

Pension Benchmarking



Summary of the Defined Benefit Administration Benchmarking Analysis (Report) for 2008 Data

June 23, 2009
LEOFF 2 Board Meeting



Introduction



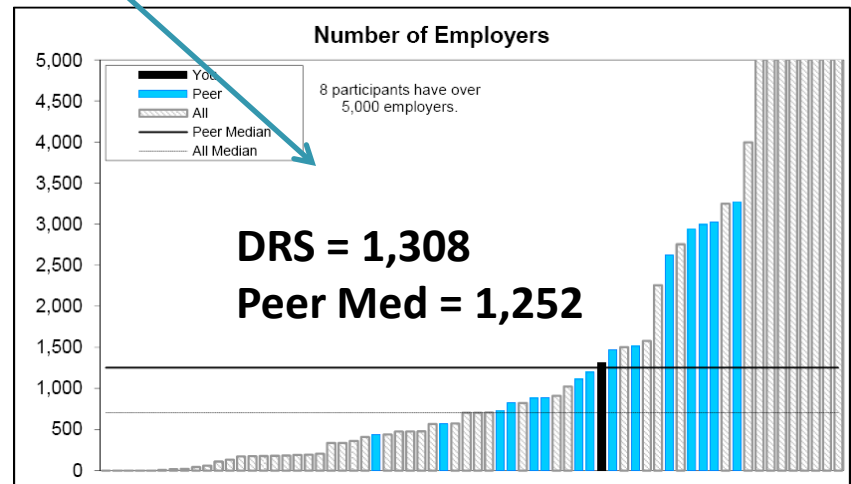
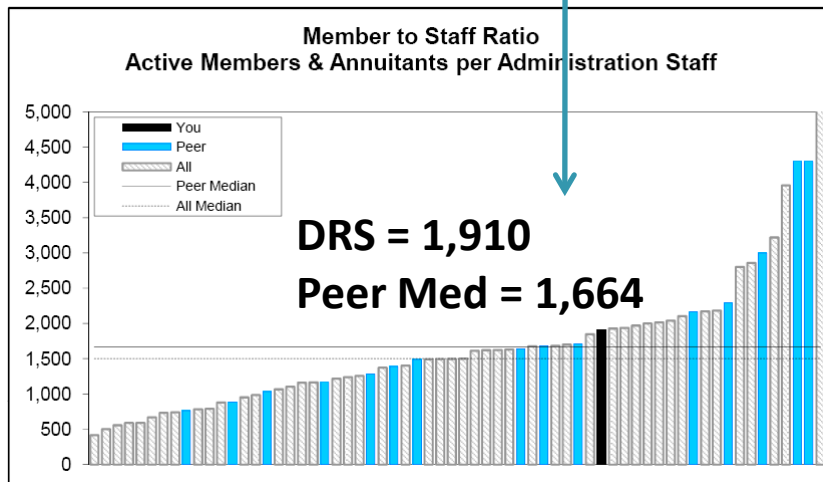
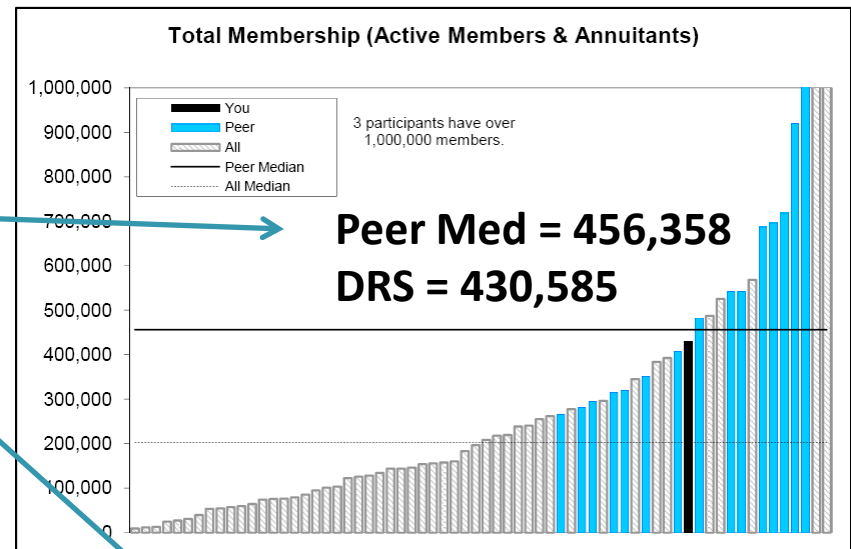
- Conducted by CEM Benchmarking Inc.
 - They've been benchmarking pensions since 1992
 - This is DRS' 10th DB administration survey
- It measures/compares factors that impact cost
 - e.g., economies of scale, transaction volumes, cost environment, plan complexity, service levels
- There were 68 participants in the 2008 survey
 - 37 US, 13 Canadian, 14 Dutch, 1 Danish, 3 Australian
 - DRS' "peer group" = the 16 largest US systems

