Public Pension Administration Benchmarking Analysis

Summary of Fiscal Year 2012
to the Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement Board
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INTRODUCTION

- CEM Benchmarking
  - Founded in 1991 in Toronto, Ontario
  - Started with investment management in Canada and US
  - Currently serve over 350 blue chip corporate and government clients worldwide

What gets measured gets managed

- 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

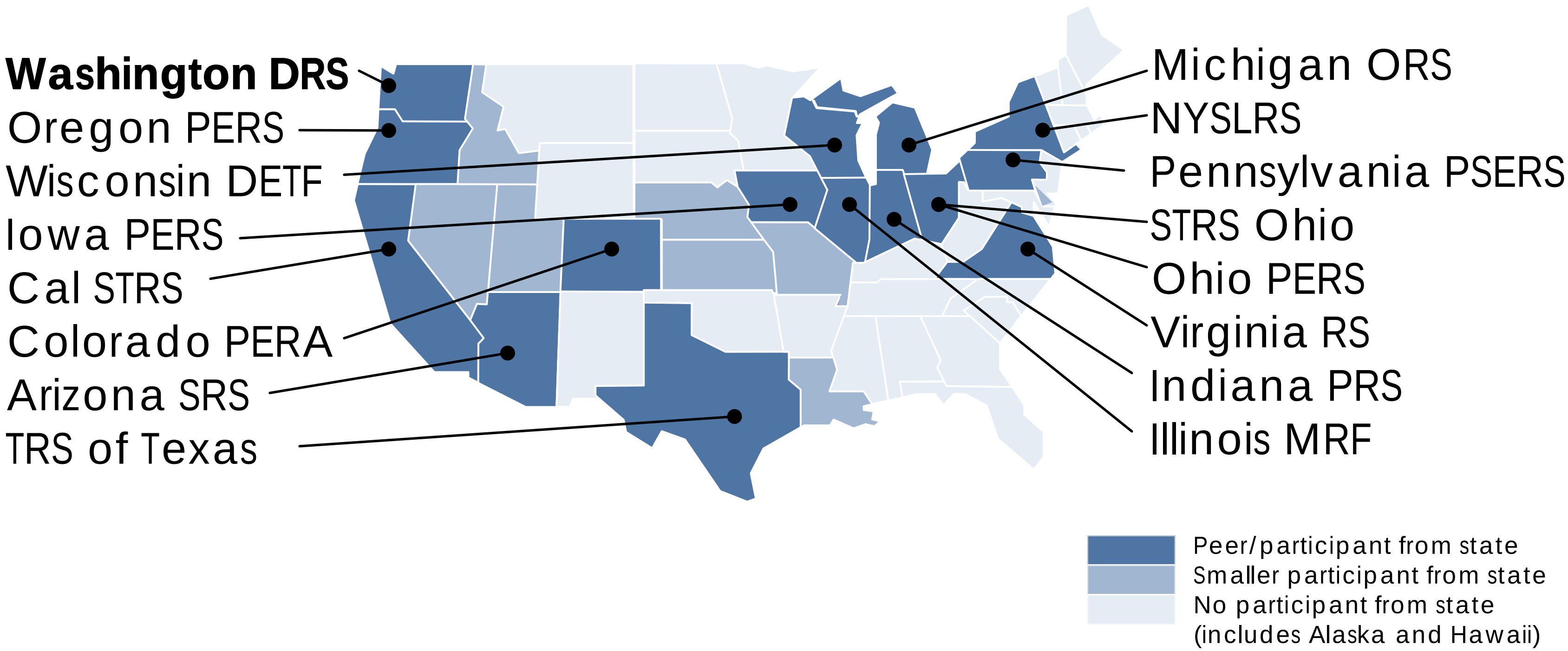
Participants

- 61 pension systems participated in FY 12
  - **28 from the United States**
  - 13 from Canada
  - 10 from the Netherlands
  - 1 from Denmark
  - 1 from the United Arab Emirates
  - 8 from the United Kingdom*

