

Wisconsin ETF

Pension Administration Benchmarking Results Fiscal Year 201H

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Highlights of the report

- Wisconsin ETF is very low cost
 - Well below U.S. norms
- It is a very complex system
 - The most complex in its peer group
- Service levels are below peer average
 - Expected to improve as a result of recent investments

75 leading global pension systems participate in the benchmarking service.

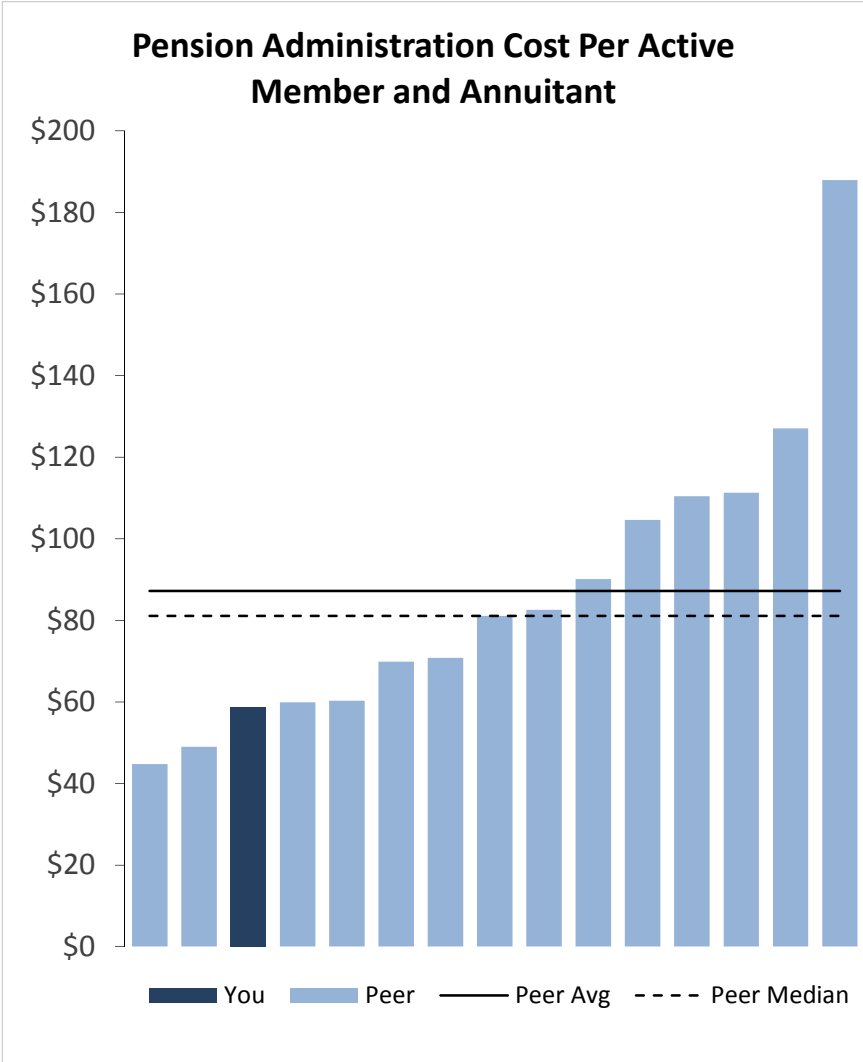
Participants		
<u>United States</u>		
Arizona SRS	South Carolina PEBA	
CalPERS	South Dakota RS	
CalSTRS	STRS Ohio	
Colorado PERA	SURS Illinois	
Delaware PERS	Texas MRS	
Florida RS	TRS Louisiana	
Idaho PERS	TRS of Texas	
Illinois MRF	Utah RS	
Indiana PRS	Virginia RS	
Iowa PERS	Washington State DRS	
KPERS	Wisconsin ETF	
LACERA		
Michigan ORS	<u>United Kingdom</u>	
MOSERS	Armed Forces Pension Schemes	
Nevada PERS	BMW	
New Mexico ERB	BSA NHS Pension Scheme	
NYC TRS	Principal Civil Service Pension Scheme	
NYSLRS	Railway Pensions	
Ohio PERS	Scottish Public Pension Agency (SPPA)	
Orange County ERS	The Pension Protection Fund (PPF)	
Oregon PERS	Unilever	
Pennsylvania PSERS	Universities Superannuation Scheme (USS)	
		<u>Canada</u>
		APS
		BC Pension Corporation
		Defence Canada
		Federal Public Service
		HOOPP
		LAPP
		OMERS
		Ontario Pension Board
		Ontario Teachers
		OPTrust
		RCMP
		Saskatchewan HEPP
		<u>The Netherlands</u>
		ABP
		bpfBOUW
		BPF Schilders
		Pensioenfonds Metaal en Techniek
		Pensioenfonds van de Metalektro
		PFZW
		Rabobank Pensioenfonds
		Stichting Pens. Medisch Specialisten
		<u>Australia</u>
		AustralianSuper
		BUSS(Q)
		CBUS
		First State Super
		HESTA
		QSuper
		REST
		StatewideSuper
		SunSuper
		VicSuper
		<u>Scandinavia</u>
		Alecta
		ATP
		<u>United Arab Emirates</u>
		Abu Dhabi RPB

