

Public Pension Administration Benchmarking Analysis for FY 2009 Data

Select Committee on Pension Policy
June 15, 2010

Benchmarking

Someone actually benchmarks public pension administration ...

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



Why Benchmark?

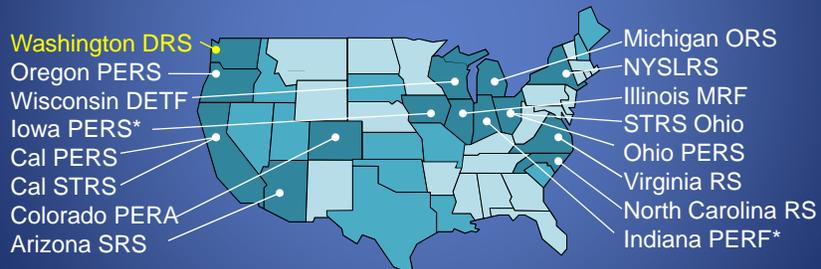
- “What gets measured gets managed”
 - Performance compared to public pension peers
 - An independent source of performance data
 - Ideas for improvement (some international)
- A comprehensive approach
 - 40 page survey requiring 1,000 responses
 - Apples-to-apples data and cost comparisons
 - 300 page analytical report on results
 - DRS versus 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 (A+A>250k)



Peer/participant from state
 Smaller participant from state
 No participant from state

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

Peer Group Information

US System with >250k Actives & Annuitants ("A+A")	Membership			Member Groups					
	Actives	Annuitants	Inactives	State/County Employees	Teachers	School	Police and/or Fire	Local Employers	Other (Judges, etc.)
CalPERS	821	493	313	x		x	x	x	
NYSLRS	563	366	117	x		x	x	x	x
North Carolina RS	499	216	85	x	x	x	x	x	x
CalSTRS	459	249	156		x				
Ohio PERS	374	165	364	x			x		x
Michigan ORS	309	219	459	x	x	x	x		x
Virginia RS	347	142	108	x	x	x	x	x	x
Washington DRS	303	130	198	x	x	x	x	x	x
Wisconsin DETF	266	144	147	x	x	x	x	x	x
STRS Ohio	206	151	132			x			
Arizona SRS	223	97	211	x	x	x		x	x
Colorado PERA	218	81	153	x	x	x		x	x
Oregon PERS	171	117	42	x	x	x	x	x	x
Illinois MRF	182	89	117			x	x	x	
Indiana PERF	174	95	142	x		x	x	x	x
Iowa PERS	168	90	67	x	x	x	x	x	x

In general, DRS:

- Is 3% larger than the peer group's median for A+A
- Is an "umbrella" system who also administers:
 - a Hybrid DB/DC plan and
 - a 457 plan but not
 - investment management
- Serves 20% more members per FTE and
- Receives data from 8% more employers than its peer median

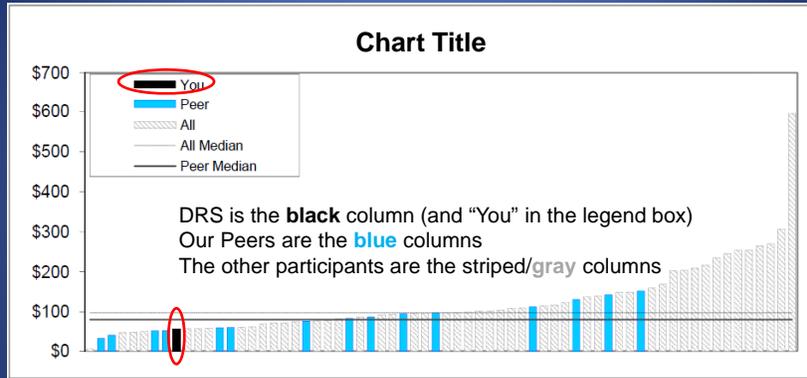
Factors That Impact Cost

CEM's works to explain why costs differ.