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

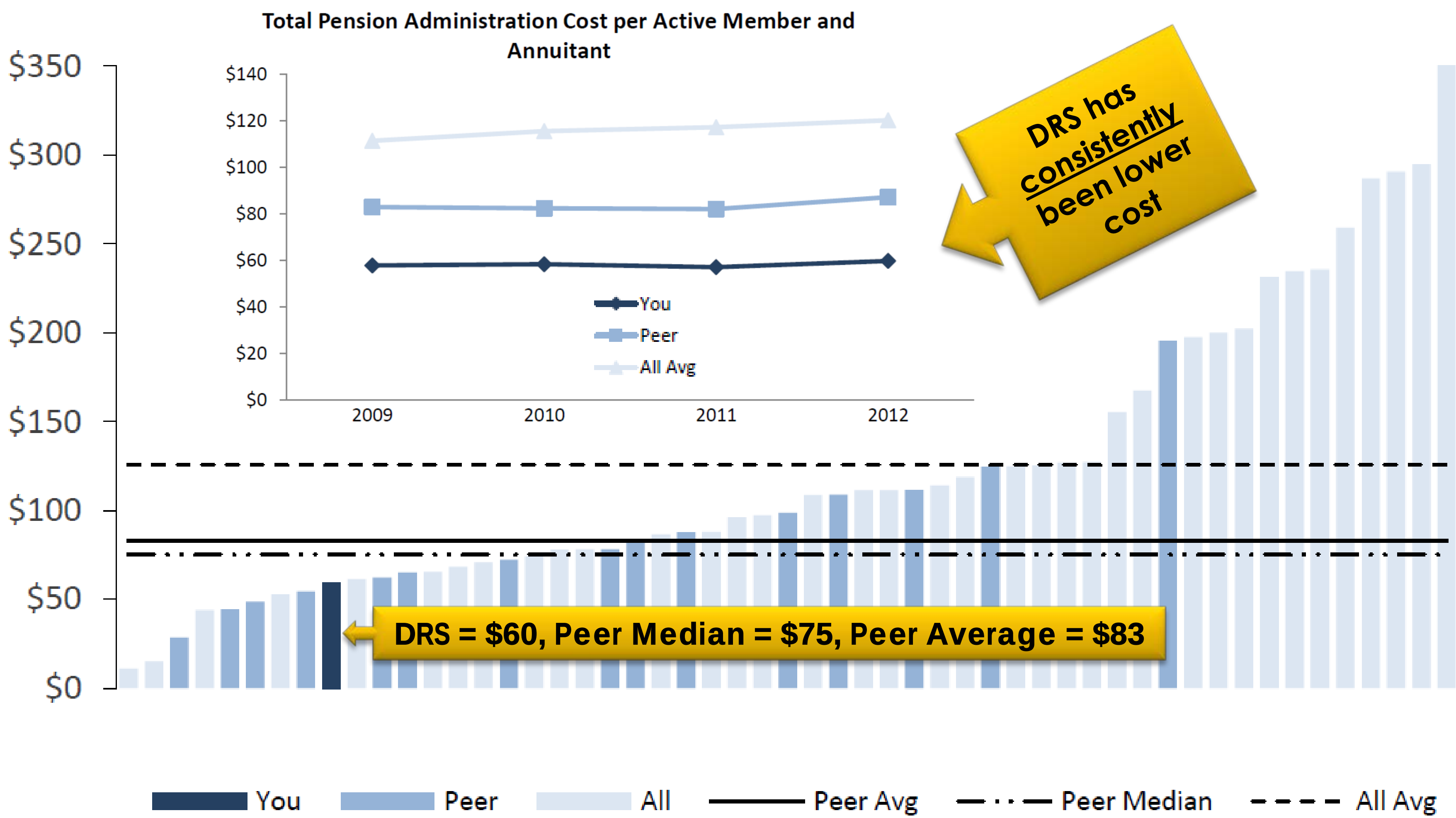
DRS' PEER GROUP

- DRS' peers are the larger US systems
- A few larger US systems don't participate
- DRS is close to the median in size



