

ADVISORY COMMITTEE MEETING

April 8, 2021



Agenda

1. Roll Call/Approval of Minutes
2. Investment Performance
3. Sustainability and Integration of Environmental, Social, and Governance (ESG) Considerations in Plans 3/DCP/JRA Investment Options Director's Update
4. CEM Benchmarking Report
5. Budget Update
6. Deferred Compensation Program Automatic Enrollment
7. Director's Update
8. Pension Legislation Summary
9. Roundtable and Agenda Setting



INVESTMENT PERFORMANCE

**SUSTAINABILITY AND INTEGRATION OF
ENVIRONMENTAL, SOCIAL, AND
GOVERNANCE (ESG) CONSIDERATIONS IN
PLANS 3/DCP/JRA INVESTMENT OPTIONS**

Public Pension Administration Benchmarking

Summary of Fiscal Year 2020 Data to the
DRS Advisory Committee
April 8, 2021



Mark Feldhausen
Budget and Performance
Management Director

Participants

72 pension systems participated in FY 20

- 33 from the United States
- 12 from Canada
- 11 from the Netherlands*
- 15 from the United Kingdom*
- 1 from South Africa*



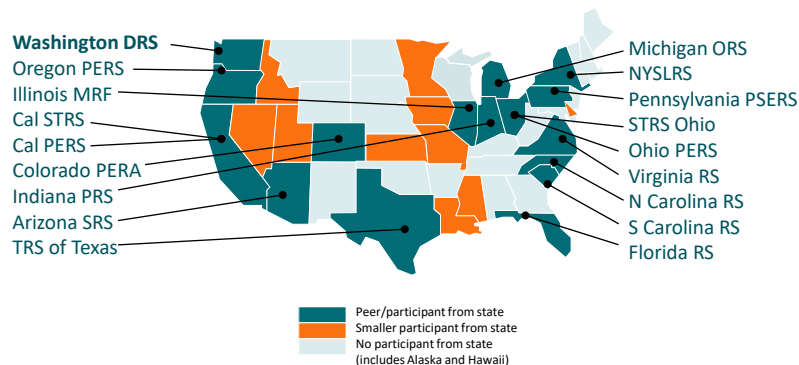
** Systems outside of North America complete a different benchmarking surveys so their results are not in the analysis but they are accessible via the peer network and in best practice analyses*

Total remained the same but there was a tiny shift between nations.

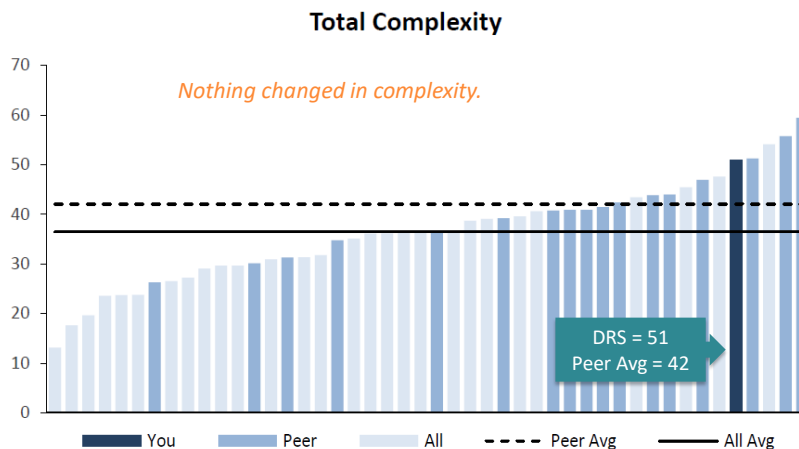


DRS' Peer Group

- DRS' peers are the larger US systems
- A few large US systems didn't participate last year
- DRS is close to the median (in size) in the peer group