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

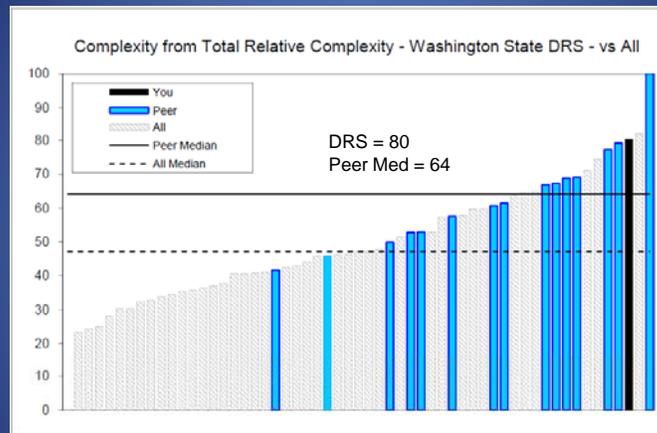
*per CEM: "differences in size do not appear to significantly impact costs until size drops below 100,000 active members and annuitants," especially in US participants

How to read CEM's charts



NOTE: CEM's report does not identify which administrator is represented by each column.

Plan Complexity



- DRS has consistently had the 2nd or 3rd highest Complexity Score.
- DRS scores above the Peer Average in 12 of the 15 "causes."

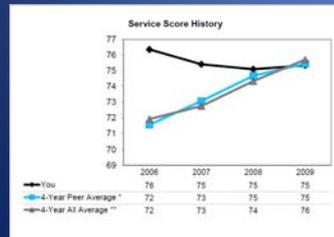
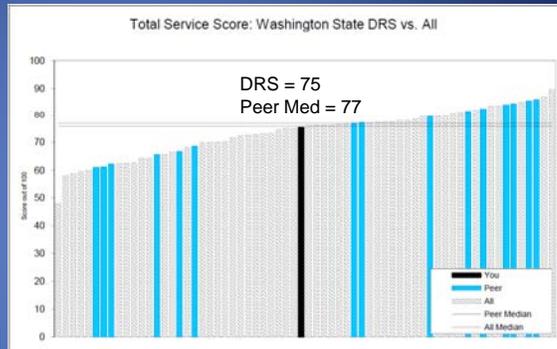
The "Causes" of Complexity

Cause	Weight	Relative Complexity (0 least - 100 most)		
		You	Peer Avg	All Avg
A Pension Payment Options	15.0%	57	61	47
B Customization Choices	20.0%	1	12	8
C Multiple Plan Types and Overlays	10.0%	65	42	31
D Multiple Benefit Formula	16.0%	68	51	40
E External Reciprocity	3.0%	35	29	17
F COLA Rules	4.0%	90	36	30
G Contribution Rates	3.0%	90	54	50
H Variable Compensation	4.0%	85	84	75
I Service Credit Rules	3.0%	75	55	47
J Divorce Rules	3.0%	100	71	62
K Purchase Rules	5.5%	84	66	53
L Refund Rules	4.0%	71	57	45
M Disability Rules	6.0%	90	82	66
N Translation	0.5%	0	9	19
O Defined Contribution Plan Rules	3.0%	55	21	11
Weighted Average (before scaling)	100.0%	57	46	37
Scaled Total Complexity - Average		80	64	49
Scaled Total Complexity - Median		80	64	47

Per CEM: "Complexity is caused by two factors: 1) multiple member groups with different rule sets and 2) complex rules."

