2009-11 Operating Budget Request
Part I: The Strategic Plan

Vision

DRS resources and services assist members in achieving long-term financial security.

Mission Statement

To provide our members with financial planning tools, information, resources and retirement services that align with their changing lives.

Guiding Principles

- The personal financial security of our members is a key part of the economic vitality of Washington State.
- Lifetime financial security provides the opportunity for individuals to reach their personal goals and is more likely to be achieved when individuals have access to unbiased information and instruments that recognize the challenges of saving.
- Making it easy for our customers to do business with us is made possible by creating rapid access to the right customer and staff information and tools.
- A model organization manages its work together by providing the right resources to everyone on the team.
- Understanding how someone else's success helps to make us successful as an organization fosters growth and learning within the agency.
- Appreciation for performance, mutual accountability for underperformance, and recognition for outstanding performance are the foundation of the employee/employer relationship.

Values

Trust, respect, participation, honesty, initiative, learning agility, opportunity, appreciation, recognition, accountability, adaptability, self management and thoughtfulness

Listing of Statutory Authority References

Legislative authority for the Department of Retirement Systems is established by Chapter 41.50 of the Revised Code of Washington (RCW). It consolidates administration of the state's public retirement systems (including one retirement fund) and the Deferred Compensation Program into a single department. The Governor appoints the department's Director with the consent of the Senate.

In addition to Chapter 41.50, which establishes the Department of Retirement Systems, specific authority for each of the retirement systems and funds is codified in the following chapters in RCW:

- 2.10 Judicial Retirement System (JRS)
- 2.12 Judges' Retirement Fund (Judges)
- 41.26 Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)
- 41.32 Teachers' Retirement System (TRS)
- 41.34 Plan 3 Retirement System Contributions
- 41.35 School Employees' Retirement System (SERS)
- 41.37 Public Safety Employees' Retirement System (PSERS)
- 41.40 Public Employees' Retirement System (PERS)
- 43.43 Washington State Patrol Retirement System (WSPRS)
- 41.50.780 Deferred Compensation Program (DCP)

The department must also conform to numerous miscellaneous references found throughout the RCW and the United States Internal Revenue Code.

Goals, Objectives and Strategies

- Manage the State of Washington pension and savings plans for the benefit and convenience of our customers
  - Provide staff tools and resources needed to serve customers
    - Streamline and normalize tools and procedures
    - Review and standardize our measurement systems
    - Develop an online retirement application
  - Make it easy for our customers to provide the information we need to deliver outstanding service
    - Improve access to DRS services and staff
    - Provide online enrollment for new DCP participants
    - Expand public web site usability
    - Improve the reliability of our Employer Reporting Transmittal (ERT) system
- Encourage member savings and personal financial growth
  - Create a life-cycle based education program
    - Implement DRS marketing strategy
    - Improve access to retirement education
  - Provide financial tools and services that increase the number of members preparing for lifetime financial security
    - Understand the long-term financial security needs of our customers
    - Explore opportunities for auto-enrollment for new DCP participants
    - Introduce and implement Target Date Retirement funds that auto-rebalance member accounts based on age and assumed retirement age
- Continuously earn the public trust
  - Increase communication about the pension system to citizens
    - Assess feasibility of providing a digital subscription service

        - Expand retirement financial literacy through the public web site
    - Provide reliable and consistent information in all customer interactions
        - Establish standard public information that can be made available to citizens on the web site
    - Identify, evaluate and manage risk
        - Refine the enterprise risk management function
        - Apply for the full Washington State Quality Award assessment
        - Schedule cyclical reviews of agency operational functions
- Implement and administer laws within the intent of the Legislature
    - Increase DRS and stakeholder understanding of legislative intent before implementing new laws
    - Complete the Cycle C Internal Revenue Service filing process
    - Investigate and develop alternatives that allow citizens to save through a Washington Voluntary Accounts program
- Be a model organization
    - Adapt the organization structure to the mission
    - Align each job purpose with the mission of the organization
        - Define manager/supervisory/employee role and responsibility with competencies, skills, performance measures and tools, and training
        - Create a work/life balance strategy
    - Create a workplace that recognizes our success is dependent on each other
        - Create a recognition culture by all staff
        - Develop a process that focuses employee performance assessments on strengths
        - Create a job knowledge program
    - Encourage a safe and healthy work environment
        - Maintain and continuously improve upon a healthy physical environment
        - Expand access to voluntary health improvement opportunities
    - Provide a training curriculum that develops and maintains a competent, confident staff
        - Create university style education program that provides consistent training