Complexity

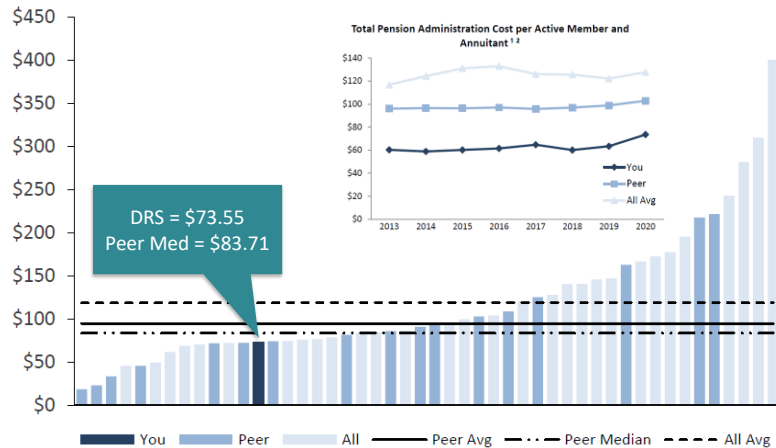


We're an "umbrella" administrator.



Total Cost

Pension Administration Cost Per Active Member and Annuitant



DRS increased by \$11 but it can be isolated to Major Projects.

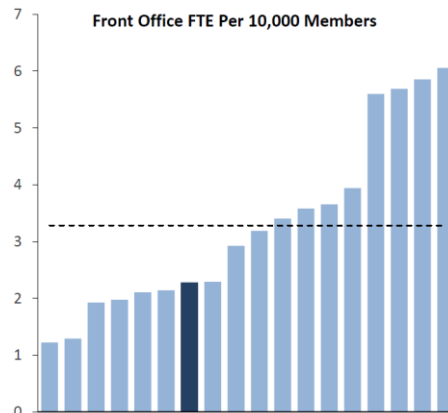
Why DRS' Total Cost is Lower

The top two reasons why our Total Cost was \$21 lower than the Peer Average were:

1. Our FTE per member was **31% below** the Peer Average

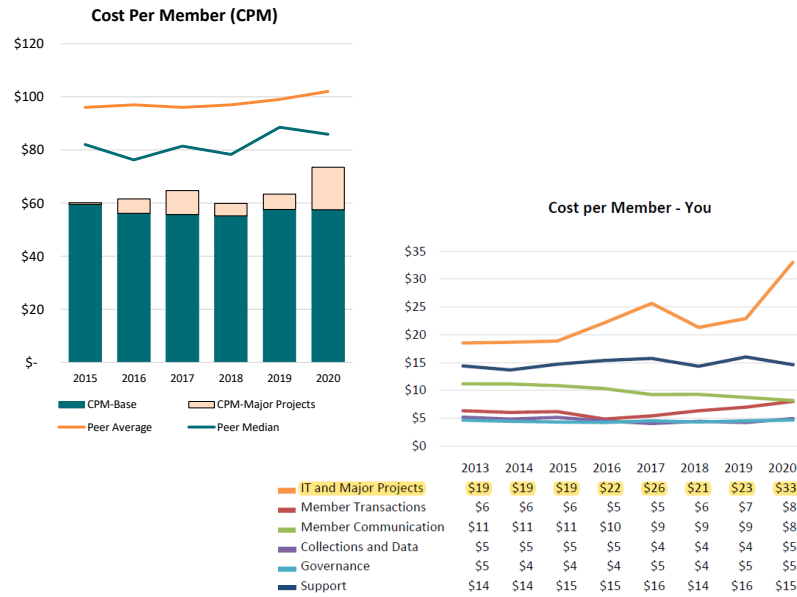
and

2. Our cost per FTE was **11% below** the Peer Average

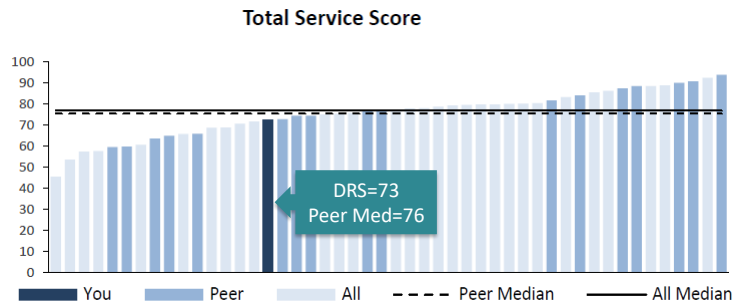


	You	Peer Avg
Salaries and Benefits	\$95,694	\$105,667
Building and Utilities	\$7,316	\$11,037
Human Resources	\$3,150	\$4,138
IT Desktop, Networks, Telecom	\$15,813	\$16,237
Total	\$121,973	\$137,079

Why DRS' Total Cost Increased



Service



DRS decreased from 76 while the Peer Average stayed the same.

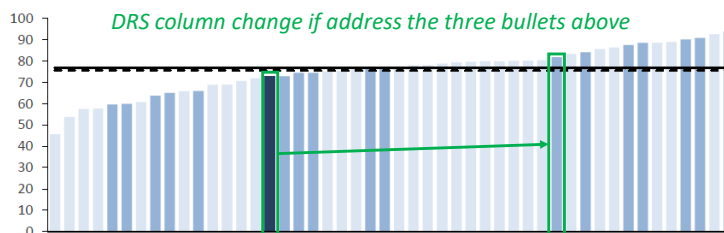
Improving the Service Score

CEM itemizes what it would take to get a Total Service Score of 100 (i.e., to have the best score of all participants in each component of service)

- +3.78 points if answer calls in 60 seconds
- +3.78 if reduce the number of abandoned calls
- +1.30 if review more incoming calls

The bullets didn't change but the point values on calls increased.

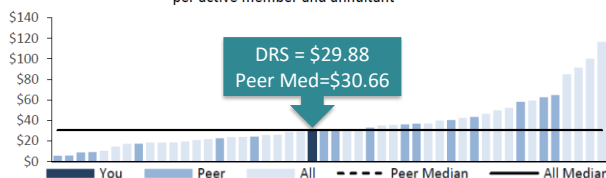
Total Service Score



Information Technology

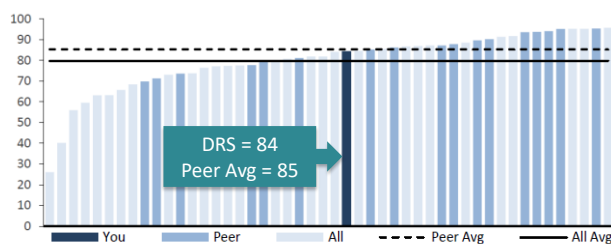
We spend slightly less on IT than the peer median (as we start to **invest in CORE**)

Total Pension IT/IS Cost
per active member and annuitant



Our systems (including phones) score as slightly less "capable" than the peer average

CRM/IT Capability Score



72% of our peers have CRM and VRU capabilities

Any Questions?



BUDGET UPDATE



DRS Operating Budget

2019-21 Budget* = 275.1 FTEs and **\$90.6M**

**includes 11.9 FTEs and \$16.5M in the IT Pool*

2021-23 Budget** = 279.5 FTEs and **\$81.7M**

***includes 13.0 FTEs and \$6.2M for CORE and:*

- 1.0 FTE and \$272k for DEI Resource
- 0.3 FTE and \$181k to Reduce Last 4 SSN
- 1.6 FTEs and \$286k to implement SB 5021
- 3.7 FTEs and \$619k to implement SB 5367