Service Levels

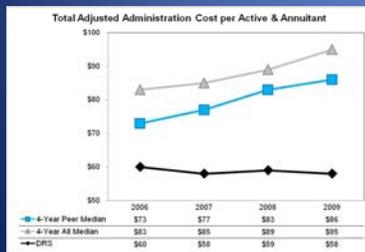
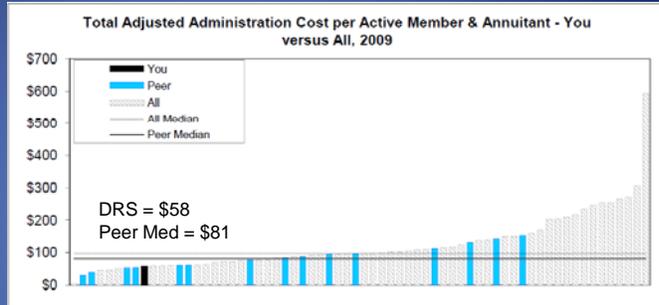
- DRS' Service Score remains around the Peer Median.
- DRS is higher than the Peer Average in 8 of the 12 Activity measures.
- DRS' responsiveness measures remain high.



- The other participants have caught up to DRS' Score ... but at what cost.
- CEM cautions participants that a higher Service Score "is not necessarily optimal or cost effective."

Total Cost

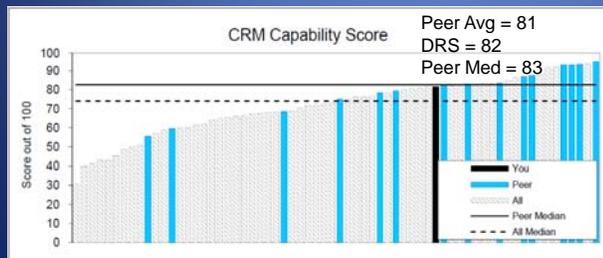
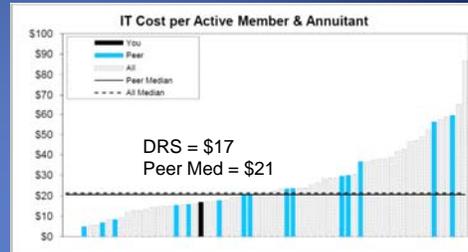
- DRS is low cost per member.
- “Adjusted” = one-time costs averaged over five years.



DRS' cost per member has been consistently low, while the cost of the other participants has increased.

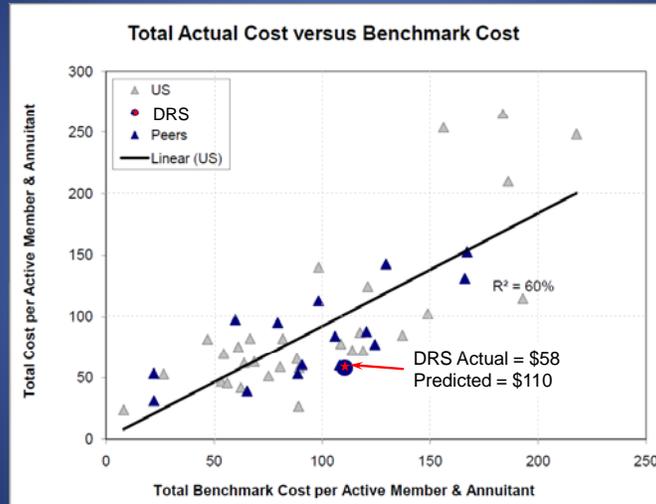
IT Cost and Capability

DRS spends 19% less per member on Information Technology (i.e., staff, equipment, mainframe processing, etc.).



DRS' systems are very capable of providing services to members and collecting data from employers.

Benchmark (Predicted) Cost



The regression equation factors in all five of the drivers (except Service).

Summary

- Comprehensive benchmarking with our peers is a valuable source of data and ideas
- It shows that DRS:
 - Is a larger US pension system administrator
 - Has a relatively complex group of public pension systems
 - Provides solid service (and is very responsive to customers)
 - Is cost-effective, in large part, due to our automated systems
 - Is low cost, while the cost of others has gone up
 - Is lower than its benchmark cost

Any questions?