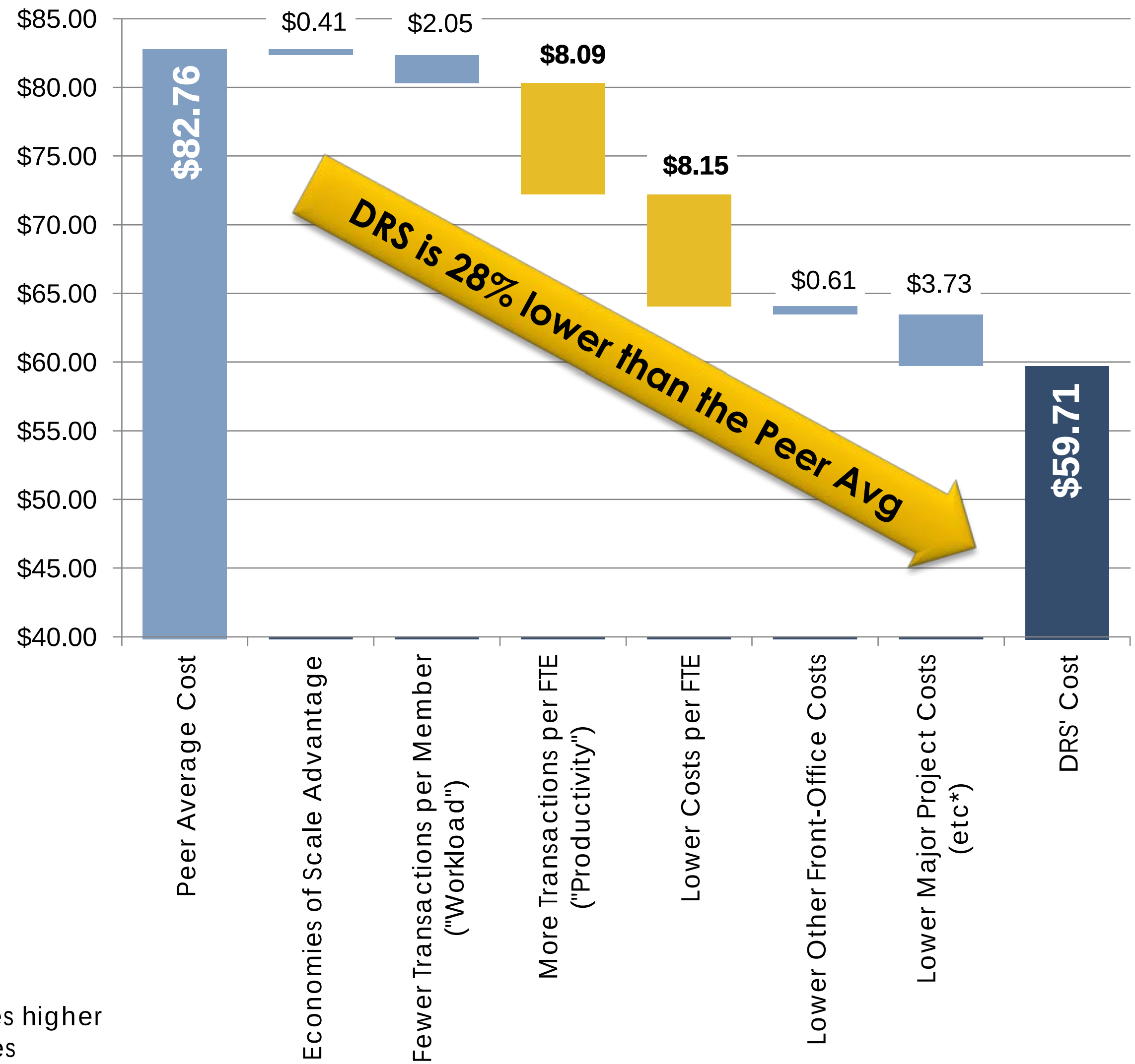
TOTAL COST

Pension Administration Cost Per Active Member and Annuitant



Explaining DRS' Low Cost

- CEM analyzes six reasons for the differences in total cost
  - Low Cost per FTE was the largest for DRS
  - High Productivity was a close second
  - Low Major Project Costs was third