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High Level Comparisons

Relative to the Peer Median, DRS has:

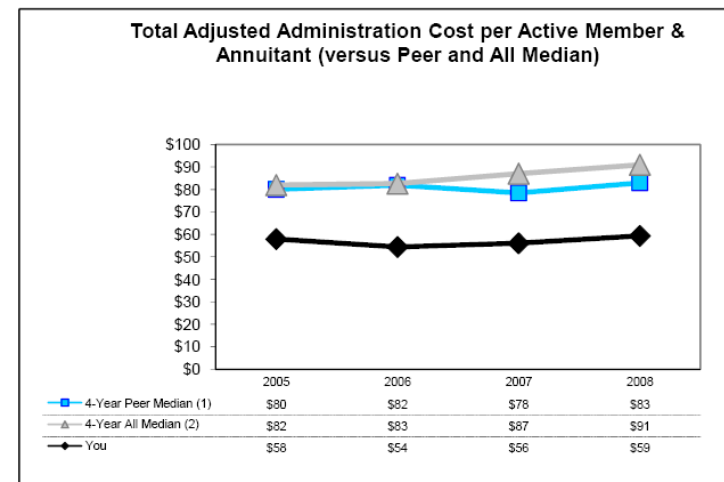
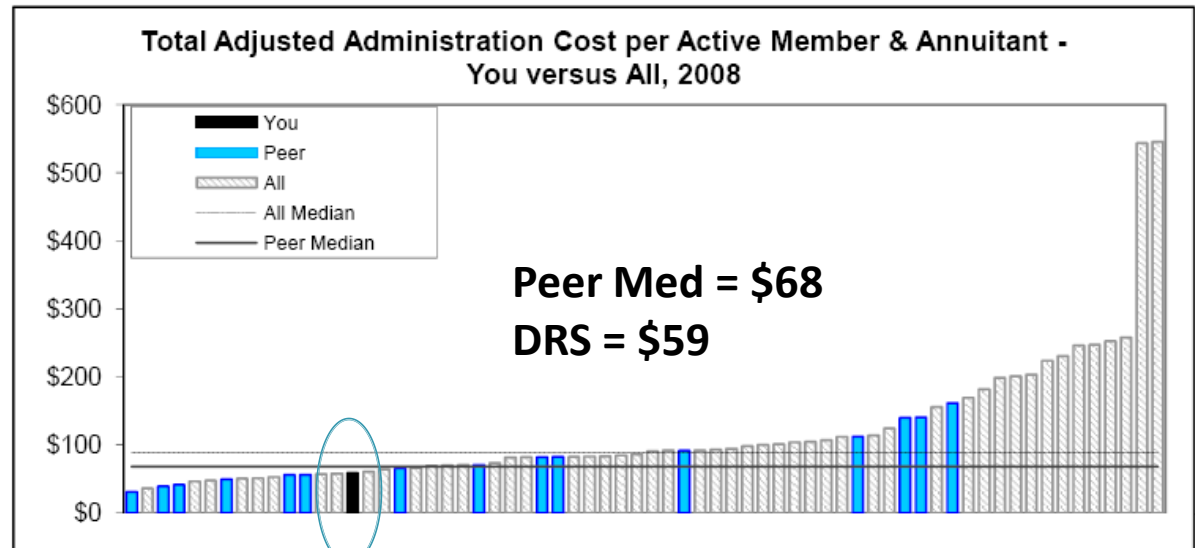
- Fewer members
- More employers
- More members per FTE



Total Cost Per Member

- Low total adjusted* cost (*adjusted for 3-year average in Major Projects)