DRS' goals and strategies support statewide result number 10 in the Priorities of Government to ***"strengthen government's ability to achieve results efficiently and effectively."***

<u>Activity Inventory and Performance Measures and Targets</u>

The activity descriptions included in this section have been summarized in the bullets below to serve as a quick reference. (More complete descriptions can be found in the agency's activity inventory.) In summarizing the activities, however, we didn't want to lose the following facts and figures from Fiscal Year 2007 that provide a perspective on the magnitude of the agency's impact.

- Net assets held in commingled trust fund for pension and other benefits totaled over $69 billion.
- DRS provided service to over 590,000 members and 1,300 public employers.

- DRS disbursed over $2.6 billion in benefits last fiscal year, to an average of over 122,000 retirees each month.
- DRS collected over $1.6 billion in employer and member contributions.
- The data provided by employers contained in excess of 1 million line items of member information each month.
- The Deferred Compensation Program served more than 51,000 participants, with plan assets exceeding $2.6 billion.

It is also important to understand the critical links between DRS' activities, as they function together in support of a single mission. DRS' primary mission of producing accurate and timely retirement benefits to retirees and beneficiaries is directly supported by six of the agency's seven activities. The other activity, management of the Deferred Compensation Program for public employees, is self-financed by program participants.

NOTE: HB 2652 (Chapter 229, Laws of 2008) transferred an activity previously performed by DRS, the Dependent Care Assistance Program, to the Health Care Authority, effective January 1, 2009. Additionally, DRS may gain two activities in the upcoming biennium. A proposal is being developed for the Governor by the Employment Security Department (ESD) and DRS to transfer responsibility for the Old Age and Survivors' Insurance (OASI) Program from ESD to DRS, per RCW 41.48.100 and 41.41.020. DRS is also working with the Department of Personnel (DOP) on the feasibility of transferring administration of the Voluntary Employee Beneficiary Associations (VEBA) program from DOP to DRS.

The agency's mission supports the state's numerous legal and fiduciary obligations to retirement system members arising from the State Constitution and the Washington State Supreme Court, as well as federal trust law, Internal Revenue Code pension provisions, and state statute. Elimination of or significant reduction to any of the associated activities could cause the agency to fail to meet these obligations.

- **Administration** provides executive leadership on plan administration, legal, planning and support to the Governor on pension issues, and other administrative support services. A primary measure associated with this activity is the agency's cost effectiveness, as measured in a public pension administration benchmarking study performed by an independent firm:

    - Percent that DRS' per-member cost is below public sector peer group. (Target = 10%)

- **Retirement Customer Services** provides direct service to active, retired and inactive members of the state's public retirement systems. Some of the key performance measures for this activity reflect the agency's responsiveness to customers:

    - Percent of routine correspondence having a response within five days. (Target = 90%)
    - Average number of days to complete requests for retirement estimates. (Target = 5)

- Percent of incoming phone calls to DRS, via an automated call distributor, answered within 30 seconds. (Target = 90%)
- Average number of minutes after arrival that members visiting DRS without an appointment will receive knowledgeable staff service. (Target = 4)

- **Retirement Information Systems** maintains and develops the automated systems that are essential for data collection and processing, and disbursement processing. Performance measures for this activity deal with increasing the capability and use of our automated systems:

  - Develop a new electronic retirement application process to augment the existing paper process, which is also slated for redesign and improvement. (Target =January 2010)
  - Percent increase in the cumulative average of members and retirees enrolled in web services. (Target = 10% by July 2009)

- **Trust Fund Accounting** provides all phases of accounting for the pension/trust funds, from collection of contributions, to withdrawals and pension disbursements, to tax reporting to the Internal Revenue Service. Various performance measures are in place for the agency's accounting processes to safeguard the assets flowing through the agency (contributions and disbursements). A key measure is to keep receivables low so that member and employer contributions are available for investment:

  - Percent of retirement contributions collected from employers by the 15th of each month. (Target = 99.5%)

- **Member Data Services** processes essential member information submitted by public employers, and provides training to and performs audits of public employers. A performance measure used for this activity focuses on the outcome of how successful we are in helping employers clean up incoming member data so that future financial processes can be timely and accurate:

  - Percent of benefit estimates completed properly from available information. (Target = 100%)

- **One-Time Projects** represents the costs associated with changes to the existing public pension systems approved and funded each legislative session. Similar to other state agencies, the primary measure for legislative projects is that they be completed on time and within budget. Although projects required of DRS have ranged from a few thousand dollars, to implement and communicate a minor benefit change, to millions of dollars, to implement a new and complex retirement system, all have been successfully implemented on time and within budget.

- **Deferred Compensation Program Management** allows public employees to defer and invest a portion of their salary until retirement or termination of public employment. The primary performance measure for the Deferred Compensation Program is its ongoing success in adding new participants:

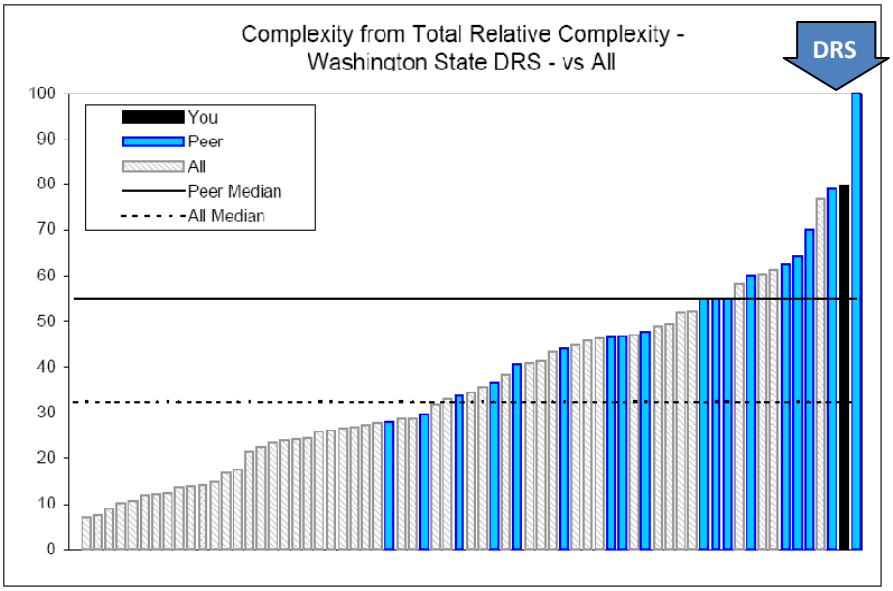
    - Number of new DCP participants. (Target is based on a 10% increase of new participants above the prior 3-year average so the targets for 2009-11 won't be available until July 2008.)

Performance Analysis

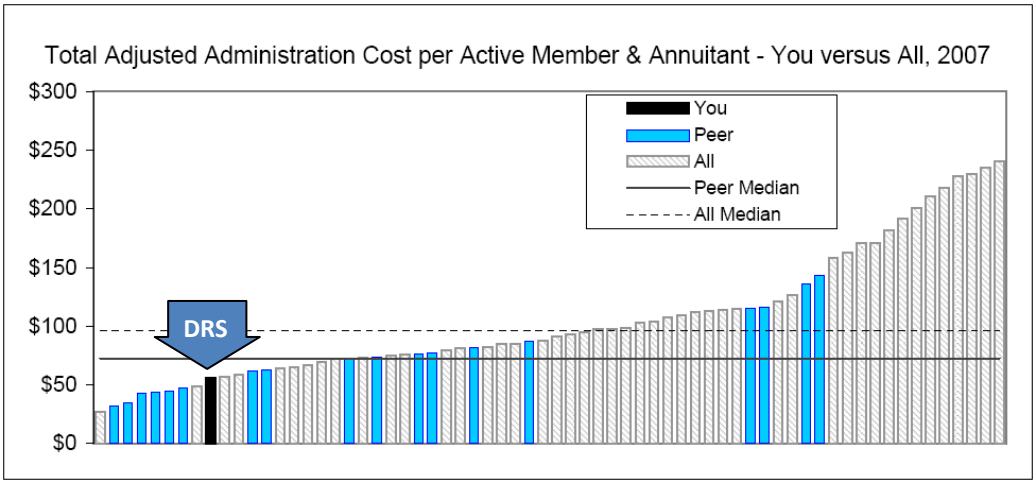
Although we won't have final performance data for Fiscal Year 2008 until this July, we anticipate that we'll meet or exceed nearly all of our performance measures. However, a couple of our measures, customer satisfaction and enrollment in the state's Deferred Compensation Program, may follow historical trends and be impacted by volatile financial market conditions. On the latter, with the assistance of an expert in social marketing, DRS identified strategies to increase the number of members preparing for lifetime financial security.