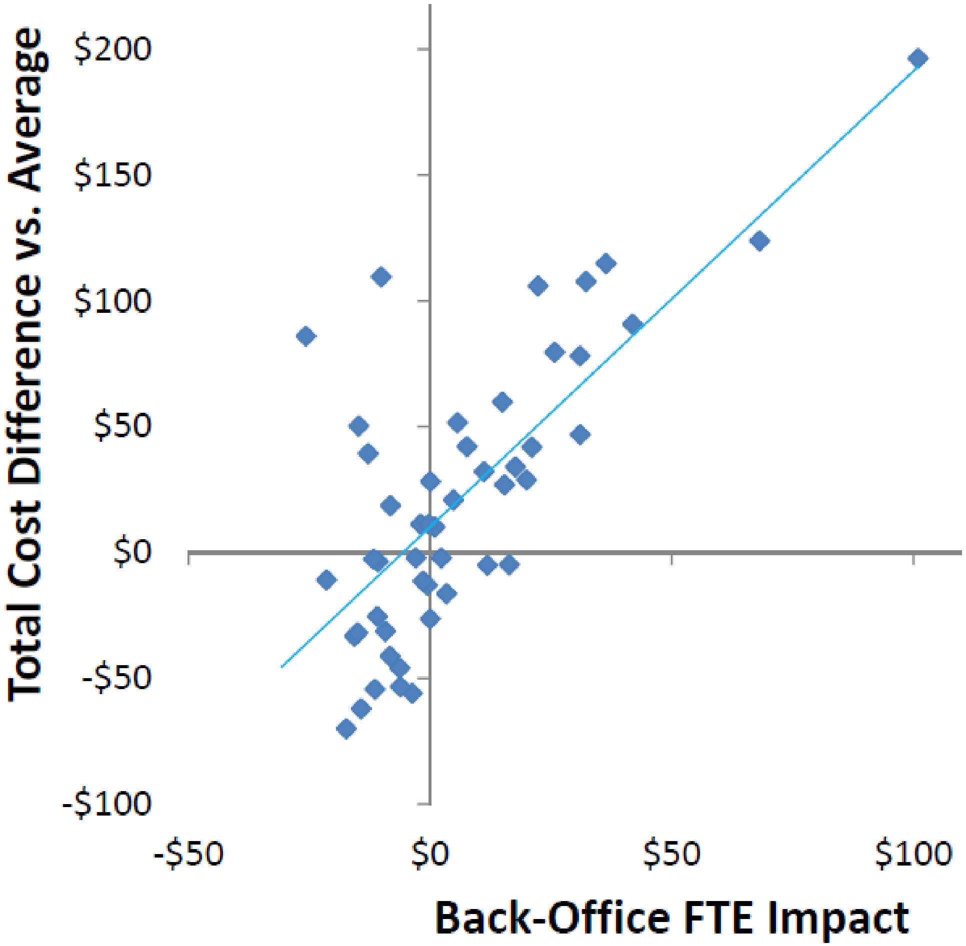


*The Major Project category includes higher costs for Legal and Actuarial services

Further Research on Cost

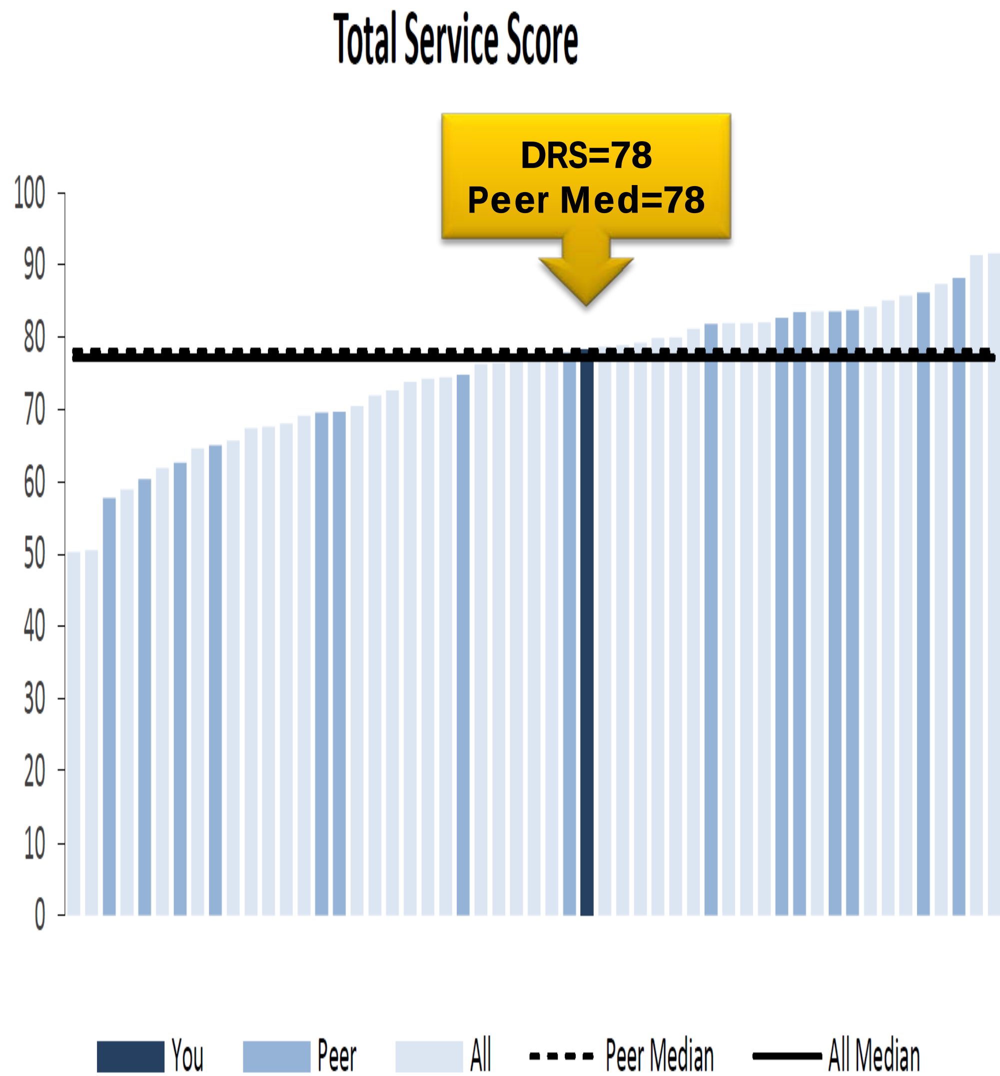
- It's easier to be high cost than low cost
- Lower cost systems tend to be slightly low everywhere
- High cost systems are more likely to have something DRS doesn't: more back-office FTEs per member