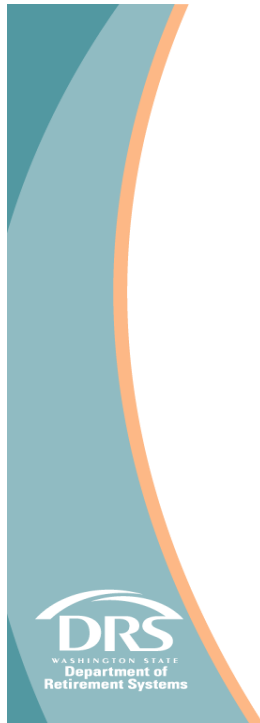


DEFERRED COMPENSATION PROGRAM & AUTOMATIC ENROLLMENT

*Seth Miller, Assistant Director
Retirement Services Division*

DRS Advisory Committee
April 8, 2021





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Thank Nobel Prize winner Richard Thaler for your retirement savings

Originally published October 14, 2017 at 7:00 am | Updated October 13, 2017 at 6:27 pm

Richard Thaler, awarded the Nobel Prize for economics Monday, may be its first winner to have had an almost immediate effect on millions of people's paychecks.

By Ben Steverman
Bloomberg News

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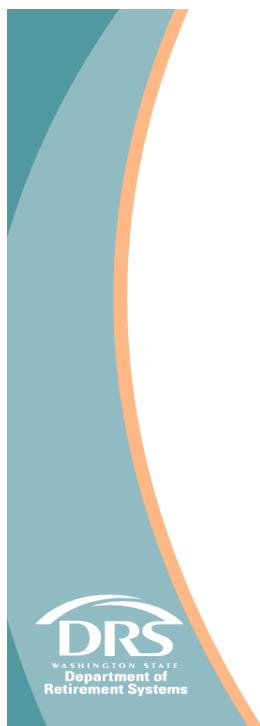
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If you have a 401(k) plan at work, there's a good chance that you're saving more for retirement because of Richard Thaler.

The Nobel Prize for economics tries to recognize important research with far-ranging consequences — but Thaler, awarded the prize Monday, may be its first winner to have had an almost immediate effect on millions of people's paychecks.

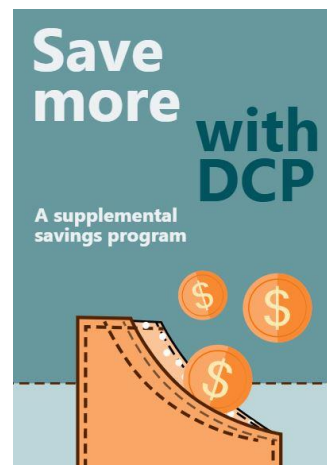
Over the last few decades, as more and more American employers killed off their pensions, workers were offered 401(k)s or similar retirement plans, with defined contributions instead of defined benefits.

These voluntary accounts should have worked, in theory. Standard economic theory assumes people act rationally: Workers, left to their own devices, should save and invest properly to meet their long-term goals.

 A photograph of Richard Thaler, a man with grey hair wearing a suit and tie, holding a Nobel Prize medal.


DCP automatic enrollment

- Since January 1, 2017 all newly hired state and higher education employees are automatically enrolled in the state's Deferred Compensation Program



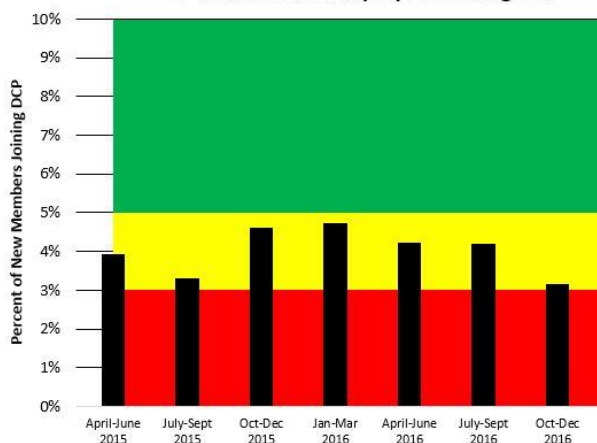
DCP and automatic enrollment basics

- ❑ Default contribution rate of 3%
- ❑ Default age appropriate Target Date Fund
- ❑ Contributions are refunded if member opts out within 90 days
- ❑ 2021 annual contribution limits
 - \$19,500
 - \$26,000 if age 50+