- Consistently lower than our peer group and all participants



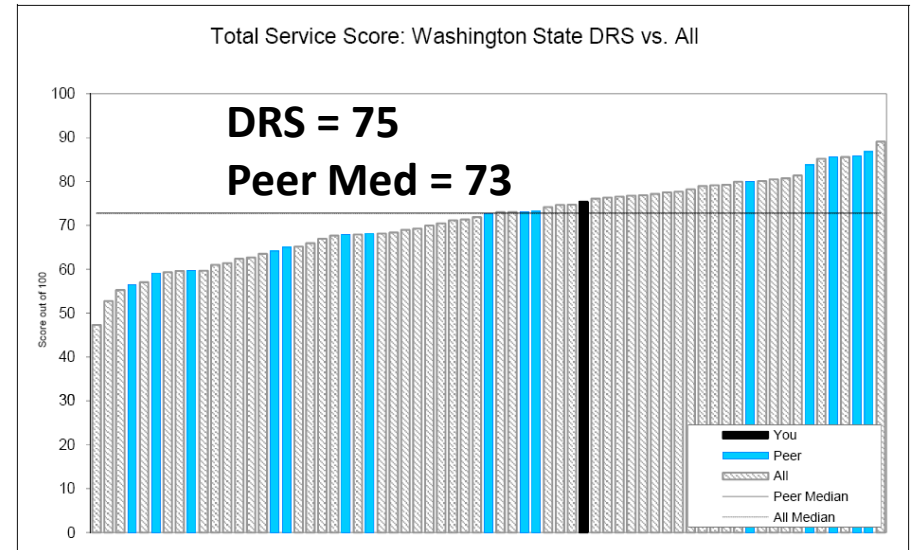
Activity Cost – Quartile Summary

Activity	Cost per	You	Peer 2008							#
			Max	75th	Med	25th	Min	Avg		
1 Paying Pensions	Annuitant	15	35	18	13	8	4	14	16	
2 Pension Inceptions	New Payee Inception	319	580	328	215	155	101	273	16	
3 Benefit Estimates	Written Estimate	114	4,949	155	101	63	9	408	16	
4A 1-on-1 Counseling	Member Counseled 1-on-1	174	332	176	128	68	25	135	16	
4B Member Presentations	Member Attending Presentations and Group Counseling Sessions	29	121	59	42	21	2	41	15	
4A 1-on-1 Counseling	Member Counseled	51	159	86	55	49	19	69	16	
5 Member Contacts	Call, Email and Letter	6	20	12	8	5	1	9	16	
6 Mass Communication	Active Member	4	18	8	6	4	1	6	16	
7A Data from Employers	Active Member	8	18	12	9	4	2	9	16	
7B Data Not from Employers	Active Member & Annuitant	0	5	4	2	1	0	2	16	
7C Billing and Inspection	Employer	882	1,846	539	195	44	4	372	16	
7A-C Collections	Active Member & Annuitant	9	17	13	8	5	2	9	16	
7D Service to Employers	Employer	1,131	2,458	1,382	678	449	326	1,024	16	
8 Refunds & Transfers-out	Refund and Transfer-out	23	212	109	48	31	11	72	16	
9 Purchases and Transfers-in	Purchase & Transfer-in	329	960	524	344	121	34	371	16	
10 Disability	Disability Application	935	7,790	3,462	1,720	811	553	2,326	16	
11A Board of Directors	Active Member & Annuitant	1	5	2	1	1	0	2	16	
11B Financial Control	Active Member & Annuitant	3	22	6	4	2	1	5	16	
11C Board Consulting	Active Member & Annuitant	1	7	1	0	0	0	1	16	
11D Marketing, PR	Active Member & Annuitant	0	3	1	0	0	0	1	16	
11A-D Governance	Active Member & Annuitant	4	23	11	8	4	1	9	16	
12A Rules Interpretation	Active Member	5	11	5	2	1	0	3	16	
12B Design, New Rules	Active Member	1	5	3	1	1	0	2	16	
12C Influencing Change	Active Member	1	4	2	1	0	0	1	16	
12A-C Plan Design	Active Member	7	15	8	4	3	1	6	16	
13 Major Projects (multi-year average)	Active Member & Annuitant	3	43	17	10	5	1	13	16	
Total Adjusted Administration Cost	Active Member & Annuitant	59	162	97	68	55	31	80	16	

