

Texas Pension Review Board

# Curriculum Guide for Minimum Educational Training

September 2015

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The purpose of this document is to provide further direction on curriculum for the Pension Review Board's (PRB) Minimum Educational Training Program for trustees and administrators of Texas public retirement systems, as established by Section 801.211 of the Texas Government Code and 40 TAC Chapter 607. The specific topics listed below are intended to provide guidance on the core and non-core content areas, as approved by the Board.

**First Year of Service.** A new trustee and a new system administrator shall complete at least seven credit hours of training in the core content areas within the first year of service. The board intends for first-year training in core content areas to be basic, foundational, and accessible to individuals with no previous knowledge in the topic area. A course offered for first-year credit should make an effort to address all of the sub-topics and learning objectives in the core content areas listed below. A course offered for first-year credit that does not address a substantial number of the sub-topics and objectives may be denied approval.

**Subsequent Years of Service.** A trustee and a system administrator shall complete at least four credit hours of continuing education in core content areas, non-core content areas, or any combination of the two, within each two-year period after the first year of service as a new trustee or system administrator. The non-core content areas include topics that go beyond the basics, and are designed to allow trustees and administrators to gain further expertise in additional areas related to their duties.

### Core Content Areas

#### 1. **Fiduciary Matters**

Courses covering this topic should explain who may be a fiduciary and what the role of a fiduciary entails, including responsibilities, liability, and prohibitions.

- Definition of a fiduciary
- Fiduciary responsibilities
- Fiduciary duty and fiduciary liability
- Duty to administer the plan in accordance with statutes, laws, and rules
- Standards of conduct
- Prohibited transactions and interests
- Fiduciary roles of pension professionals, including investment managers and custodians

Objectives-- After completing this course, trustees and administrators should be able to:

- Understand the roles and duties of fiduciaries;
- Be familiar with the laws that apply to fiduciaries in Texas;
- Understand the duty of loyalty and the exclusive benefit rule;
- Understand the duty of prudence;
- Understand the duty to follow the plan documents;
- Be aware of potential conflicts of interest and how to avoid them;

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- Know some of the liabilities facing fiduciaries who fail to discharge their fiduciary responsibilities;
- Be familiar with some examples of litigation involving fiduciary liability;
- Comprehend “co-fiduciary liability”; and
- Be aware of ethical responsibilities that are expected of fiduciaries.

### 2. Governance

Courses on governance should explain the structure, manner, and processes through which a board exercises authority. They should also provide an overview of the types of plan professionals with whom trustees will interact, including the board actuary, investment consultants, legal counsel, and auditors.

- Trustee appointments, terms, and qualifications
- Role and responsibilities of board
- Laws and rules governing the system
- Board bylaws, policies, processes, and procedures
- Best practices for pension board governance
- Roles and responsibilities of key service providers
- Delegation of responsibilities while retaining appropriate oversight
- Strategic planning

Objectives-- After completing this course, trustees and administrators should be able to:

- Be familiar with the composition of their board and how trustees are appointed;
- Understand their responsibilities as board members;
- Understand the roles of the board’s committees, system administrator and staff;
- Know the ways in which management of the system is delegated to the executive director;
- Understand the roles and responsibilities of investment consultants and managers, the board’s actuary, legal counsel, and auditors;
- Comprehend the board’s oversight role relating to contracted professionals;
- Be familiar with the laws and rules governing public pension plans in Texas and any governing documents including bylaws;
- Have a basic understanding of the plan’s policies and procedures; and
- Utilize best practices associated with good pension plan governance.

### 3. Ethics

In addition to covering applicable state and federal ethics laws, courses addressing this section should explain the purpose and benefits of adopting an ethics policy, and outline areas that should be addressed in such a policy.

- Applicable ethics laws
- What is an ethics policy, and why is it important to adopt one?
- What should be covered by an ethics policy?

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- Ethics in investing

Objectives-- After completing this course, trustees and administrators should be able to:

- Understand the various fiduciary duties;
- Be familiar with state and federal ethics laws that apply to public officials;
- Understand the consequences of violating ethics laws;
- Know what should be included in an ethics policy;
- Be familiar with basic standards of conduct;
- Understand the potential conflicts of interest faced by fiduciaries;
- Know about prohibited transactions and interests;
- Be aware of required disclosures;
- Understand issues relating to confidentiality; and
- Be familiar with laws governing nepotism, gifts, and benefits.

#### 4. Investments

Courses related to investments should give trustees a solid understanding of the investment landscape including market realities, risk implications, and attainable objectives.

- Asset classes and types
- Investment objectives and strategies
- Asset allocation and diversification
- What is an investment policy, and why is it important to adopt one?
- Ethics in investment
- Due diligence in investment selection
- Due diligence in the investment consultant and manager selection process
- Managing investment expenses and fees
- Assessing risk tolerance
- Managing investment risk
- Investment portfolio performance review

Objectives-- After completing this course, trustees and administrators should be able to:

- Distinguish the different characteristics of stocks, bonds, and other major asset classes;
- Understand the risk involved in investing in certain asset classes;
- Comprehend passive and active investment management strategies;
- Explain the importance of diversification;
- Analyze returns, comparing with a system's assumed rate of return;
- Understand the basic elements of an investment policy statement and be familiar with their system's investment policy;
- Understand the role of the trustee as it relates to investment decisions;
- Be familiar with due diligence and investment performance evaluation processes;
- Understand the role of investment consultants and investment managers; and
- Be aware of best practices for selecting and evaluating investment managers.