In addition to our internal performance tracking and management, DRS also participated again in the defined benefit administration benchmarking analysis conducted by CEM Benchmarking Inc. The analysis of Fiscal Year 2007 data compared DRS with 74 public pension system administrators from the United States (US), Canada, Australia and The Netherlands. It also compared DRS to a peer group of the 19 participating US systems having more than 200,000 active members and annuitants. Some of the results of the analysis identified:

- **DRS provides a high level of service to members and employers** - DRS' Service Score of 76 was higher than the Peer Median (72) and the All Participant Median (72).
- **DRS administers a very complex aggregation of public pension systems** - DRS' Complexity Score of 80 was the 2nd highest overall and was higher than the Peer Median (55) and the All Participant Median (32).



- **DRS builds and maintains cost effective automated systems** - Although the amount DRS spends per member on Information Technology (IT) is equal to the Peer Median, DRS' IT Capability Score of 85 was higher than the Peer Median (80) and the All Participant Median (73).
- **DRS is low cost** - DRS' Total Cost per member of $56 was less than the Peer Median ($73) and the All Participant Median ($96).



- **DRS provides cost effective administration** - DRS' Total Cost per Member of $56 is lower than our Benchmark (or Predicted) Cost of $62 due to primarily our high level of service and the use of automation to provide those services while administering a highly complex pension system.

The analysis conducted by CEM provides a wealth of information and performance data for DRS. DRS has used this data along with information from separate best practice analyses conducted by CEM and input from their peer network service to help identify and shape improvements.

<u>Assessment of External Challenges and Opportunities</u>

Key strategic challenges include the following:

- **Making a complex process easy.** Federal and state retirement laws are extremely complex. Most employees retire only once, and the irrevocable decisions they make at that time impact the rest of their lives. DRS is working to make it as easy as possible for members to do business with us, allowing them to make the most informed choices for their personal circumstances.
- **Delivering a critical message in an appealing way.** Members often don't think about retirement until they are nearly ready to retire. The challenge is in identifying ways to educate and persuade members early enough to adequately save for a successful retirement. DRS is developing access to unbiased information and useful tools for effective retirement planning.

- **Educating the public and policy makers about the long-term economic value of public pension plans.** When private employers reduce benefits, there can be pressure to do the same in the public sector. In recent years, many private sector employers have shifted their support from lifetime pension plans to defined contribution plans such as the 401(k), to stabilize and reduce their costs. DRS' challenge is to educate the public and state policy makers about the advantages that retiree lifetime benefits bring to the state's economy.
- **Quick turnaround on implementing new laws.** DRS implements complex state retirement legislation, often with a very short lead time before the effective date. DRS also has rulemaking authority to perform its powers, duties and functions as required in statute. To ensure seamless implementation of new benefit provisions, it is imperative that DRS staff, customers and other key stakeholders fully understand the intent of the legislation. DRS is working closely with legislators, customers and stakeholders to increase communication and understanding of changes under consideration.
- **Competing effectively for qualified staff.** DRS competes with both the public sector and private sector for good workers. It will become more difficult to attract and retain knowledgeable employees as the workforce ages. As a state agency, salaries are set by the Legislature, so DRS cannot compete solely on the basis of pay. Other factors, such as an attractive work environment, challenging and rewarding jobs, and learning opportunities, allow DRS to be competitive as an employer.
- **An aging population**. The first wave of baby boomers recently reached retirement age. This changing demographic will impact DRS in several ways. First, it will mean increased workloads as a large number of baby boomers become eligible to leave the workforce. Second, significant policy issues will arise as the population ages. With older workers representing a larger contingent of the retirement systems' membership, member concern is shifting from the size of employee contributions to retirement age requirements and other benefit issues, like disability benefits and the ongoing cost of health care.