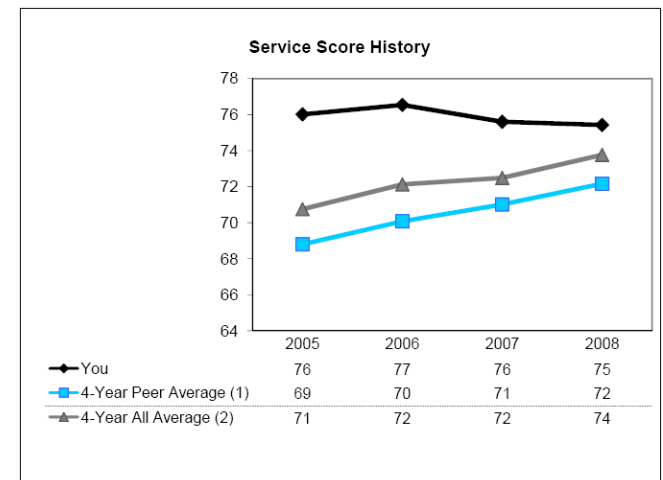
- When Major Projects are excluded, DRS' Total Cost moves closer to the Median than the 25th Quartile

Service Score

● Higher Service Score



● Consistently higher service score than our peers and the other participants ... but they're gaining ground



Service by Activity – Quartile Summary

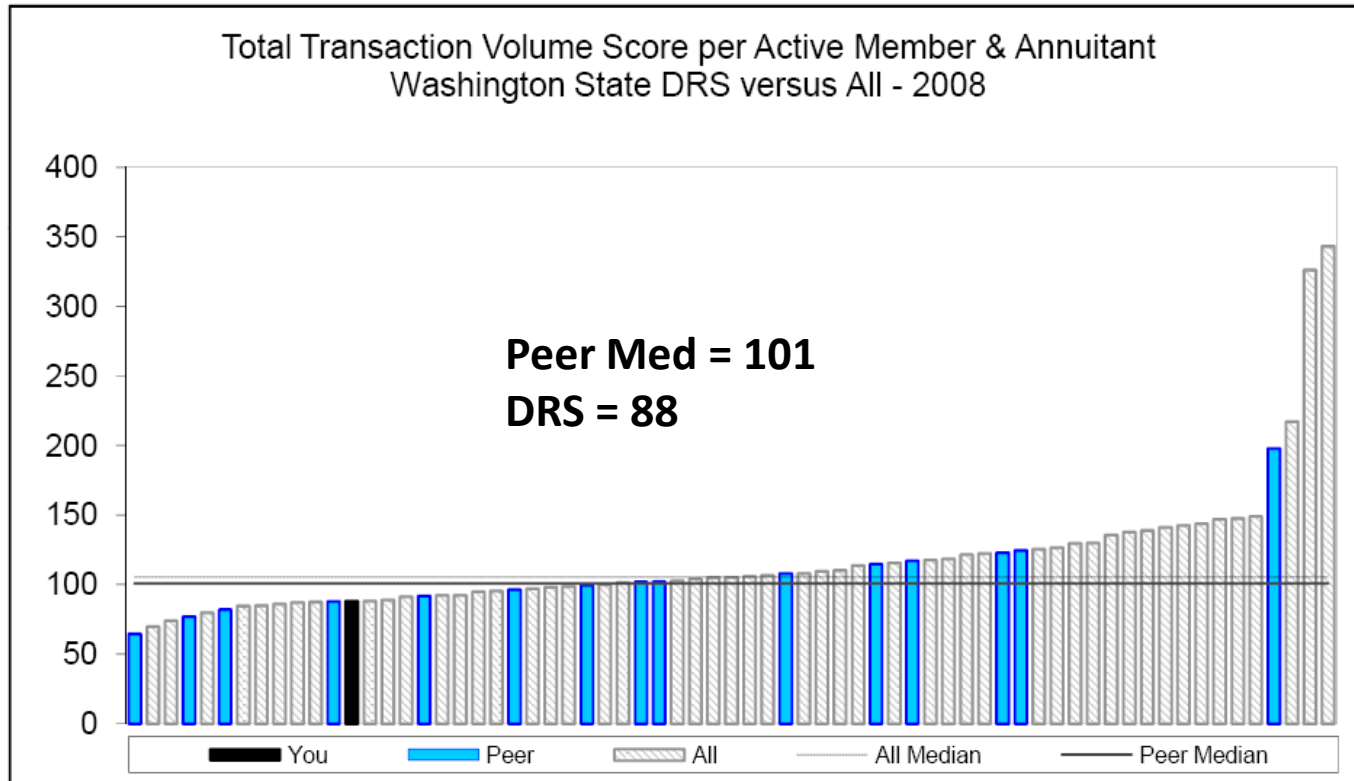
Activity	You	Peer 2008						
		Max	75th	Med	25th	Min	Avg	#
1 Paying Pensions	100	100	98	97	96	93	97	16
2 Pension Inceptions	77	90	78	74	59	12	67	16
3 Benefit Estimates	82	97	77	67	55	39	66	16
4A 1-on-1 Counseling	72	99	84	74	67	47	74	16
4B Member Presentations	84	99	87	84	79	66	83	16
5 Member Contacts	60	89	73	52	39	24	55	16
6 Mass Communication	61	84	78	70	61	43	69	16
<i>Mass communication is comprised of:</i>								
a) Website	74	81	76	61	51	33	61	16
b) Newsletters	70	97	86	77	70	30	76	16
c) Member Statements	38	95	90	80	69	38	77	16
d) Other Mass Communication	75	77	70	53	50	0	55	16
7D Service to Employers *	88	94	88	76	68	35	73	16
8 Refunds & Transfers-out	58	85	80	75	53	0	61	16
9 Purchases and Transfers-in	85	91	79	70	49	0	60	16
10 Disability	78	95	79	74	67	18	69	16
Disaster Recovery	62	100	98	91	88	62	89	16
Total Service Score	75	87	81	73	64	56	72	16

