ATTACHMENT 1

"FIDUCIARY RESPONSIBILITY"
YOUR ROLE AS A SAN LUIS OBISPO COUNTY PENSION TRUST BOARD MEMBER

INTRODUCTION

Board members of a public pension system provide an important service to the community. They are responsible for administering the system and overseeing the investments of the system to ensure that public employees receive a secure retirement after long years of public service. This promise to public employees allows governmental entities to attract and retain qualified employees. As a Pension Trust Board member, you can expect to commit at least 10 hours of your time each month discharging your duties to the system, not including additional time required for training and education.

The following is intended to serve as a general overview of fiduciary responsibilities and duties relating to administration of public employee retirement system.

WHO IS A FIDUCIARY?

A fiduciary is anyone who has discretionary authority or control over plan assets and/or the administration of the employee benefit plan, whether they are administrators, staff, board members or consultants. Board members are fiduciaries charged with fiduciary responsibilities in administration of the retirement system.

YOUR FIDUCIARY DUTIES

It is important to note that your fiduciary duties are measured on an objective standard. It is not enough that you "mean well." You must approach your duties on the Board exercising the following fiduciary duties:

1. Duty of Loyalty: A Board member must discharge his or her duties with respect to the system solely in the interests of and for the exclusive purpose of providing benefits to participants and their beneficiaries, minimizing employer contributions and defraying reasonable expenses of administering the system. The duty to participants and their beneficiaries is the Board member's primary duty that takes precedence over all other duties. A Board member has an undivided duty of loyalty to the participants and beneficiaries and does not serve as an "agent" or representative of the employer, union or other constituency responsible for his or her appointment to the Board. The Board member must act in the best interests of all of the participants and beneficiaries even where doing so is not in the best

interests of the electorate or appointing authority responsible for the Board member's appointment.

2. Duty of Impartiality: The duty of impartiality is really a corollary of the Duty of Loyalty and applies where the Board is required to make a decision that will impact groups of participants differently. Where there are conflicting interests among different groups of participants, the Board member must act in a way that serves the overall best interests of the members of the system.

3. Duty of Care: Fiduciaries must discharge their duties with respect to the system with the same *care, skill, prudence and diligence* under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character with like aims. Encompassed within the duty of care are:
    a. The duty to assure that the assets of the system are sufficient to pay the benefits promised
    b. The duty to monitor and take corrective action when reasonably appropriate
    c. The duty to exercise reasonable effort and diligence in making and monitoring investments for the trust and to diversify investments to maximize returns and minimize risk
    d. The duty to consult with experts and secure and consider the advice of others to the extent necessary or appropriate to the making of informed decisions
    e. The duty to exercise prudence in decision-making which requires asking questions, analyzing advice and recommendations from experts and understanding the rationale for actions before taking them
    f. The duty follow the plan document and other applicable laws governing the retirement system and ensure that trust assets are used for the exclusive benefit of delivering benefits and related services to participants and beneficiaries

CONFLICT OF INTEREST

A fiduciary must act in the best interest of the plan and its participants. Fiduciaries should exercise extraordinary precaution to assure that decisions and transactions are fair to the participants and free of any conflict of interests. Board members must not participate in any decisions that will impact, either negatively or positively, their own financial interests. The Political Reform Act requires that board members file an initial disclosure of their financial interests, an annual disclosure thereafter, and a final disclosure when they leave office. Every Board member should become familiar with the California conflict of interest and disclosure laws applicable to their duties as a public pension plan board member. Conflict of interest laws are complex. Board members should seek assistance from the General Counsel to determine what financial disclosures are required and to seek advice in any situation giving rise to a potential conflict of interest.

DELEGATION OF RESPONSIBILITY

Many aspects of plan administration such as day-to-day operations, investment decisions and other services necessary to conduct the affairs of the system are delegated to persons other than the Board members. Fiduciaries must exercise reasonable care in delegating responsibilities over administration of the plan. Board members must ensure that the persons selected are qualified and capable of adequately performing the duties delegated. Once delegated, Board members must actively monitor the activities of the person selected to ensure that he or she is adequately performing and that policies and procedures are being timely and accurately implemented.

PLAN ADMINISTRATION

A Board member's duties relating to plan administration will include:

1. Legal Compliance: Board members must ensure that the plan maintains compliance with the plan documents and all applicable laws governing the system. Board members comply with this duty by conducting a periodic review of plan documents and monitoring changing legal requirements.
2. Education: Board members are expected to educate themselves on the issues that are likely to appear in front of them and ensure that staff members also obtain sufficient education to keep current with issues that impact administration of the system. Board members should establish an ongoing education program for board members and staff.
3. Board and Committee Meetings: Board members are expected to prepare for, attend and participate in regularly scheduled meetings necessary to conduct the business of the system. Board members should ensure that accurate and detailed minutes are kept of all meetings.
4. Payment of Benefits and Claims: Board members are responsible for ensuring that plan benefits are paid to participants and beneficiaries in a timely and accurate manner.
5. Competency of Assets: Board members are responsible for formulating written investment policies and guidelines and overseeing investments to ensure adequate funding of the system to pay all promised benefits.
6. Contributions: Board members must ensure that contributions from plan sponsors and plan participants are set accurately and collected in a timely manner to ensure adequate funding of the system.
7. Actuarial Advice: Board members are responsible for retaining and working with a system actuary to analyze potential long-term funding deficiencies and provide advice on contribution rates to ensure adequate funding of the system.
8. Retention of Vendors, Consultants and Experts: Board members are responsible for retaining vendors, consultants and experts with sufficient skills and expertise to provide the services necessary to conduct the affairs of the system and pay reasonable compensation for those services.