Public Pension Administration Benchmarking Analysis

Summary of FY 10 data for the
Employer Advisory Committee
May 19, 2011

INTRODUCTION

- CEM Benchmarking Inc
  - Founded in the early 1990's in Toronto, Canada
  - Started benchmarking investment management
  - There are four components to the pension administration service:
    - A comprehensive survey and benchmarking report
    - A targeted best practice analysis
    - Access to a peer network
    - An annual peer conference
- DRS receives independent analysis <u>and</u> ideas for improvement

PARTICIPANTS

- 88 pension systems participated in FY 10
  - 35 from the United States
  - 13 from Canada
  - 13 from the Netherlands
  - 1 from Denmark
  - *10 from Australia* and*
  - *16 from the United Kingdom**

**Systems from Australia and the UK complete a separate benchmarking survey so they are not reflected in the report <u>but</u> they are accessible via the peer network and in best practice analyses*

DRS' Peer Group

- Our peers are the larger US systems
- DRS is close to the median size
- A few large US systems don't participate
- Inactive members aren't included in much of the analysis

Custom Peer Group for Washington State DRS			
	Membership (in 000's)		
Peers (sorted by size)	Active	Annuitants	Total
CalPERS	804	514	1,318
NYSLRS	562	376	938
CalSTRS	442	259	701
North Carolina RS	461	225	686
Ohio PERS	365	170	535
Michigan ORS	298	224	522
Virginia RS	343	148	491
Washington State DRS	298	134	431
Wisconsin DETF	267	151	418
STRS Ohio	207	133	340
Arizona SRS	214	106	320
Colorado PERA	216	84	300
Oregon PERS	179	117	295
Indiana PERF	179	98	277
Illinois MRF	181	92	273
Iowa PERS	166	94	259
Peer Median	282	141	425
Peer Average	324	183	507

Total Cost

- DRS' total cost of $59 per active member and annuitant is 28% below the Peer Average of $82
- DRS' total cost has been lower than the Peer Average in each of the last four years:
  - 2007 = $58 vs. $78
  - 2008 = $59 vs. $84
  - 2009 = $58 vs. $89
  - 2010 = $59 vs. $82

Why Costs Differ

- CEM works to explain <u>where</u> and <u>why</u> costs differ
  - Economies of scale (number of actives/annuitants)
  - Workloads (transactions per member)
  - Productivity (transactions per FTE)
  - Cost per FTE (salaries/benefits, building occupancy, internal support functions, etc.)
  - Other direct, indirect and 3rd party costs (legal, actuarial, mainframe, etc.)
- A new cost model enabled them to isolate and analyze various indirect costs

DRS

- Has a small economies of scale advantage
- Had slightly below average workload
  - We responded to more calls, emails and letters but processed fewer pensions, withdrawals, purchases, estimates, disability applications
- Paid less for salaries/benefits, our building and internal IT
  - Our sal/ben per FTE was 7% below the peer median yet the cost environment is 2% above the peer average
- Paid less for major projects, accounting, audit
- Paid more for actuarial, legal and mainframe
- And …

PRODUCTIVITY

- **DRS was more productive (as measured by weighted transactions per "front-office" FTE)**:
  - DRS performed 19% more transactions per FTE
  - This explains $5 of the $23 difference in total cost
  - CEM identified that this was likely due to IT capability, staff skills, and the absence of major projects
  - However, high productivity is inconsistent with high complexity

SERVICE

- **DRS' total service score of 73 is just below the peer average of 75**
- DRS' service score is higher than the peer average in various direct member transactions
- Areas with lower scores were:
  - 1-on-1 counseling in field
  - Use of voice mail
  - Publish in multiple language
  - Direct mailing materials
  - Projection on statements
  - Calculator in non-secure web
  - Transaction-specific surveying
- NOTE: The employer service portion was held out in 2010

Employer-Related Activity

- **DRS' service score for service to employers of 82 is just below the Peer Median of 83**
- Per CEM: "Having staff dedicated to servicing employers, providing generalized and/or customized collections reporting software, an up-to-date employer handbook, website, newsletter and training will help to reduce data errors and misinformation. Ultimately, this improves service to members."
- Few activities show DRS with a higher unit cost (and a higher number of FTEs per unit/transaction)

COMPLEXITY

- We continue to administer one of the most complex systems (even when compared to <u>all</u> participants) … but we don't want to be #1 in this measure
- Our complexity score of 71 compares to a Peer Median of 54
- We're higher than the peer average in 13 of 15 causes
- Much is due to being an "umbrella" with a "hybrid"
  - More rules to administer
  - Increases complexity of automated systems
  - However …

IT Cost and Capability

- At $18 per member, we spend 16% less on IT than the Peer Median of $22
- Yet our systems only score as 1% less "capable" than the Peer Average (81 vs. 82)
- The 2010-2011 best practice analysis is on IT as it tends to be a large cost and it is a complex topic

Predicted Cost

- DRS' actual cost of $59 was 40% below our predicted ("benchmark") cost of $99.
- The regression equation takes into account:
  - economies of scale,
  - workload,
  - complexity and
  - cost environment.

SUMMARY

- Comprehensive benchmarking with our peers is a valuable source of data and ideas
- It shows that DRS is a larger US administrator who:
  - Is low Cost* (in total and in most components of cost)
  - Is very productive/efficient with transactions
  - Provides solid Service (and is very responsive to customers)
  - Has a relatively Complex group of public pension systems
  - Has cost-effective automated systems
  - Is lower than its Benchmark ("predicted") Cost

Any questions?

*DRS' current admin fee has been at 0.16% since 2007. The last time it was this low was 1981-1987.