



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street, Boise, Idaho 83702

MINUTES OF MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met in-person and via Zoom at 12:00 p.m., September 30, 2021. The following members were present:

Jeff Cilek
Joy Fisher
Celia Gould
Park Price
Darin DeAngeli

Executive Director Don Drum, Deputy Director Michael Hampton, Chief Investment Officer Bob Maynard, Investment Officer Richelle Sugiyama, Deputy Attorney General Cheryl George, and Management Assistant Lena Rupp were also in attendance.

Along with members of the general public, other persons attending all or portions of the meeting were:

Amy McDuffee	Mosaic Governance	Lori Wolff	DHR
Ann O’Bradovich	Callan Associates	Janelle White	DHR
Robert Klausner	Klausner, Kaufman, Jensen & Levinson	Sharon Duncan	DHR

At 12:10 p.m., Chairman Cilek called the meeting to order. He welcomed everyone to the meeting, reviewed the objectives of the meeting and adjusted the order in which topics will be discussed.

Amy McDuffee of Mosaic Governance briefly reviewed the meeting agenda.

Compensation Study: When the Board adopted their long range plan, a compensation study was included. Last month the Board reviewed various governance structures of peer pension systems and how their structure influences their compensation programs. Lori Wolff, Janelle White and Sharon Duncan of the Division of Human Resources (DHR) gave a presentation on the compensation philosophy and process for the state and how that is applied to state agencies.

Ms. Wolff discussed roles and responsibilities of agencies and their Boards including determining organizational structure, the work and decision making authority of individuals and defining the scope of job descriptions within the agency. The roles and responsibilities of the DHR and the Division of Financial Management (DFM). DHR duties include managing the personnel system including following Idaho rule and code regarding compensation and job descriptions. DHR uses the Hay study regarding job classification and duties in relation to compensation.

DFM responsibility includes agency budget management through intent, recommendation and direction given by the Governor’s office and the legislature. Once a compensation study is complete, decisions are primarily influenced by budget limitations, impact on internal equity and

the state personnel system overall. Compensation change recommendations ultimately have to be supported and approved by the legislature, however, quite often the legislature does not support the recommendations during the budgeting process. DHR does not have any specific examples of other state agencies or Boards who also have positions with direct fiduciary responsibility to non-state personal interests but will work to provide more information at a later date.

Ms. White discussed more information regarding the Hay study and how job evaluations are completed with agencies. Value of a job in relation to other positions. The state uses the Hay Methodology which measures jobs by assessing factors through utilization of a points system. The factors measured include the knowledge needed to do the job, experience, the extent to which the job is accountable, and decision making authority, among others. Ms. White discussed what the goals of the Board are, next steps to being able to conducting a compensation study and complete a request which will be sent to DHR, DFM, the Governor and the legislature.

Investment Program Structure: Chairman Cilek stated with the retirement of CIO Maynard next September, now is the time to review the investment structure and discuss any possible changes or adjustments that PERSI may want to make. This includes looking into the future as the fund continues to grow. Ann O'Bradovich with Callan reviewed the current PERSI staff model, governance structure and the Chief Investment Officer responsibilities currently listed in the Governance Policy Manual. Ms. O'Bradovich also reviewed the risk mitigation to be considered in the investment, business and career categories of the investment program model. Callan plans to provide some peer review and case study information at the next governance or regular Board meeting which will provide more insight into the pros and cons of different styles of asset management, Board composition, and investment structure.

Information Technology Services: Executive Director Drum gave an update on the tentative PERSI transition to the state Information Technology Services (ITS) division. PERSI has been informed that ITS intends to include PERSI in Phase 3 of the state modernization plan. A full transition to ITS would mean that ITS would take over all of the IT services at PERSI. The top priority as PERSI staff works through this process is to protect PERSI, all of the PERSI members and all fiduciaries.

Director Drum spoke regarding the plan and fiduciary duty. PERSI is a qualified plan under IRS rules. Those who are fiduciaries of the plan, including Director Drum, the Board and others, have their responsibilities covered under 29 U.S. Code § 1104 and U.S. Code § 1109. As fiduciaries each person shall discharge their duties with respect to a plan solely in the interest of the participants and beneficiaries for the exclusive purpose of providing benefits to participants and their beneficiaries defraying reasonable expenses of administering the plan in accordance with the documents and instruments governing the plan insofar as such documents and instruments are consistent with §1104. As stated in §1109(a), any person who is a fiduciary with respect to a plan who breaches any of the responsibilities, obligations, or duties imposed upon fiduciaries by this subchapter shall be personally liable to make good to such plan any losses to the plan resulting from each such breach, and to restore to such plan any profits of such fiduciary which have been made through use of assets of the plan by the fiduciary, and shall be subject to such other equitable or remedial relief as the court may deem appropriate, including removal of such fiduciary.