Higher back-office FTE per member is the strongest predictor of high cost.



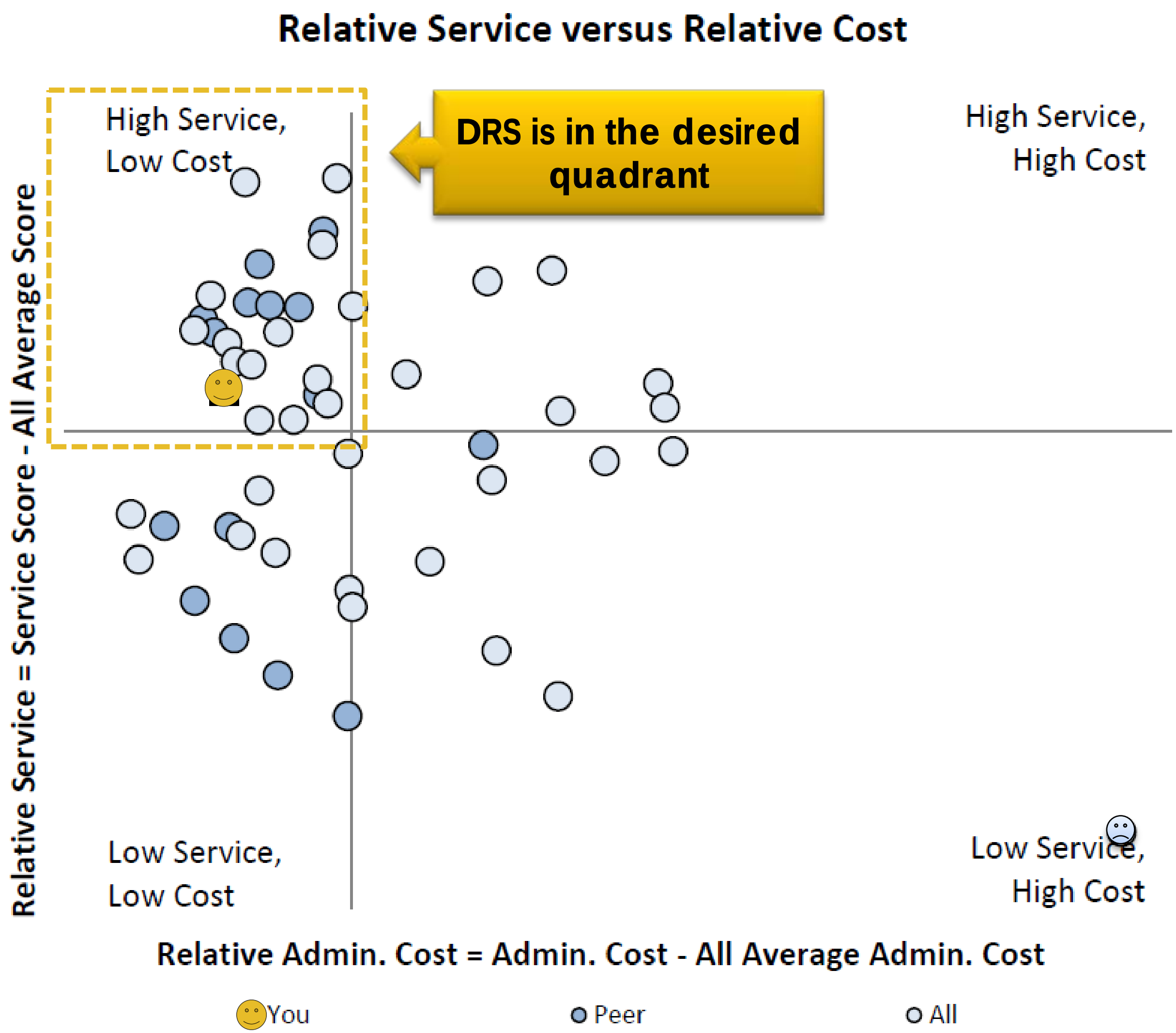
SERVICE

- DRS' total service score* is equal to the peer median *(*doesn't include DRS' high score for service to employers)*
- DRS scores higher than the Peer Median in 10 of the 15 activity level measures
  - Many of these include direct member transactions (aka, "responsiveness")
  - The others include high touch, high cost elements (e.g., direct mailings, field counseling, comprehensive statements)