- 6 of the activities are above the median, while only 3 are below

Service Scores (Responsiveness)

- DRS outperforms the peer average in numerous areas:
 - Days to provide a formal written estimate: 3.1 vs. 14.7
 - Minutes to see a counselor (walk-in): 2.0 vs. 12.8
 - Days to see a counselor (pre-scheduled): 0.0 vs. 5.1
 - Seconds to reach a “knowledgeable person” (via phone): 78 vs. 214
 - Seconds on hold (after reaching a “kp”): 51.0 vs. 82.6
 - Days to provide a written service credit purchase estimate: 2 vs. 19
 - Months to return a decision on a disability application: 1.3 vs. 3.5
 - Percent of pension inceptions paid without a gap of more than 1 month from the last paycheck: 100 vs. 83

Transaction Volume Score



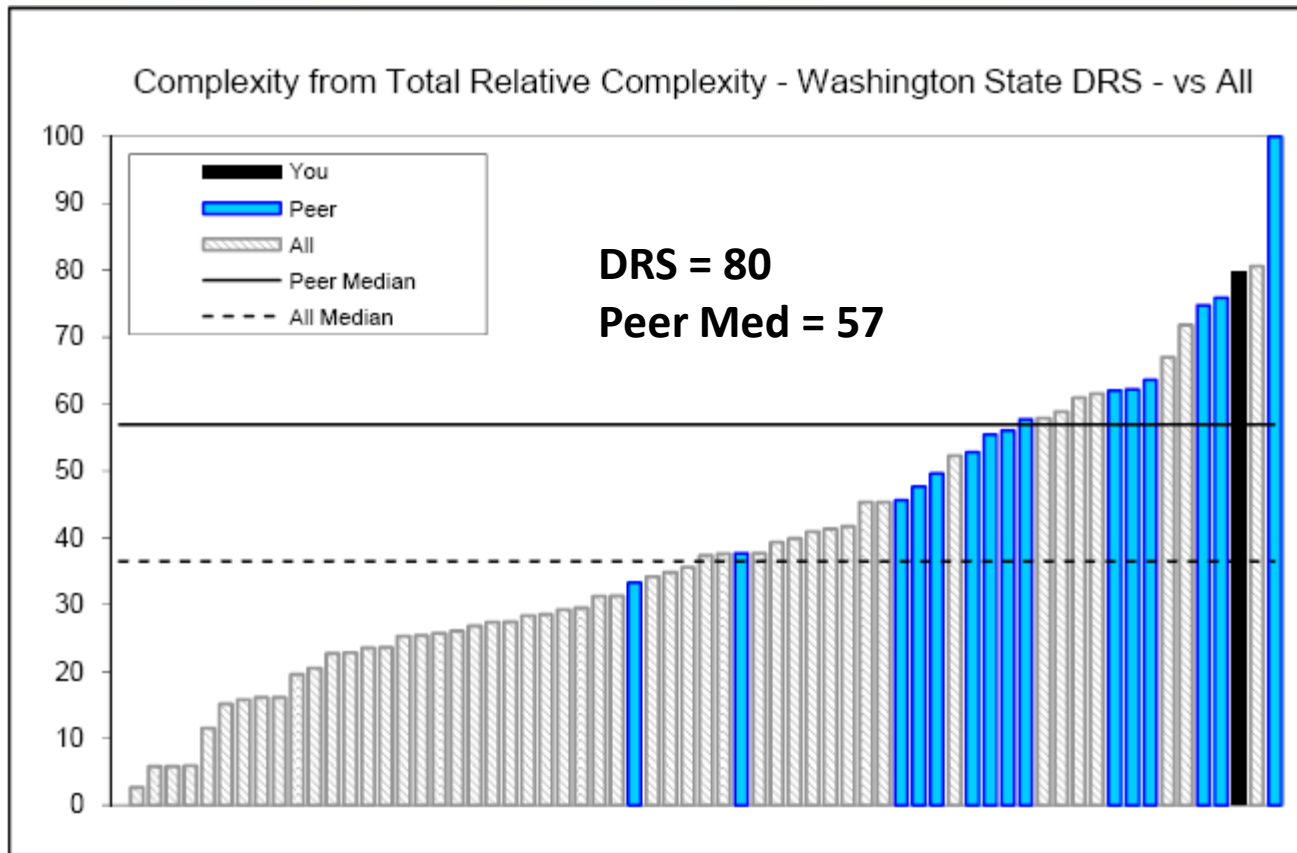
- It summarizes 80 different transaction types and equals transaction volumes by type, multiplied by CEM's estimate of the average cost of all participants to perform each transaction type.

Transaction Volume Scores by Activity

- **4A**-We counsel fewer members and we only counsel in-house
- **5**-We have more (and more costly) transactions (fewer self-service call options)