The custom peer group for Wisconsin ETF consists of the following 15 peers:

Custom Peer Group for Wisconsin DETF			
Peers (sorted by size)	Membership (in 000's)		
	Active Members	Annuitants	Total
NYSLRS	529	413	942
CalSTRS	417	267	684
Ohio PERS	348	191	539
Virginia RS	341	170	510
Michigan ORS	243	256	500
Pennsylvania PSERS	284	208	492
Washington State DRS	291	151	442
Wisconsin ETF	257	174	430
Indiana PRS	253	133	386
STRS Ohio	198	149	348
Colorado PERA	230	100	330
Arizona SRS	203	125	328
Oregon PERS	167	126	293
Illinois MRF	175	102	277
Iowa PERS	165	105	270
Peer Median	253	151	430
Peer Average	273	178	451

Inactive members are not considered when selecting peers because they are excluded when determining cost per member. They are excluded because they are less costly to administer than either active members or annuitants.

Your total pension administration cost was \$59 per active member and annuitant. This was \$29 below the peer average of \$87.



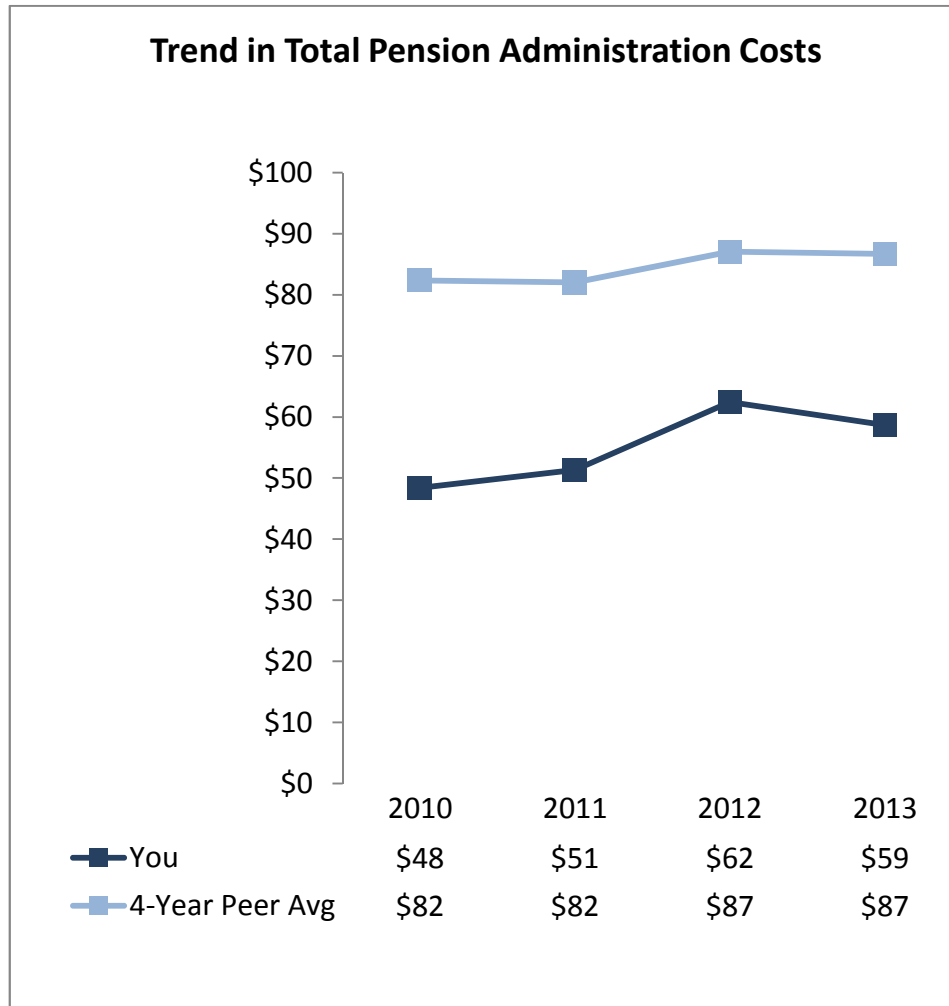
Your total pension administration cost was \$25.3 million. This excludes the cost of administering healthcare, and optional and third-party administered benefits of \$4.7 million.

Your cost per activity.

Activity	<u>(\$000)</u> You
1. Member Transactions	
a. Pension Payments	1,187