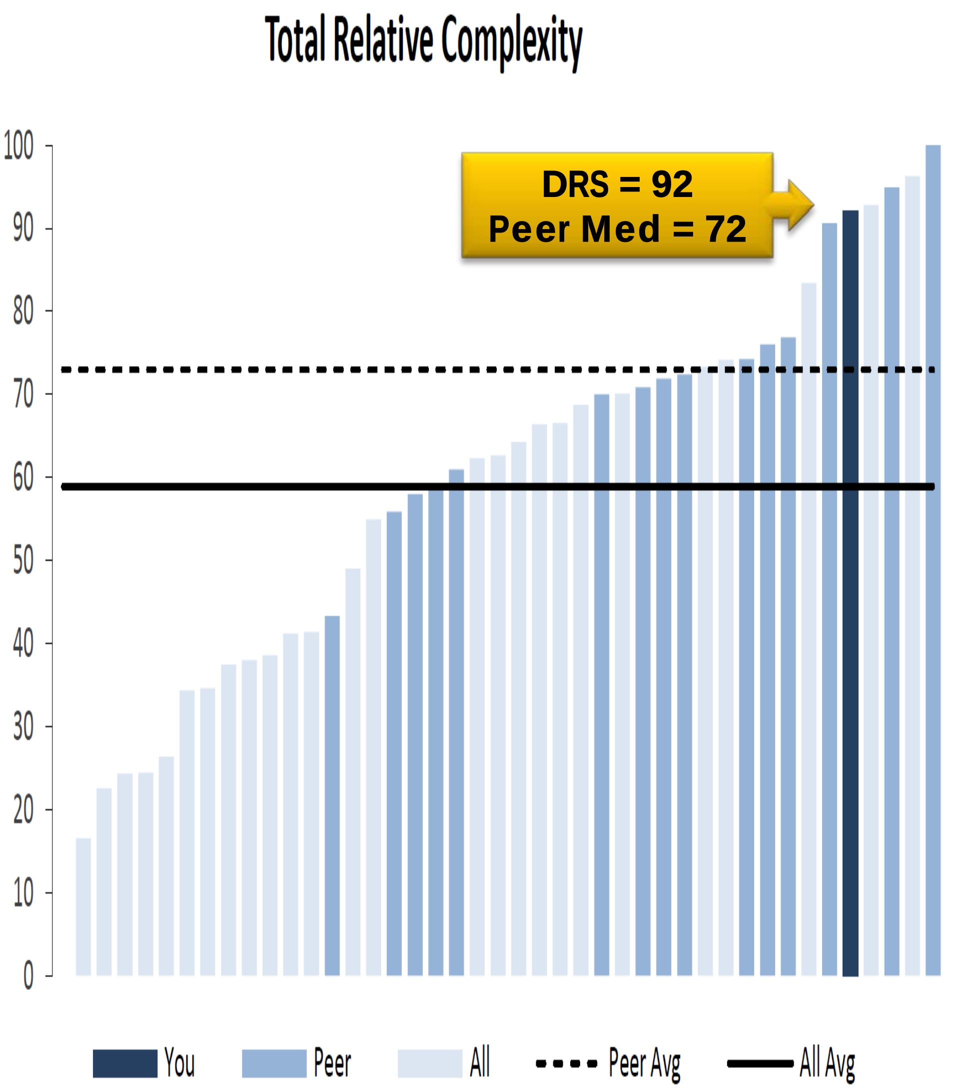
Service and Cost

- Service is not a good predictor of cost because:
  - Costs are driven more by the volume of transactions than by their timeliness, availability or quality, and
  - Service is partly a function of historic investment in IT which don't always appear in current costs.



