

Public Pension Administration Benchmarking Analysis for FY 2009 Data

Summary for the
LEOFF Plan 2 Retirement Board
April 28, 2010

Benchmarking

Someone actually benchmarks public pension administration ...

- Founded in 1992
- Started with investment management in Canada and the United States
- The current service includes:
 - comprehensive benchmarking
 - a network for questions
 - a focused best practices analysis and
 - an international conference for participants

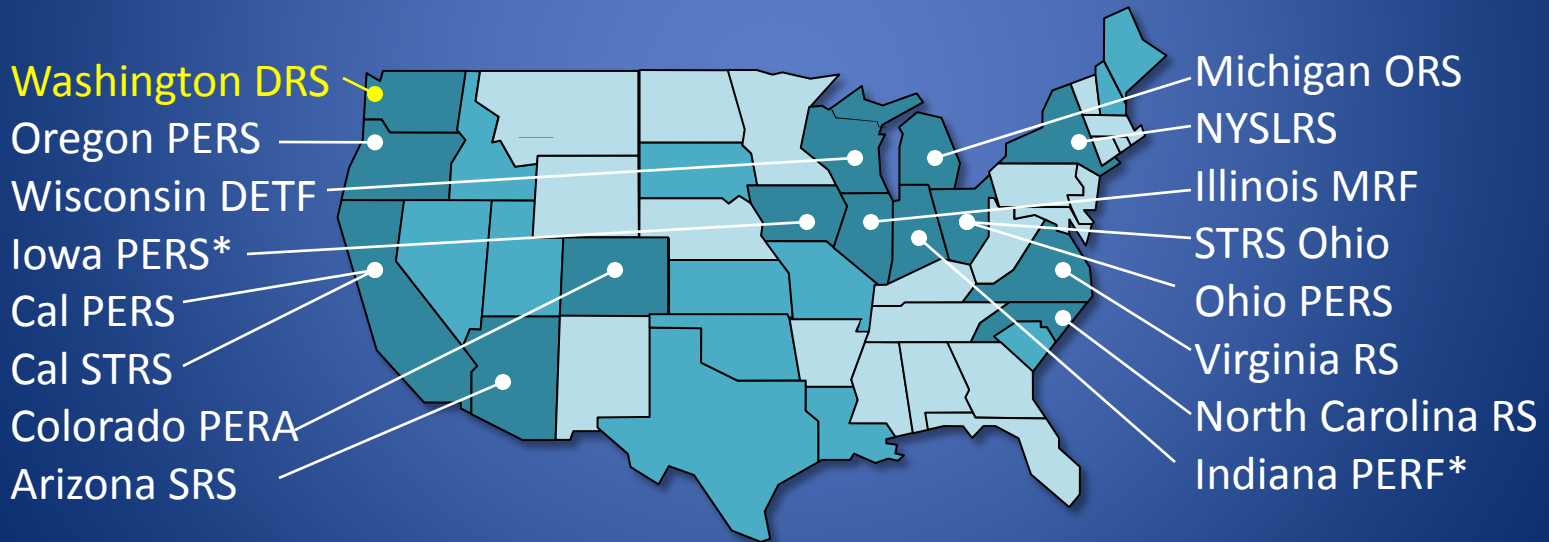


Why Benchmark?

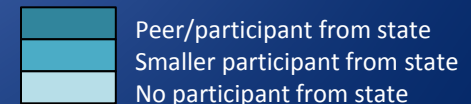
- Per CEM: “what gets measured gets managed”
 - Performance compared to real peers
 - An independent source of performance data
 - Ideas for improvement (some international)
- A comprehensive approach
 - 40 page survey requiring 1,000 responses
 - Apples-to-apples data and cost comparisons
 - 300 page analytical report on results
 - DRS is compared to Peers/Group and All Participants
 - Incremental and rolled-up comparisons

Participants

- **73** systems participated in the FY 09 service
 - 36 US, 14 Canadian, 11 Australian, 10 Dutch, 2 Danish
 - DRS' Peer Group is the 16 largest US systems (each having more than 250,000 Active Members and Annuitants)



**Iowa and Indiana replaced New Jersey and Maryland for FY 09*



Peer Group Information

In general, DRS:

- Is 3% larger than the peer group's median for the number of Actives and Annuitants (A+A)
- Is an “umbrella” administrator who also administers:
 - a Hybrid DB/DC plan (i.e., the Plan 3's) and
 - a 457 plan (i.e., the Deferred Compensation Program) but not
 - investment management
- Serves 20% more members per FTE than its peer median and
- Receives data from 8% more employers than its peer median

Factors That Impact Cost

CEM's works to explain why costs differ.

- Economies of Scale (number of A+A)
DRS is 3% larger than the peer median
- Cost Environment (BLS data on state government wages)
Wages in Olympia are less than 1% above the peer median
- Transaction Volumes (a composite of 80 measures)
DRS scores 13% lower as more transactions are automated
- Plan Complexity (by cause and overall)
- Service Level (by activity and overall)

Complexity and Service Scores

- Complexity Score
 - DRS' score was 25% higher than the peer median
 - DRS has consistently had the 2nd or 3rd highest Complexity Score (of all participants)
 - DRS scores higher than the peer average in 12 of the 15 “causes” of complexity
- Service Score
 - DRS' score continues to hover around the peer median
 - DRS scores higher than the peer average in 8 of the 12 activity level measures
 - The other participants have caught up to DRS' Service Score (closing a fairly small gap in 4 years) ... but at what cost

“Improving” our Service Score

CEM cautions participants that a higher Service Score “is not necessarily optimal or cost effective”

- DRS could increase its Service Score by:
 - +4.3 if we had single-activity-focused satisfaction surveys
 - +2.6 if we increased content in member statements
 - +1.6 if we increased online tools/transactions for members
 - +1.2 if we performed 1-on-1 counseling at field locations
- The data reflects our emphasis on being responsive to customers:

Transaction	DRS	Peer Median	Peer Average
Days to provide a formal written pension estimate	4	6	13
Minutes to wait for 1-on-1 counseling without an appointment	2	10	11
Days to wait when scheduling 1-on-1 counseling	0	2	6
Seconds to reach an RSA* by phone	78	134	185
Days to provide a written service credit purchase cost estimate	2	10	19

*includes time spent navigating an auto-attendant, being routed by a receptionist and/or waiting on hold

Cost Comparisons

- Total Cost per Member (Actives and Annuitants)
 - DRS' cost is 28% below the peer median
 - DRS' cost has consistently been low, while the cost of the other participants has increased over the past 4 years
- Information Technology Cost and Capability
 - DRS spends 19% less per member on Information Technology (i.e., staff, equipment, mainframe processing, etc.), however,
 - DRS' automated systems score at the peer median/average for their ability to provide services to members and employers
- Benchmark (Predicted) Cost
 - DRS' actual cost per member is 47% below its predicted cost
 - DRS' actual cost has consistently been lower than what the data would predict

Summary

- Comprehensive benchmarking with our peers is a valuable source of data and ideas
- It shows that DRS is a larger US administrator who:
 - Has a relatively Complex group of public pension systems
 - Provides solid Service (and is very responsive to customers)
 - Has cost-effective automated systems
 - Is low Cost, while the cost of others has gone up
 - Is lower than it's Benchmark (“predicted”) Cost

Any questions?