b. Pension Inceptions	992
c. Withdrawals and Transfers-out	330
d. Purchases and Transfers-in	138
e. Disability	747
2. Member Communication	
a. Call Center	1,730
b. Mail Room, Imaging	1,122
c. 1-on-1 Counseling	780
d. Presentations and Group Counseling	527
e. Written Pension Estimates	1,365
f. Mass Communication	961
3. Collections and Data Maintenance	
a. Data and Money from Employers	859
b. Service to Employers	324
c. Data Not from Employers	151
4. Governance and Financial Control	
a. Financial Administration and Control	809
b. Board, Strategy, Policy	591
c. Government and Public Relations	833
5. Major Projects	
a. Amortization of non-IT Major Projects	0
b. Non-IT Major Projects (if you don't capitalize)	1,523
c. Amortization of IT Major Projects	110
d. IT Major Projects (if you don't capitalize)	121
6. Information Technology	
a. IT Strategy, Database, Applications	5,376
b. IT Desktop, Networks, Telecom	897
7. Support Services and Other	
a. Building and Utilities	1,463
b. Human Resources	421
c. Actuarial	176
d. Legal and Rule Interpretation	948
e. Internal and External Audit	623
f/g. Other Support Services	160
Total Pension Administration	25,263

Your total cost of \$25.3 million excludes the cost of administering healthcare, and optional and third-party administered benefits of \$4.7 million.