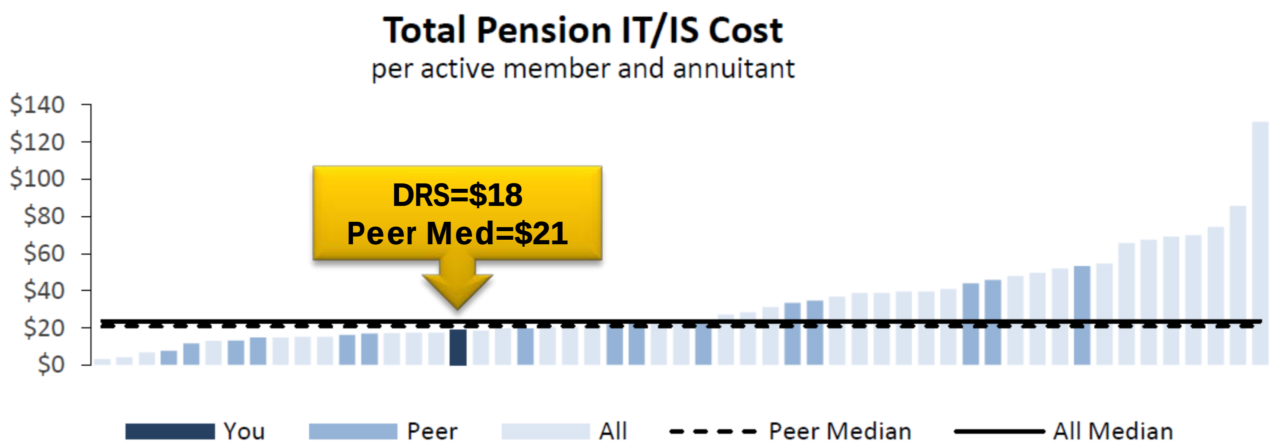
COMPLEXITY

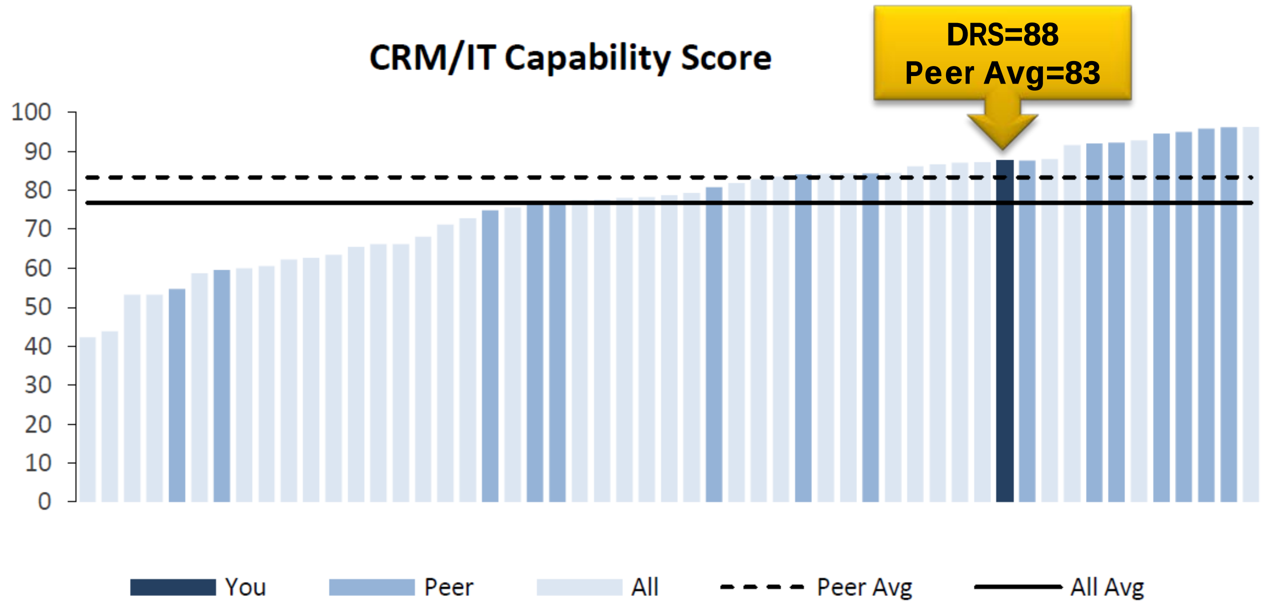
- We continue to administer one of the most complex systems (although some are gaining ground as they implement plan changes)
- We're higher than the Peer Average in 12 of 15 causes. In the other 3, some:
  - Allow employers to change the benefit structure
  - Provide more disbursement options
  - Publish materials in multiple languages