Chairman Cilek, Director Drum, Deputy Hampton and Larry Sweat met with leadership at ITS to discuss a tentative transition. In this meeting Director Drum stated that PERSI would be happy to participate in a transition once it is confirmed that PERSI is able to legally have IT service provided this way and that a comprehensive and complete Service Level Agreement (SLA) would be required to make sure that all fiduciary duties and responsibilities are covered. ITS is requesting a budget adjustment to transfer all internal IT FTE's to ITS. The Division of Financial Management (DFM) has also requested an immediate budget revision to eliminate 10 positions (estimated

annual cost of \$890,000) and add a FY23 service contract with ITS with an estimated cost of \$231,000. The Board is not comfortable moving forward with transferring any FTE's, a budget adjustment or agreeing to an ITS transition until a complete and comprehensive SLA is drafted and agreed upon.

Director Drum stated an SLA must also include a transition plan. In order to meet fiduciary responsibility, PERSI must provide the same service level that is currently provided at same cost or less. PERSI cannot provide lower service and be protected as fiduciaries. If an arrangement with ITS ends up costing more than the current cost, the increased cost has to be able to be justified. An SLA between PERSI and ITS must be comprehensive and detailed plus promise all of the standard level of service currently provided. The Board must also hold ITS accountable to the agreed upon terms of an SLA to be covered as fiduciaries.

The Deputy Attorney General (DAG) who represents ITS, Julie Weaver, informed PERSI DAG (Cheryl George) that PERSI will be a part of the ITS transition unless the Governor's office states otherwise. Ms. George stated that an SLA needs to include specific and detailed information on how internal processes work including specifics on how the PERSI internal processes are different from other agencies and what specific duties are required as fiduciary. DAG George will be working with DAG Weaver on components of the first draft of an agreement which will include what services are required as provided by PERSI staff, what services ITS is willing to take over, how many positions must be retained at PERSI based on what ITS will not take and the penalties if duties and roles are not fulfilled. The Governor's office has also agreed to work with PERSI and ITS on negotiating a Service Level Agreement.

Bob Klausner, fiduciary counsel for the Board, stated the three things the Board needs to decide are what level of service is required, an SLA implement plan and what terms will be included in an agreement. Liability details and who is liable should a breach occur also needs to be included. PERSI is directly responsible for the economic welfare of 20% (members and beneficiaries) of the population of Idaho. PERSI needs to provide a very detailed explanation as to volume and manner in which PERSI utilizes IT services including clearly articulating a plan and how services must be delivered. In addition to the standard IT work provided, PERSI needs to articulate the additional work currently being completed by IT staff which is outside of regular IT services or duties.

Chairman Cilek stated the Board will not move forward with a budget revision until a complete and comprehensive Service Level Agreement is agreed upon by all parties involved. Director Drum has a meeting scheduled on Monday with Nate Fisher, Special Assistant in Intergovernmental Affairs for the Governor, and Jeff Weak, Executive Director of ITS. Director Drum will request that a transition plan be brought to this meeting for discussion. Director Drum will continue updating the Board as information becomes available.

Governance Policy Manual: Ms. McDuffee reviewed the updates to the draft Ethics Policy as requested by the Board at the last governance meeting. The current draft as written would apply to Board Trustees, PERSI staff, employees of other State agencies providing services to PERSI, consultants, service providers, contractors, and anyone else who works on PERSI's behalf. Mr. Klausner stated that he supports the draft as the State ethics policy is not as descriptive and in his opinion it is better for the PERSI Board to be more descriptive than not especially because the State does not have an Ethics Commission as a resource to offer guidance and opinions as many other states do. Ms. McDuffee will incorporate the additional feedback received and will bring an updated draft of the Ethics Policy to a future governance meeting. PERSI staff will also request to have the Office of the Attorney General as well as some of the investment managers and consultants to review and provide any feedback.

The Board has been provided the final draft of the Succession Planning Policy. No additional feedback was provided. The policy will be included as an action item at the next governance meeting.

Statutory Matters: Director Drum provided an update on the internal actuary position. PERSI staff is still working through the contract process for hiring a third party contractor to complete actuary services.

Ms. McDuffee reviewed the October governance agenda which will include additional analysis and information from Callan on the investment program structure as well as a few policies for the governance manual. Ms. McDuffee also provided update on the completion status of the governance policy manual. Director Drum stated that the Governor asked him to extend his compliments to the Board for all of their diligent work, specifically the recent action on the assumed rate assumption adjustment.

Executive Session: At 3:25 p.m. Chairman Cilek stated the Board intended to move to executive session in accordance with Idaho Code §74-206(1)(a) and §74-206(1)(b).

Trustee Price made a motion to go into executive session in accordance with Idaho Code §74-206(1)(a) to consider hiring a public officer, employee, staff member or individual agent and §74-206(1)(b) to consider personnel matters. Trustee Fisher seconded the motion and the Board voted unanimously via roll call vote.

Upon conclusion of the executive session, Trustee DeAngeli made a motion to return to regular session. Trustee Gould seconded the motion, which passed unanimously.


Regular Session: The Board returned to regular session at 4:55 p.m. Chairman Cilek stated that during executive session the Board discussed personnel matters. No decisions were made.

Recess: The Board recessed at 5:00 p.m.

Reconvene: The Board reconvened at 5:30 p.m. at 1137 W. River Street, Boise Idaho for an informal dinner. No decisions were made.

Adjournment: There being no further business to come before the Board, the meeting adjourned at 8:30 p.m.


Donald Drum _____ Date
Executive Director

 11-12-21
Jeff Cilek _____ Date
Chairman