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### 5. Actuarial Matters

Courses covering actuarial topics should provide an introduction to actuarial terminology, methodology, and assumptions.

- Key terms and definitions
- Actuarial assumptions
- Actuarial methodologies
- Role of the actuary and the role of the board
- Reading an actuarial valuation and other actuarial reports

Objectives-- After completing this course, trustees and administrators should be able to:

- Explain the role of the board's actuary;
- Comprehend basic actuarial terms;
- Read and understand an actuarial valuation;
- Understand the difference between pay-as-you-go and advance or pre-funding;
- Be familiar with the demographic and economic types of actuarial assumptions;
- Distinguish the difference between the market value and actuarial value of assets;
- Distinguish between different types of actuarial cost methods;
- Understand different amortization methods;
- Understand asset smoothing techniques;
- Understand the amortization period and PRB *Guidelines for Actuarial Soundness*;
- Understand and evaluate funded ratios;
- Be aware of best practices such as funding policies;
- Be familiar with the different types of actuarial reports such as experience studies and actuarial audits; and
- Understand what should be taken into consideration for a system to increase benefits.

### 6. Benefits Administration

Courses covering this topic should provide an understanding of plan benefit structures and of benefits administration.

- Plan design
- Tax qualified pension plan requirements
- Contested cases and appeals that may require board action
- Methods of communicating with members

Objectives-- After completing this course, trustees and administrators should be able to:

- Understand the features of defined benefit, defined contribution, and hybrid plans;
- Understand the responsibility of the board as it relates to benefits administration;
- Understand the responsibility of the staff for day-to-day operations;

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- Read and interpret the component parts of plan design (including retirement eligibility, vesting requirements, benefit formulas, final average salary, and cost-of-living adjustments);
- Be familiar with additional benefits such as Deferred Retirement Option Plans (DROPs);
- Be familiar with Qualified Domestic Relations Order (QDRO) requirements;
- Be aware of the tax qualified pension plan status under the IRS Code;
- Be aware of provisions relating to correction of errors in benefit calculation;
- Be aware of their system's processes for hearing appeals and contested cases;
- Understand the methods of communicating benefit information to system members; and
- Be familiar with current issues and trends in benefit administration.

### 7. Risk Management

Courses related to risk management should examine different types of risk and the ways in which those risks may be mitigated.

- Managing fiduciary liability
- Managing investment risk
- Risk assessment
- Internal controls and compliance
- Financial controls and reporting requirements applicable to vendors
- Comprehensive Annual Financial Report (CAFR)
- Roles of auditors (internal or outside)
- Record keeping
- Security of confidential information

Objectives-- After completing this course, trustees and administrators should be able to:

#### *Managing General Risk*

- Demonstrate understanding of fiduciary responsibility;
- Know several strategies for protecting against fiduciary liability;
- Be familiar with risk assessment;
- Understand internal control concepts, such as preventative and detective controls;
- Distinguish the roles of the trustees, system administrator and staff, related to risk control;
- Read and understand a Comprehensive Annual Financial Report;
- Comprehend the role of auditors, including internal and external;
- Be aware of state requirements related to contracting;
- Be familiar with their system's measures for ensuring security of confidential information;
- Understand the importance of recordkeeping requirements

#### *Managing Investment Risk*

- Explain the importance of diversification;
- Be familiar with types of investment risk including systematic and specific risk, and how to manage total risk;

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- Understand the basic elements of an investment policy statement and be familiar with their system's investment policy; and
- Demonstrate understanding of due diligence.

### **Non-Core Content Areas**

#### **1. Compliance**

Courses covering compliance issues should provide information on legal and reporting requirements, as well as applicable internal policies and procedures.

- State laws and regulations
- Federal laws and regulations
- Internal policies and procedures
- State reporting requirements

#### **2. Legal and Regulatory Matters**

Courses covering legal and regulatory issues should provide information on current or potential lawsuits, legislation, or regulation.

- Legal landscape
- Pension litigation
- Legislative issues and updates
- Regulatory oversight

#### **3. Pension Accounting**

Courses related to pension accounting should provide attendees with a basic understanding of plan assets and liabilities, financial statements, and GASB requirements.

- Governmental Accounting Standards Board (GASB) requirements
- Assets and liabilities
- Reading plan financial statements
- Plan cost

#### **4. Custodial Issues**

Courses covering custodial issues should provide information about the process of selecting a custodian and what to look for in a custodian.

- Custodian selection process
- Executing trust agreements
- Applicable state law and plan requirements

#### **5. Plan Administration**

Courses related to plan administration should provide information on the day-to-day aspects of administering pension plans.

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- Contributions
- Distributions
- Plan design
- Reporting requirements
- Vesting
- Participation
- Communicating with members

### **6. Texas Open Meetings Act**

A course on open meetings should familiarize attendees with requirements under Texas law.

- Applicability of the Open Meetings Act
- Legal requirements for meetings
- Meeting notice requirements
- Procedures for holding a closed meeting
- Penalties for non-compliance

### **7. Texas Public Information Act**

A course on open records and public information should familiarize attendees with requirements under Texas law.

- Applicability of the Public Information Act
- Legal requirements for handling requests for information
- Policies and procedures relating to external communication
- Penalties for non-compliance