Cost Trends

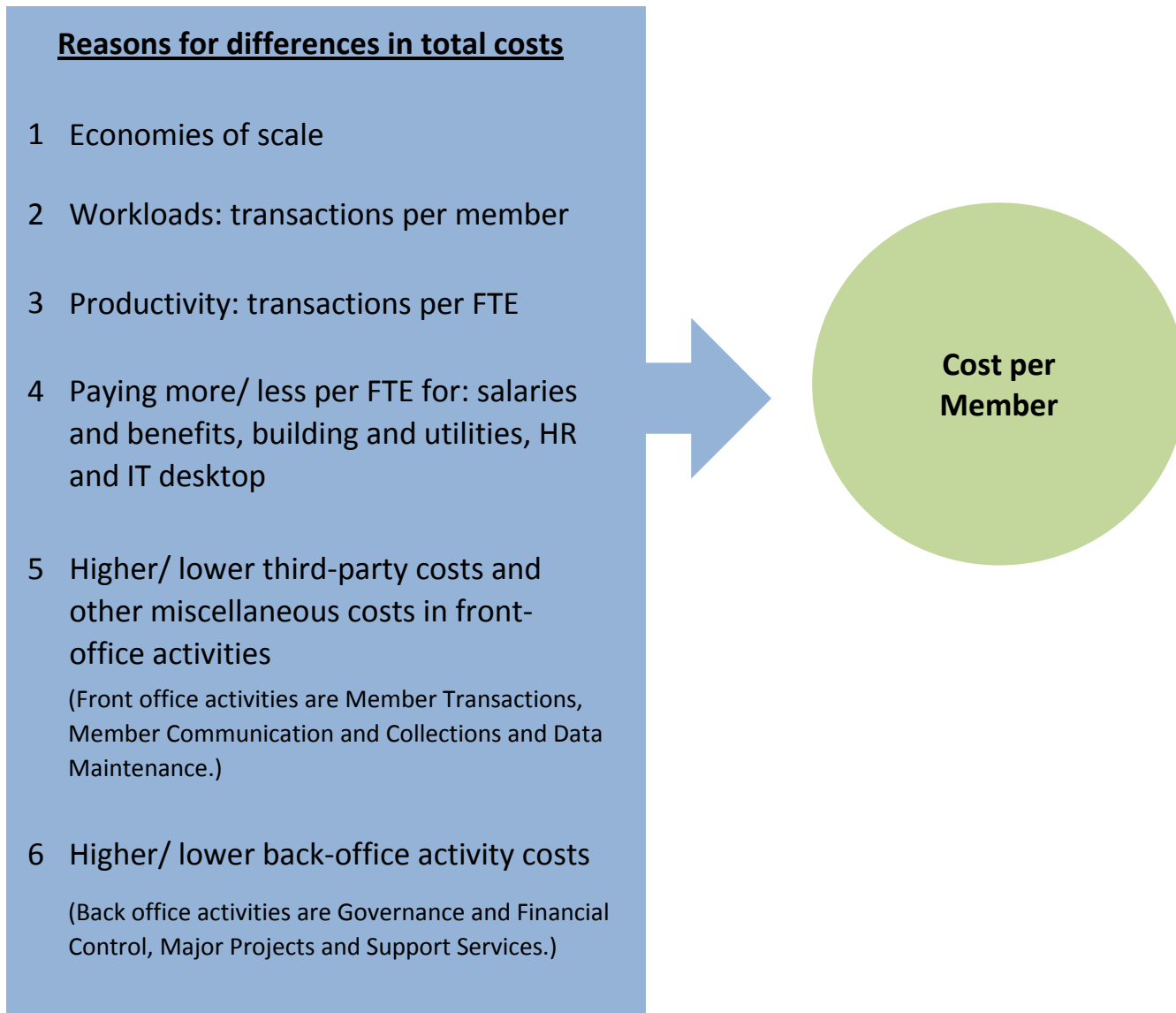


Trend analysis is based on systems that have provided 4 consecutive years of data (13 of your 15 peers).

You are in your fourth year of a multiyear Transformation Integration Modernization Project (TIM) that will modernize your business processes and integrate your information technology systems. You also began preparation for a new benefit administration system.

Despite the increased spending over the past 4 years, your costs remained well below those of your peers.