Organizational structure and governance - As pension administrators, DRS is at the center of a complex network of organizational relationships that impact the state's pension plans in different ways. Other entities include:

- **Governor's Office –** Establishes executive policy. Appoints the Director of DRS.
- **Legislative Fiscal Committees –** The House Appropriations Committee and the Senate Ways and Means Committee review and recommend their findings on retirement bills to the full Legislature.
- **Select Committee on Pension Policy (SCPP) –** Studies pension issues and retirement finances. Develops pension policy proposals and makes recommendations to the Legislature. The DRS Director is one of 20 SCPP members.
- **Pension Funding Council –** Adopts economic assumptions for funding the pension plans and the contribution rates members and employers pay. The DRS Director is one of six members.
- **Office of Financial Management (OFM) –** Advises the Governor on pension and funding policies and issues. The Governor appoints the Director of OFM.

- **Washington State Investment Board (WSIB) –** Invests and accounts for pension funds. Provides investment options for supplemental savings programs and the defined contribution components of pension plans. The DRS Director is one of 10 voting members.
- **Office of the State Actuary –** Performs actuarial studies and reports on retirement bills. Creates formulas to compute benefit adjustments based on early retirement, cost-of-living or long-term survivor benefits.
- **Employee Retirement Benefits Board –** Provides recommendations to the WSIB on self-directed investment and payment options for the Plan 3 defined contribution component; ratifies administrative charges for self-directed investment options; and recommends investment options for the Deferred Compensation Program. Board members are appointed by the Governor. The DRS Director is the board chair.
- **DRS Advisory Committee –** Serves in an advisory role to the Director of DRS on retirement administrative issues. Members are appointed by DRS' Director and represent active and retired members of the retirement systems administered by DRS.
- **DRS Employer Advisory Committee –** Serves in an advisory role to DRS. Provides feedback on changes in the administration of the retirement systems that directly impact employers, including changes to automated systems designed to support member data reporting by the employer. The committee is made up of employer representatives and DRS staff.
- **Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board (LEOFF) –** Policy-making board that studies pension issues, acts as fiduciaries of LEOFF Plan 2, sets contribution rates and recommends pension policy to the Legislature for LEOFF Plan 2 members. The Governor appoints the 11 board members.
- **Third Party Record Keepers** - Financial record keeping companies that contract with DRS to track the individual member investment accounts. The role is currently performed by ICMA Retirement Corporation for TRS Plan 3, PERS Plan 3 and SERS Plan 3 members; and by CitiStreet for DCP participants.

Assessment of Internal Capacity and Financial Health

Internal Capacity – As part of the agency's comprehensive strategic planning process, DRS' senior managers regularly review and assess the organization's strengths and weaknesses, especially in regard to recent accomplishments and ongoing goals and objectives. DRS also participates in an extensive external survey of public retirement system administrators to obtain an objective measure of cost-effectiveness compared to peer agencies. The two key areas that have the greatest impact on DRS' internal capacity for peak performance are technology and staffing.

In regard to the agency's technology infrastructure, DRS operates with a complex blend of both mature and innovative information systems applications. The agency's benefits processing applications, developed and implemented in the mid-1990's, utilize COBOL and Natural languages. More recent systems development activities have focused on innovative client server applications that provide Internet-based interfaces to allow customers and employers to access agency services and conduct business with DRS online.

The agency has an effective security program in place to protect its information systems from external vulnerability. As a result, DRS has not experienced any successful attacks for more than four years. As viruses and worms become more sophisticated, DRS will continue to dedicate resources for the expansion and reinforcement of security precautions and measures.

Most of the agency's technology success can be directly attributed to its staff capabilities. Project management, which includes systems development projects, is an area where DRS particularly excels. DRS has a highly effective project management program in place, with standard practices and tools that are used consistently. The agency has repeatedly proven its ability to manage projects on time and within budget.