- **7A**-Our systems handle more of the transactions (few require manual effort)
- **10**-We don't conduct IMEs or as many income checks

Activity	Activity Volume Units	Transaction Volume Score per Active Member & Annuitant (A x B)		
		Your	Peer Avg	All Avg
1 Paying Pensions	Annuitants	6	7	6
2 Pension Inceptions	New Payee Inceptions	6	9	8
3 Benefit Estimates	Written Estimates	5	5	5
4A 1-on-1 Counseling	Members Counseled 1-on-1	1	4	4
4B Member Presentations	Members Attending Presentations and Group Counseling Sessions	1	1	1
5 Member Contacts	Calls, Emails and Letters	16	9	10
6 Mass Communication	Active Members	5	6	7
7A Data from Employers	Active Members	6	13	11
7B Data Not from Employers	Active Members & Annuitants	1	2	5
7C Billing and Inspection	Employers	1	0	2
7D Service to Employers	Employers	3	3	3
8 Refunds & Transfers-out	Refunds and Transfers-Out	2	3	4
9 Purchases and Transfers-in	Purchases & Transfers-in	1	3	4
10 Disability	Disability Applications	2	8	4
11A-D Governance	Active Members & Annuitants	14	16	22
12A-C Plan Design	Active Members	5	5	6
13 Major Projects (multi-year average)	Active Members & Annuitants	13	13	13

