed to the employer and employee members of the system must also contain a summary of investments of moneys in the fund, investment earnings, significant legislative or administrative changes in the system and other pertinent information on the operation of the system for the preceding year.</li> <li>The Oregon Investment Council must report on the investment program to the Governor and to the Legislative Assembly. The Treasurer reports monthly to the Oregon Investment Council.</li> </ul>
Pennsylvania	The Pennsylvania Public Employee Retirement Commission (created in 1981)	The Commission is responsible for <ul style="list-style-type: none"> <li>issuing actuarial notes on proposed pension legislation and for studying public employee retirement system policy.;</li> </ul>

<sup>14</sup> HB 1067



State Retirement Systems Oversight <sup>1</sup>		
State	Oversight Entities	Role and Responsibilities of Entities and/or Information Required
		<ul style="list-style-type: none"> <li>administering the actuarial valuation reporting program for municipal retirement systems, which entails monitoring and enforcing compliance with the statutorily mandated actuarial funding standard;</li> <li>Certifying annual municipal pension cost data used in allocating the General Municipal Pension System State Aid money of over \$129 million; and</li> <li>administering the Financially Distressed Municipal Pension Recovery Program.</li> </ul>
	Governor and the Legislature <sup>15</sup>	Comprehensive Annual Financial Report <sup>16</sup> must be provided to the Governor. Actuarial and fiscal notes are required for legislative consideration.
Rhode Island	Governor and General Assembly	An annual report must be submitted to the Governor for transmittal to the general assembly, on or about the first day of December in each year. The annual report must contain, among other things, a financial balance sheet, a statement of income and expenditures, a valuation balance sheet as prepared by the actuary, a detailed statement of investments acquired and disposed of during the year, and such other statistical data as are deemed necessary for a proper interpretation of the condition of the system and the results of its operations. A financial statement summarizing the results of the retirement system's operations for the year must be published for distribution among the members of the retirement system.
South Carolina	Governor and Legislature <sup>17</sup>	The retirement systems must file annual reports showing the fiscal transactions of the system for the preceding year, the amount of the accumulated cash and securities of the system and the last balance sheet showing the financial condition of the system by means of an actuarial valuation of the contingent assets and liabilities of the system.
South Dakota	Governor and Legislature, specifically the Retirement Laws Committee in the House and in the Senate (has oversight when the Legislature is not in session and reviews proposed legislation when the legislature is in session )	The Standing Laws Committee is charged with (1) making continuing study of the pension and annuity benefits laws, (2) reviewing all proposed legislation affecting the retirement system and reporting to the Legislature. The retirement system files an annual financial report with the Governor, the State Auditor, and the Retirement Laws Committees. If investment performance is below average, a report must be provided to the Governor and the Legislature reviewing the performance and setting forth any changes necessary to improve the negative performance.
Tennessee	The Tennessee Council on Pensions and Insurance	Legislative oversight body, composed of 14 members – seven state representatives and seven state senators <sup>18</sup> plus, on an <i>ex officio</i> basis, the comptroller of the treasury, the state treasurer, the commissioners of Personnel and Finance and Administration, and the director of the retirement system.

<sup>15</sup> The Appropriations Committee, the House Committee on State Government, the Senate Finance Committee

<sup>16</sup> GFOA awarded the Certificate of Achievement for Excellence in Financial Report to both Pennsylvania SERS and PSERS for the year ending December 31, 2004

<sup>17</sup> House Ways and Means and Senate Finance Committee

<sup>18</sup> The membership includes officers of the House and Senate Finance, Ways and Means Committees; three members appointed by the chairman from each finance committee; and two members, each appointed by the speaker of the respective houses.



<b>State Retirement Systems Oversight <sup>1</sup></b>		
<b>State</b>	<b>Oversight Entities</b>	<b>Role and Responsibilities of Entities and/or Information Required</b>
		The Council is responsible for – <ul style="list-style-type: none"> <li>• developing and recommending standards and policy relating to pensions and insurance for the state and local governments within Tennessee;</li> <li>• conducting surveys and studies;</li> <li>• recommending changes in state law as deemed necessary; and</li> <li>• Reviewing and recommending actions on legislation presented to the General Assembly that impacts pension and insurance matters.</li> </ul>
Texas	The Texas State Pension Review Board (established in 1979)	The Board is responsible for – <ul style="list-style-type: none"> <li>• Conducting a continuing review of all public retirement systems within the state, compiling and comparing information about benefit structures, financing, and administration of systems;</li> <li>• Conducting intensive studies of existing or potential problems that weaken the actuarial soundness of public retirement systems;</li> <li>• Insuring the equitable distribution of promised benefits to member of public retirement systems while maximizing the efficient use of tax dollars;</li> <li>• Providing information and technical assistance to public retirement systems, their members, the political entities which sponsor them, and the public;</li> <li>• Recommending policies, practices, and legislation to public retirement systems and their sponsoring governments;</li> <li>• Examining all legislation for potential effect on Texas' public retirement systems, overseeing the actuarial analysis process, and providing actuarial review when required by law;</li> <li>• Administering the registration and reporting requirements under Chapter 802, Government Code; and</li> <li>• Reporting Board activities to the Governor and Legislature in November of each even-numbered year.</li> </ul> <p><b>Composition:</b> Nine member Board – two members from the legislature (appointed by the Lieutenant Governor) and the remaining seven members are appointed by the Governor subject to the required qualifications experience. <b>EXPERTISE:</b> Three members of the nine member board are required to have experience in the fields of securities investment, pension administration, or pension law and may not be members or retirees of public retirement systems within the State of Texas, one actuary, one person with experience in governmental finance, and one active member (contributing to a public retirement system) and one retired (receiving benefits from a public retirement system). <b>FUNDING COSTS:</b> The Texas PRB costs are funded from the Texas General Fund rather than the pension funds subject to its purview or the Legislature. Previously the PRB was funded through voluntary contributions from the retirement systems. <b>STAFF SIZE:</b> Seven</p>