DRS' budget request for the 2009-11 biennium may include a decision package on the agency's aging Employer Reporting Transmittal (ERT) system. The ERT is responsible for processing employment data from over 1,300 employers who participate in the state's 15 pension plans and the Deferred Compensation Program. This system, which processes more than one million transactions each month, provides the critical core data for managing the retirement accounts of over 297,000 active members, including the accurate receipt of $1.6 billion in contributions last fiscal year. The original system design and underlying architecture create challenges for keeping pace with increasingly complex business requirements crucial to the management of the State's retirement data. Constraints posed by the current system architecture have adversely affected the Department's ability to adapt, which has translated into higher resource demands and higher risk of failure when implementing new business processes. In order to improve system reliability and reduce the resources needed during maintenance cycles, this legacy system will require a major architectural upgrade or replacement.

DRS is currently well staffed by highly qualified employees. To supplement the skills of DRS' staff, the agency has often relied upon contractors to perform specialized technology services. The agency has established strong relationships with vendors of such services, and does not foresee any changes that would limit availability of those services in the future. This strategic reliance on contractors has proven to be extremely valuable for the purpose of implementing legislative changes quickly to meet the specified effective dates.

An independent assessment of the organizational structure, work processes, and overall work environment of DRS' customer service division, intended to enhance the efficiency and quality of member services, was completed in 2007. A key recommendation of the assessment was for the agency to review the Retirement Services Analyst (RSA) job series. DRS recently submitted additional cost details to the Office of Financial Management (OFM) in support of the RSA classification modification proposal approved by the Department of Personnel (DOP). The proposal redefines the four levels and the associated compensation structure within the series to align it with increasing complexity in workload trends, general industry standards of practice and comparisons with peer organizations.

DRS also recently completed the Agency Facility Needs Study and the Enterprise Risk Management (ERM) Analysis. DRS identified in the Facility Needs Study that our existing leases for office space in the Point Plaza complex in Tumwater, WA, will expire January 31, 2009. We're already working with the Department of General Administration on our space needs.

The ERM analysis identified an overall score of five out of six for DRS. Although this is a relatively high score, staff are already working on the gap analysis and priority matrix for components that didn't score high, and on augmenting the tool to better measure unique elements of public pension administration.

Financial Health – DRS currently operates out of four fund sources, although two of them would not be present in the carry-forward level for the 2009-11 biennial budget.

- The primary source is the **DRS Expense Account (fund 600)**. This appropriated fund receives its revenue from public employers as a percentage rate of their salary expenditures. (See RCW 41.50.110.) That rate has fluctuated between 0.16 percent and 0.23 percent over the past 25 years, typically increasing for a few years at a time to address increased costs/appropriations associated with new system/plan implementations. The rate was reduced from 0.18 to 0.16 percent on September 1, 2007 and $5 million was transferred from fund 600 to the State General Fund by the 2008 supplemental operating budget. The rate has yet to be identified for the 2009-11 biennium, as additional trend data on the total salary base, and the estimated appropriations for DRS and the Office of the State Actuary are essential components of the calculation.
- The other source is the **Deferred Compensation Administrative Account (fund 888)**. This nonappropriated fund receives its revenue from participants in the state's Deferred Compensation Program as a percentage rate of their total assets in the program. (See RCW 41.50.780.) As plan assets have grown, the rate to cover DRS' services has been reduced from 0.79 percent when the program started in July 1988, to the current rate of 0.0425 percent, which covers administrative costs at DRS and at the Washington State Investment Board. The rate has yet to be identified for the 2009-2011 biennium, as additional data on the projected size of the asset base and the balance in fund 888 are essential components of the calculation.
- The two fund sources that would not be in the agency's carry-forward level are appropriations from the Dependent Care Administrative Account (fund 03T) and the State General Fund (GF-S). As identified earlier, the Dependent Care program will be transferred to the Health Care Authority effective January 1, 2009; while the GF-S appropriation was one time funding "to design a plan for the operation of a universal voluntary retirement accounts program" and "report to the Legislature (by December 1, 2008) on the program's design and any required changes to state law that are necessary to implement the program."