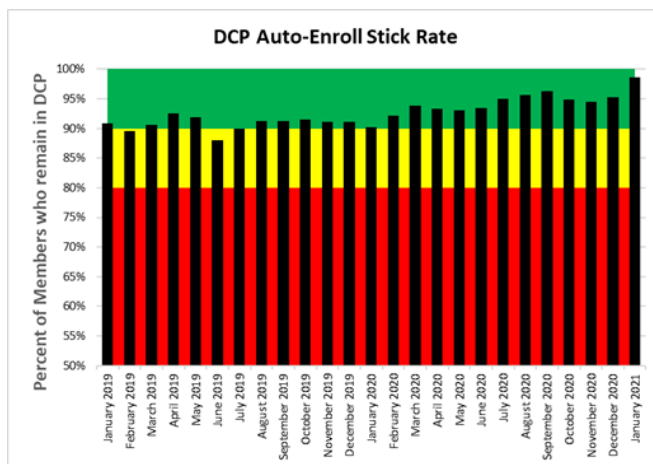


DCP – pre-2017 auto enrollment

OP4a-New State Employees Joining DCP



DCP automatic enrollment



DCP automatic enrollment

- ❑ “Stick rate” is 87– 90%
- ❑ Average age of DCP participants has dropped from 47 to 42 since auto enrollment

Why it matters

- ❑ The power of compound interest and time

BUILDING A MILLION-DOLLAR RETIREMENT ACCOUNT

Daily or monthly investments suggested to build \$1,000,000 by age 65.

STARTING AGE	DAILY SAVINGS	MONTHLY SAVINGS	YEARLY SAVINGS
20	\$2.00	\$61	\$730
25	\$3.57	\$109	\$1,304
30	\$6.35	\$193	\$2,317
35	\$11.35	\$345	\$4,144
40	\$20.55	\$625	\$7,500
45	\$38.02	\$1,157	\$13,879
50	\$73.49	\$2,235	\$26,824
55	\$156.12	\$4,749	\$56,984

SOURCE: David Bach, "Smart Couples Finish Rich"

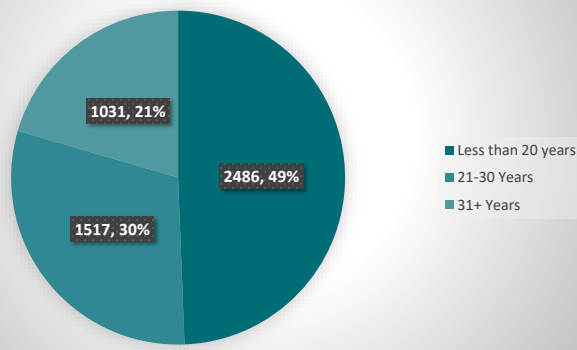
BUSINESS INSIDER



Why it matters

- ❑ Not everyone retires with 30+ years of service

PERS 2 Years of Service for retirements between 7/2018 - 6/2019



Why it matters

- ❑ Personal savings can serve as a bridge to start drawing Social Security benefits later in life. This is an effective alternative to annuity options.

Reference: [How best to Annuitize Defined Contribution Assets](#)



Automatic enrollment myths

Auto enroll will increase debt in other areas because of less take home pay.

- ❑ Studies so far show this is not the case. Auto-enrolled employees did not have increased levels of borrowing compared to the control group.

Reference: <https://www.nber.org/papers/w25876>



Automatic enrollment myths

Lower income workers will be less likely to participate.

- ❑ “...stats get even more impressive when looking at participation rates among minorities and lower income workers. “
- ❑ DRS has seen similar results in our own data.