Complexity Score



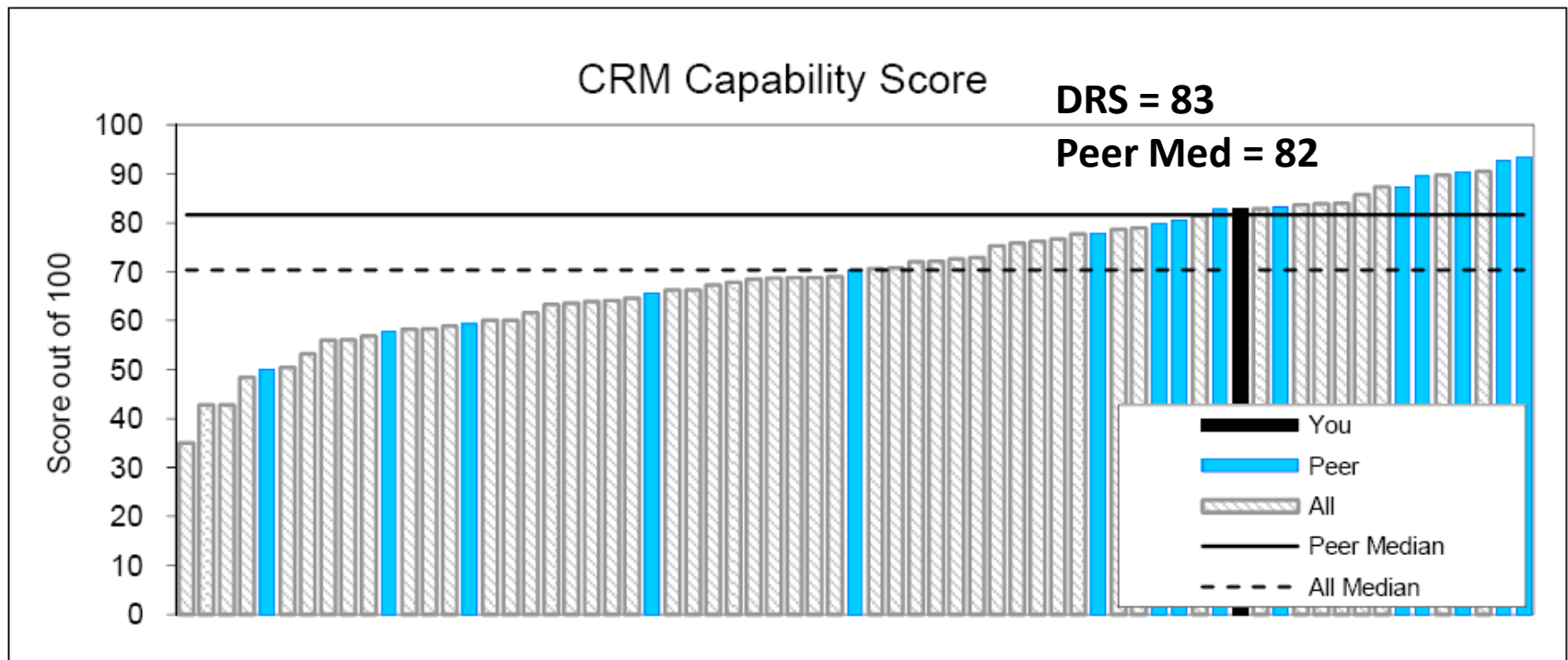
- “For many plans, a large part of their complexity is caused by, and confined to, low volume member segments.”

Complexity by Cause

Summary of Your Relative Complexity by Cause				
Cause	Weight	Relative Complexity (0 least - 100 most)		
		You	Peer Avg	All Avg
A Pension Payment Options	15.0%	57	59	46
B Customization Choices	20.0%	1	11	8
C Multiple Plan Types and Overlays	10.0%	69	43	28
D Multiple Benefit Formula	16.0%	69	50	35
E External Reciprocity	3.0%	35	25	14
F COLA Rules	4.0%	90	34	32
G Contribution Rates	3.0%	90	53	43
H Variable Compensation	4.0%	85	81	73
I Service Credit Rules	3.0%	77	56	48
J Divorce Rules	3.0%	100	75	66
K Purchase Rules	5.5%	95	77	51
L Refund Rules	4.0%	86	66	52
M Disability Rules	6.0%	91	85	60
N Translation	0.5%	0	9	19
O Defined Contribution Plan Rules	3.0%	55	23	12
Weighted Average (before scaling)	100.0%	59	47	35
Scaled Total Complexity - Average		80	60	39
Scaled Total Complexity - Median		80	57	36

