

# COUNCIL OF THE DISTRICT OF COLUMBIA

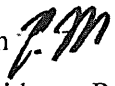
1350 Pennsylvania Avenue, N.W.

Washington, D.C. 20004

## Memorandum

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March 30, 2021

TO: Members of the Council  
FR: Phil Mendelson, Chairman   
RE: DC Retirement Board Residency Requirement

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The Committee of the Whole held a roundtable on March 12<sup>th</sup> with four members of the District of Columbia Retirement Board (DCRB) to discuss its difficulty with hiring an Executive Director in light of the residency requirement and salary limit. I held this roundtable in response to Councilmembers who questioned the proposal to permit the Board to hire a non-resident. The roundtable highlighted the following points:

1. **The Board has an urgent need to hire an executive director.** Both the OCFO and the Inspector General (IG) have expressed concern to the COW that there are too many senior level vacancies at the DCRB and this is affecting its operations. The IG is on the verge of issuing an MAR over this; in our most recent CAFR the DCRB was the only agency with *significant deficiency* findings (there were 3). Currently vacant are: Executive Director, Chief Operating Officer, Chief Procurement Officer, and Director of Internal Audits. Senior management needs to be stabilized immediately.
2. **The residency requirements affecting the Retirement Board are new.** Although a residency requirement has been in place for years, in 2019 the law changed and the waiver provisions were removed. This is now affecting the Board's ability to hire. Sheila Morgan Johnson (an employee of the Board for about 30 years and a resident of Maryland, who just retired) was waived in as Executive Director in 2017. But the Board can no longer do that.
3. **The Board's professional search firm indicates that the residency requirement is an impediment.** The Executive Director position has been advertised since last July. Polihire indicates that there are prospective applicants who do not actually apply because they would have to relocate to the District.
4. **The Executive Director requires a hard-to-find skill set.** In addition to strong managerial experience, the successful candidate must encompass: (1) knowledge of and experience in pension plan administration; (2) knowledge of financial management and investment policy; (3) understanding of the functions and inter-relationships of custodial banks, investment consultants, auditors, etc.; and (4) ability to understand complex financial data and actuarial reports. (See announcement no. 20210201 with the Department of Human Resources)
5. **DCRB is competing nationally with 15 other pension funds.** DCRB's need is urgent, but March 12<sup>th</sup> testimony stated that right now 15 pension funds are looking for a new Executive Director, including both Arlington County and the State of Maryland – *neither of which has a residency requirement.*

6. **Our residency requirement is not the norm among pension funds.** A partial survey of government pension funds found that the majority of pension fund administrators are not required to be state residents. As mentioned above, *both the State of Maryland and Arlington County right now are competing with us to hire an Executive Director and neither requires residency.*
7. **DCRB is held to a higher standard than most government agencies.** Most agency directors do not have a fiduciary relationship with customers. DCRB is unusual in that regard. Having a fiduciary responsibility to 26,979 members in the several pension plans increases the need for a top notch Executive Director. This, in turn, increases the need for flexibility to ensure the best talented hire. This also explains why the CFO, IG, and CAFR auditor are so concerned right now over DCRB's management.
8. **DCRB also is different because it does not serve DC residents.** Most city agencies serve the residents of the District. The Retirement Board serves retirees. Some of them are federal. Over 82% of the annuitants reside in 49 of the 50 states – but not DC. Moreover, most of the dollars in the funds come from either employee contributions or investment earnings – not, therefore, District tax dollars. If the goal of a residency requirement is that city workers should live with the public they serve, that goal is not applicable to the Retirement Board, given its different clientele.
9. **Relief could be limited to residents already in the Metropolitan Area.** According to the March 12<sup>th</sup> testimony, residency becomes a significant issue for potential applicants who already live nearby – e.g., Arlington or Prince George's counties – and who would have to pull their kids out of school to relocate or inconveniently rearrange their spouse's commute.
10. **A higher salary is also necessary to attract top talent.** The same survey of government pension funds indicates a wide range of salaries, but a little less than half pay a salary greater than our recent DCRB Executive Director earned and a roughly a quarter of the funds pay over \$300,000 per year.

In short, I am arguing that in this case the principle of residency should not trump the practical and urgent need to fill the Executive Director position. Moreover, the Board is distinguishable from the Executive agencies that make up this government, and that distinction warrants flexibility given the criticality of the Board's importance to the District's governance.

I would be pleased to discuss this further with you.