Reference: <https://www.pai.com/blog/benefits-of-automatic-enrollment-in-a-retirement-plan>



Automatic enrollment myths

Employees don't want to be auto-enrolled in voluntary plans

- ❑ The majority of public employees surveyed supported the idea of auto-enrollment and stated they would participate.

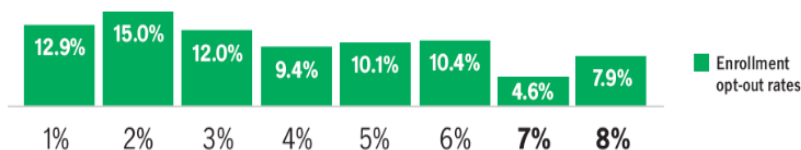
Reference: https://slge.org/assets/uploads/2019/03/nudging-deferral-rates-within-public-sector-supplemental-retirement-plans_final.pdf



Automatic enrollment myths

The higher the default contribution rate the more people will opt-out.

- ☐ The default contribution rate has little impact on the opt-out rate



Source: <https://www.planadviser.com/thought-leadership/jhi-state-participant-2020-readiness-within-reach/>



Benefits of automatic enrollment and DCP

- ☐ Allows contribution rate flexibility
- ☐ Provides additional options for early retirement
- ☐ Helps fill the gap for employees who have a shorter public service career



Possible future paths

- ☐ Auto enroll all state employees currently working that were hired prior to 2017.
- ☐ Increase deferral percentage from 3% to 5%
- ☐ Expand DCP auto enrollment to all school district employees.



Questions?



DIRECTOR'S UPDATE



BUILDING RENOVATION





Reception



Reception Waiting Area



Galley



Lunchroom





PENSION LEGISLATION SUMMARY



PENSION LEGISLATION SUMMARY

❑ **SB 5021 - Concerning the effect of expenditure reduction efforts on retirement benefits for public employees, including those participating in the shared work program.**

The bill would provide that if a retirement plan member is furloughed in the Average Final Salary period of their career, their service credit would be calculated as if they had not been furloughed to protect their accumulated retirement benefit; the bill is curative and necessary to comply with state and federal law and agencies ability to qualify for the federal program and receipt of federal funds for the Shared Work Program.

❑ **SB 5296 - Modifying the definition of index for the Washington state patrol retirement system.**

Removes the reference to Tacoma-Bremerton from the statute that defines the index used to adjust the benefits for retirees of the Washington State Patrol Retirement System

❑ **SB 5367 - Directing the department of retirement systems to create rules regarding automatic refunds of retirement contributions in the retirement systems listed in RCW 41.50.030.**

Directs DRS to establish rules for eliminating inactive member accounts with a balance of less than \$1,000.

❑ **SB 5352 - Allowing new government employees the option of opting out of retirement system membership if the employee is age sixty or older when first hired, or when the employee's employer opts into retirement plan participation.**

Allows public employees that first become eligible for coverage in certain public pension systems at age 60 or older, to opt out of retirement coverage.



PENSION LEGISLATION SUMMARY

❑ **E2SSB 5399 - Concerning the creation of a universal health care commission.**

Sec. 2(3) of the bill identifies that the director of the Department of Retirement Systems, or the director's designee, shall serve as a nonvoting member of the new Universal Health Care Commission.

❑ **E2SSB 5395 - Concerning use of state resources during periods where state employees are required to work from home.**

Authorizes state agencies to reimburse state employees, subject to appropriation, for additional necessary expenditures incurred since April 1, 2020, for supplies that are needed to carry out tasks within the employee's scope of employment and related to the services directly performed for the agency.

❑ **E2SHB 1274 - Concerning cloud computing solutions.**

This bill, in an effort to meet the increased needs of Washingtonians in the advent of the COVID-19 pandemic, requires agencies to migrate their information technology towards modern cloud services that are offered by third-party providers.



ROUND TABLE AND AGENDA SETTING



THANK YOU!

See you on November 10, 2021

