Pension Election
Deficit Disorder

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The last 12 months have not been kind to pension funds. The numbers are staggering and sobering. More than $5 trillion has evaporated, as if vanished into thin air, since October 2007. The solvency of insurance companies, blue chip corporations, and the financial instruments that underpin them are under profound stress.

Pension fund boards sit squarely in the cross hairs of what is already unfolding to be the mother-of-all legal and fiduciary firestorms in modern times. Tectonic change is afoot.

Intense Scrutiny

As one of the most regulated and important sectors of our economy, pension funds and retirement systems will be, and already are, under intense scrutiny; nowhere more so than by boards of directors. Proper observance of strict board election bylaws and regulations, along with transparency and adherence to ethical practices, are front-and-centre issues.

In the months ahead, pension funds and retirement systems will face an unprecedented period of challenges compelling them to re-evaluate their situations. Maintaining and encouraging the credibility of board elections is of paramount importance. Many pension and retirement system boards are perceived to perform only ‘rubber stamp’ or uncontested board elections – in essence, continually electing themselves by proxy and voter participation levels which are often less than optimal. Since pension funds and retirement systems exist to serve their constituents’ retirement security, the need to uphold core principles, in addition to challenges from regulators, are motivating many in the industry to take a fresh look at their entire election process.

In this pyretic environment, what can be done to assure that elections are effectively and properly managed? Our experience is that a professionally run, improved election and nominating process attracts a more robust board gene pool. A healthy pension fund and/or retirement system election will almost always have three things:

- an open nominating process
- strict term limit policies
- secure contested elections

In a recent survey of U.S. pension funds and retirement systems undertaken by Election Services Corporation (ESC), several critical issues regarding nominations, elections, and term limits for boards of directors surfaced. The survey results are clearly a wake-up call for these boards.

Let us take a look at some facts relating to pension elections. The survey indicated almost 80 per cent of pension funds and retirement systems use nominating committees, 40 per cent indicated that their boards selected nominating committee members, and 45 per cent reported their board chairman selected board nominees.

Valid Concerns

Some of these practices most certainly raise valid concerns as to whether pension funds and retirement system election practices perpetuate their board's current composition. Indeed, the survey further revealed elections were contested ‘always’ or ‘most of the time’ among less than 20 per cent of responding pension funds. Board elections were contested ‘never’ or ‘rarely’ in more than 75 per cent of the cases.

Clearly, step one needs to be a more professional, open, and fair forum/process for nominees to step up to the plate. For example, a nominating process that is transparent and open to all qualified nominees is needed. We can certainly attest first-hand how these self-perpetuating nominating practices have led to the appearance and/or actual practice of illegal or unethical behaviour. In some instances, the legal system and courts have mandated that an independent third-party perform this important election task to satisfy all parties.

On the topic of term limits, an astounding 78 per cent of responding pension funds and retirement systems had no consecutive term limit practices in place. The dearth of term limits raises many significant
concerns. Specifically, in today's dynamic regulatory and market environments, how can pension fund boards expect to reflect the changing face of their fiduciary responsibilities while tapping into the wisdom of their dedicated, experienced volunteers? To an outside observer, these pension fund and retirement election survey results would seem indicative of a self-sustaining political machine.

Must-haves

So, if a pension fund honestly wishes to attract new board members and nominees, professional guidance and adherence to board member term limits are must-haves. Many pension funds do adhere to a policy of no more than two consecutive terms of elected board service. Let me be clear, we would be the first to acknowledge that there are very real challenges when it comes to tapping and keeping qualified directors with the time and talent to serve. However, our experience is that a professionally run, improved election and nominating process and term limits will attract a more robust board gene pool. No more uncontested elections becomes the norm.

The bottom line is that pension and retirement fund elections are complex and face many challenges, an ‘Election Deficit Disorder’ if you will. In many cases, it would be appropriate to seek the professional guidance and assistance in the highly charged litigious environment these funds face when it comes to board elections.

Richard Taylor is chairman of Election Services Corporation, a provider of election management solutions for private sector entities around the world (http://www.electionservicescorp.com/).