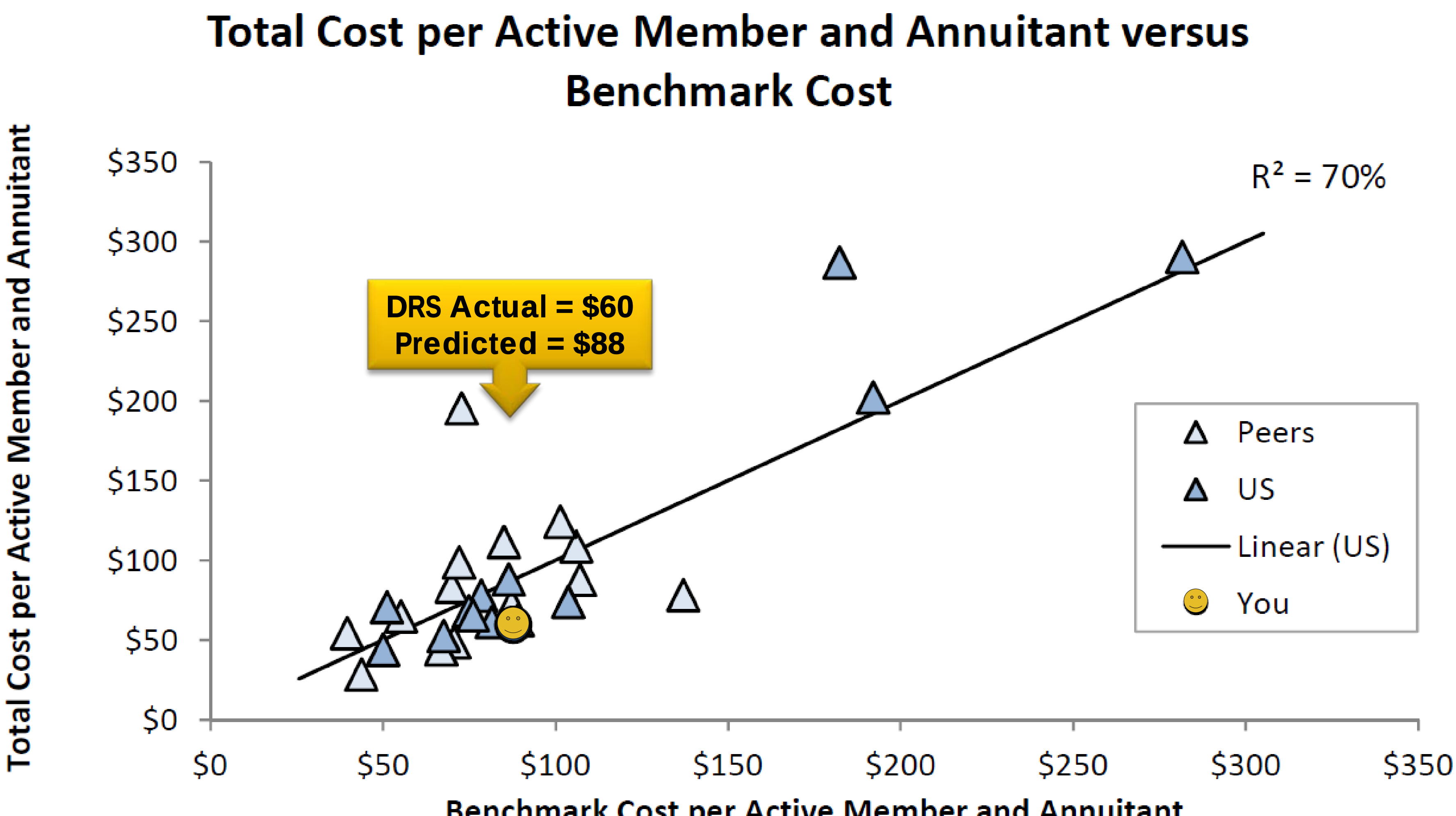
Information Technology

- We spend 16% less on IT than the peer median
  - Consider where we're at in the IT investment cycle
  - It's more expensive to develop and maintain IT systems for plans with complex rule sets
- Yet our systems score as more "capable" than the peer average





PREDICTED COST



Equation factors in: economies of scale, transaction volumes, complexity and cost environment.

Why DRS Participates

- On top of the independent analysis and data-driven comparisons to a true peer group, there's a willingness to share anything/everything to improve operations.
- The 2013 conference included information on:
  - Disaster recovery lessons from New York and Louisiana
  - Strategies to increase communication effectiveness to younger members
  - Trends in becoming paperless
  - Controlled organizational change, and
  - Our own co-presentation on transforming organizational performance

Summary

- Comprehensive benchmarking shows that DRS is a larger US administrator who:
  - Is low cost (in total and in most components of cost)
  - 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 cost than its benchmark (“predicted”) cost
- DRS uses this data with customer feedback to identify lean and continuous improvement efforts

Any questions?