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CREATIVE BUSINESS SOLUTIONS – FOR A CHANGE

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## **Back to School: Benefit Board ABCs**

Recent years have seen a series of increasingly burdensome financial, accounting, and regulatory requirements for plan sponsors. In the corporate world, benefit departments are staffed with subject-matter experts, who keep up with compliance issues and best practices, and work with outside consultants to guide the employer on plan design and funding.

For public employers, things work much differently.

Benefit plans for state, municipal, and local governments are usually run by independent boards. Though the elective body allocates budgets, they don't oversee the plans. Responsibility for designing, managing, and maintaining benefits is vested in small groups of people from a cross-section of life.

Some benefit boards are relatively small (five members); others are large (as many as 30). They're typically made up of members of the administration, private citizens (appointed by a governor or mayor), public employees or retirees (elected by a department or union), or officials serving under a mandate. State and local statutes define member terms.

Still, regardless of how public plans select boards, their programs operate at a significant disadvantage. That's because, unlike companies, public-sector plans are run largely by people with little, if any, technical benefit knowledge.

### ***Board to Distraction***

Like any other diverse group, benefit board members have mixed backgrounds, experience, and levels of expertise. Most of the time, they have some level of interest in benefits. And, since board service is voluntary (i.e., non-compensated), members are largely sincere, committed, and public-minded.

But they are rarely expert in the plans under their jurisdiction.

An incoming board member may know very little about how benefit plans work, how the board's programs compare to benchmarked norms, or even how to assess plan financials appropriately. Nearly always, new members are unfamiliar with their specific requirements and expectations in their roles as plan fiduciaries.

Then there are questions of "fit." By their very nature, boards attract all kinds of people. In one case, a union rep had been elected based on his promise to enact pension "reform" – without regard to the fact his proposed changes were impermissible under federal, local, and IRS regulations. In another, a first-term official had lobbied for a slot because he wanted a higher "profile" with public employees (who are typically high voter-turnout groups). Unfortunately, he didn't realize that some decisions a board inevitably has to make would prove to be unpopular with these same constituents.

The worst case of all was a prominent local broker, who had been appointed to bring the board his industry expertise. He wound up indicted, though, and eventually convicted, for exerting improper influence, soliciting bribes, and accepting kickbacks.

Still, despite the quirks of individual members, boards are capable of accomplishing great things for plan sponsors and participants. The best boards – those armed with proper training and information – can be far more effective plan stewards than their private-sector counterparts. In fact, some analysts consider the independent board system the ideal way to manage employee programs.

Here's why.

### *Getting Plans On Board*

Under a benefit board, debate over conflicting plan priorities occurs not in closed offices, but in open meetings. Plan experience data and financials are not guarded secrets, but matters of public record. As members of the benefit board, management and employee representatives receive the same information, get the same responses to their questions, and have the same opportunities to raise issues and concerns.

Most important, boards are governed by strict, and enforceable, fiduciary guidelines. Whether members are appointed by management or elected by participants, all of them are charged with making sound design and financial decisions. And these decisions must be made in the interest of not one “side” or the other – but *for the plan as a whole*.

Thanks to this “level playing field,” public plans are often capable of addressing benefit problems far more effectively than corporations. Boards can achieve amazing things – but only when their members know their responsibilities, understand the plans under their jurisdiction, and have the perspective to act as fiduciaries.

### *Educating Boards*

Board members, like any trustee, need experience in benefits, insight into public-sector HR concerns, and fiduciary training. Clearly, though, few people have all of these qualifications.

For this reason, targeted board education programs have become essential. Many boards are seeking such training on their own. But, in an increasing number of jurisdictions, board education is becoming mandatory, for both first-time and incumbent members.

Board training programs are usually conducted in special-called meetings, or held during a scheduled board “retreat.” The curriculum is typically made up of eight components – usually (though not necessarily) in the following order:

- 🌐 *Benefit Overview* – a summary of the plans under board jurisdiction; program history (how the plans began and the needs they intended to address); major design changes over the years; current state of benefits.
- 🌐 *Legislative Context* – the legal basis of both the benefit program and its board; key legislative requirements and constraints.
- 🌐 *Benefit Basics* – plain-English explanations of how the plans work (e.g., participant demographics, plan design, benefit benchmarks, plan risk assessment and management, funding arrangements, financing and accounting issues, benefit administration, communication, enrollment, and employee education); identification of plan vendors and other support resources; assessment of current programs (adequacy, competitiveness, value relative to cost and market norms); “SWOT” analysis (strengths, weaknesses, opportunities, threats).

- 🌐 *Rules & Roles* – an overview of board history (e.g., how and why it was created, significant changes in composition or jurisdiction); board and office infrastructure; scope of board authority; normal duties, collectively and as individual members; responsibilities of, and relationships with, executive director, staff, participants, dependents, legislative bodies, administration, and others.
- 🌐 *Protocols* – functioning as a plan trustee; internal and external communication.
- 🌐 *Fiduciary Responsibilities* – expense and liability issues; guidelines for making decisions with financial implications; expectations for plan fiduciaries; potential program and member liabilities.
- 🌐 *Ethics* – standards for member conduct (public and private).
- 🌐 *Governance* – membership terms; board and committee leadership; meeting schedules, agendas, and organizational procedures; group deliberative and decision-making processes; raising and resolution of objections and appeals (by participants, dependents, board members and vendors); expectations for board conduct and discourse; member accountability and discipline.

### ***Board Thinking***

The benefits of such training are substantial – and they aren't limited to just board members.

Office staff is often invited to participate in the sessions. Many boards are also asking their governing entities to start similar education programs – for Personnel, Legal, and Finance departments; legislative or council committees; and representatives of the mayor's or governor's office. And even the private sector is getting on-board. In industries as diverse as manufacturing and telecommunications, HR and benefit staffs have begun comparable training programs.

Board education helps members grasp the content and context of benefit programs, learn how their board is designed to work, and understand the high ethical and fiduciary standards expected of them. With this knowledge, members can better meet their responsibilities to protect the interests of governing bodies, elected officials, employees, retirees, and the tax-paying public. A board that has been trained in this way is better equipped to ensure that plans under its watch are sound, both for near term and far into the future.

### ***A Powerful Argument***

As the saying goes, knowledge is power. And since board members already have the power, board training increases their knowledge, so they can use this power affirmatively.

In the end, board education leads to better benefit plans and more efficient plan administration. And the training, when expanded to other groups, can help the board work more effectively with legislative bodies – building consensus on key priorities, and resulting in more effective, win/win solutions.

It's a compelling proposition – for the *benefit* of all concerned.