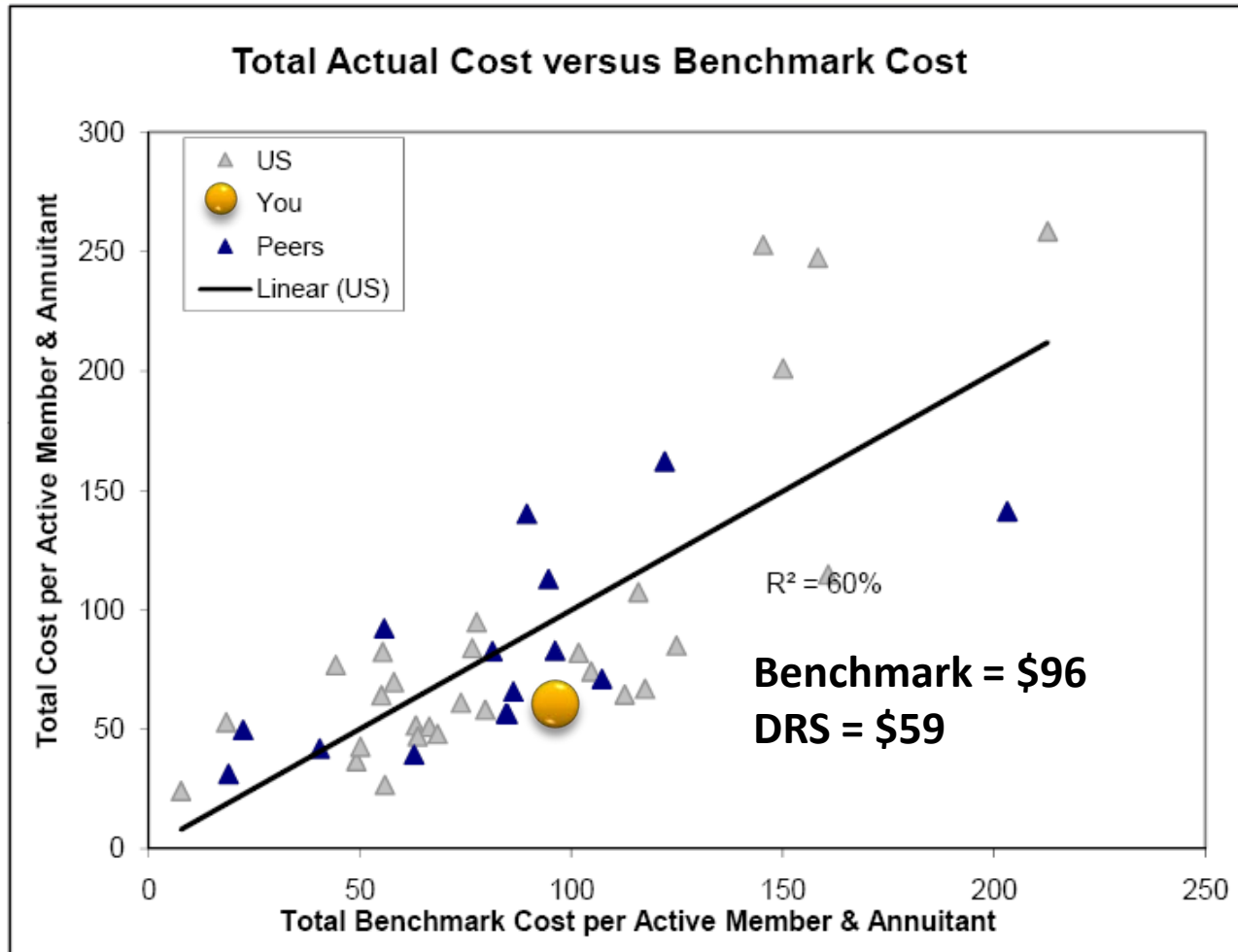
- Our high complexity primarily comes from being an umbrella administrator with hybrid plans

Automation Capability



- DRS' IT Cost is at or below the peer median
- However, the score for the capability of our automated systems is above the peer median

Benchmark (Predicted) Cost



The regression equation is: $\text{Benchmark Cost} = (155.40 + -44.66 \times \text{Log10 of Total Volume} + 0.98 \times \text{Transaction Volume Score} + 1.31 \times \text{Complexity}) \times \text{Comparable Wage Index} / (0.98)$

Summary

- Responsive member services and
- Efficient automated systems in
- A very complex environment at
- A low cost (actual and predicted)

Questions?

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