State Retirement Systems Oversight <sup>1</sup>		
State	Oversight Entities	Role and Responsibilities of Entities and/or Information Required
Utah	Governor and Legislature (Retirement and Independent Entities Committee)	The board must report annually to the Governor, the Legislature, the contribution rates, premium rates, and any adjustments necessary to maintain the retirement systems on a financially and actuarially sound basis, and at least biennially the executive director must make an actuarial investigation into the mortality, service, and other experience of the members, participants, beneficiaries, and covered individuals of each retirement system and actuarially value the assets and liabilities of each retirement system.
Vermont	Governor and Legislature	The annual report must show the fiscal transactions conducted during the year and the financial condition of the system. A financial summary must also be provided to members of the system, including a statement of changes in the fund balance as well as a comparative balance sheet. Legislative oversight is subject to the Government Operations and the Appropriations Committee of both houses of the Legislature.
Virginia	The Virginia Joint Legislative Audit and Review Commission (JLARC)	JLARC is primarily responsible for policy oversight. JLARC publishes periodic status reports, investment performance reports, and a Legislator's Guide to the retirement system. COST: The Virginia Retirement System is responsible for paying reasonable and necessary expenses to the JLARC for the program
Washington	Joint Select Committee on Pension Policy	20 member Committee is comprised of eight legislators, stakeholder representatives, employer representatives and the directors of the Department of Retirement Systems and the Office of Financial Management. The Select Committee will study pension issues, the retirement systems' funding status, and actuarial assumptions. Based on its findings, the Committee is responsible for then making recommendations to the Legislature. <sup>19</sup>
West Virginia	Governor and Legislature (House Pensions and Retirement Committee and the Senate Pension Committee)	Fiscal notes are required for any bill that affects the retirement systems. The Consolidated Board is required an annual report showing the condition of the plans and certifying the amount of accumulated cash. The report is distributed to the Governor and members of the Legislature. Actuarial valuations (of the defined benefits plans) are also required.
Wisconsin	Wisconsin Joint Survey Committee on Retirement Systems	The 10-member committee includes majority and minority party representation from each legislative house. The Committee makes recommendations on all legislation that affects retirement and pension plans for public officers and employees. Neither house of the Legislature may consider a pension bill until the Committee submits a written report that describes the proposal's purpose, probable costs, actuarial effect, and desirability as a matter of public policy. The staff of the Legislative Council is responsible for legal and research staff services for the Joint Survey Committee and must prepare fiscal estimates on bills referred to the Joint Survey Committee. The staff of the Legislative Council is also now <sup>20</sup> responsible for preparation of the comparative study of major public employee retirement systems in the country.

<sup>19</sup> In 2003, this Committee replaced the Joint Committee on Pension Policy (Chapter 295, Law of 2003).

<sup>20</sup> As a result of Act 316 of the 2005 Session (SB 527), the functions of the office of retirement research director were transferred to the Legislative Council staff and the Retirement Research Committee was eliminated. The Legislative Council is a nonpartisan legislative service agency. The Council is composed of 22 members of the Legislature.



State Retirement Systems Oversight <sup>1</sup>		
State	Oversight Entities	Role and Responsibilities of Entities and/or Information Required
Wyoming	Governor and Legislature	<p><b>STAFF:</b> The staff of the Legislative Council consists of approximately 30 employees.</p> <p>The retirement system must file with the legislative service office (1) all actuarial reports, (2) an annual audit report showing the financial status of the retirement system, as part of the annual report, (3) a statement of any proposed benefit changes and the projected cost of the changes to the system. The retirement system's budget request to the Department of Administration and Information (DAI) shall be accompanied by a written, comprehensive report of the programs, objectives, activities and conditions covering the previous fiscal period. The report shall be in a format developed by DAI, in conjunction with the retirement system and the legislative service office. Notice of the format requirements shall be forwarded to retirement system no later than July 15 of each year. The report shall detail the fiscal affairs of the retirement system including receipts and expenditures and make recommendations for improving the retirement system's programs. The report shall include an annual performance report which provides a means of evaluation of the outcomes included in the retirement system's strategic plan.</p>