CEM uses the following cost model to explain differences in total costs:

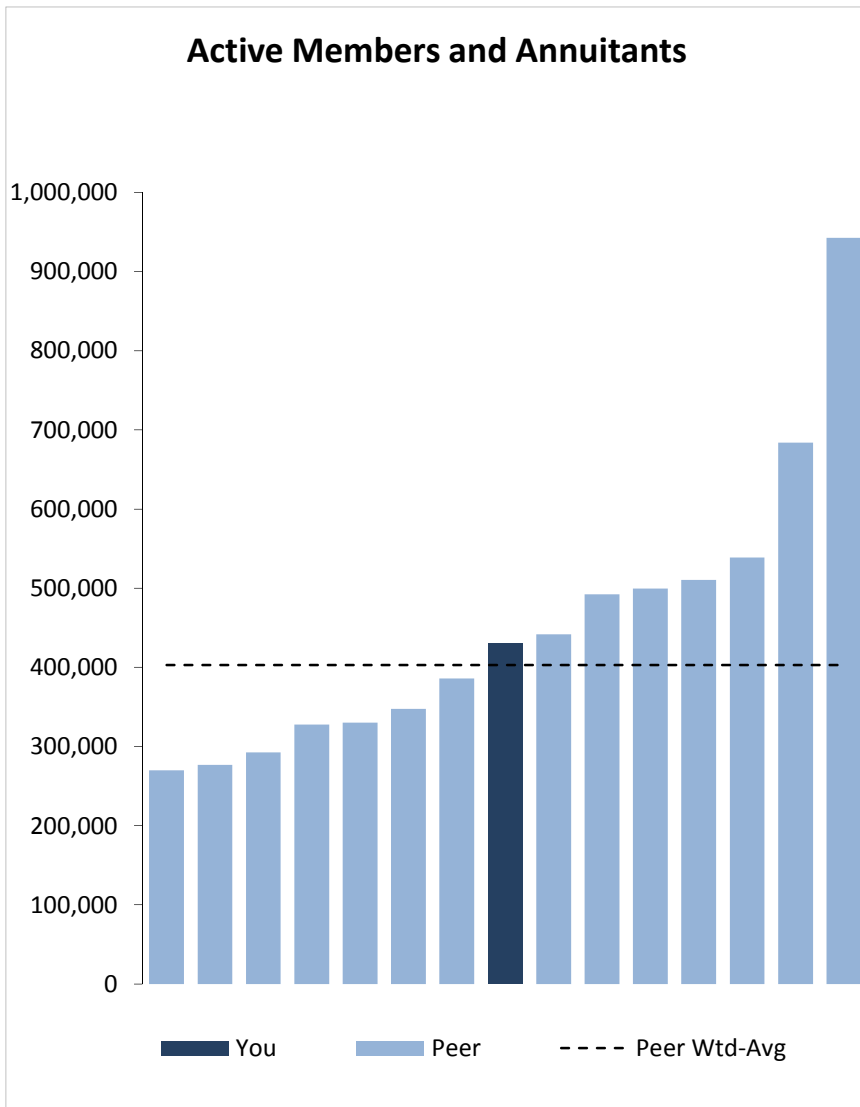


Reasons why your total cost was \$29 below the peer average.

Reason	Impact
1. Economies of scale	-\$0.68
2. Lower transactions per member (workloads)	-\$2.34
3. Higher transactions per FTE (productivity)	-\$2.39
4. Lower costs per FTE for: salaries and benefits, building and utilities, HR and IT desktop	-\$12.19
5. Lower third-party and other costs in front-office	-\$4.07
6. Paying more/-less for back-office activities:	
- Governance and Financial Control	\$0.68
- Major Projects	-\$3.81
- IT Strategy, Database, Applications	\$0.74
- Actuarial, Legal, Audit, Other Support Services	-\$4.49
Total	-\$28.55

CEM reconciles to the peer average instead of the peer median because there are interactions between the reasons that would be lost if we used medians. Also, the reasons will only add to 100% if we use averages.

Reason 1: You had a slight economies of scale advantage.



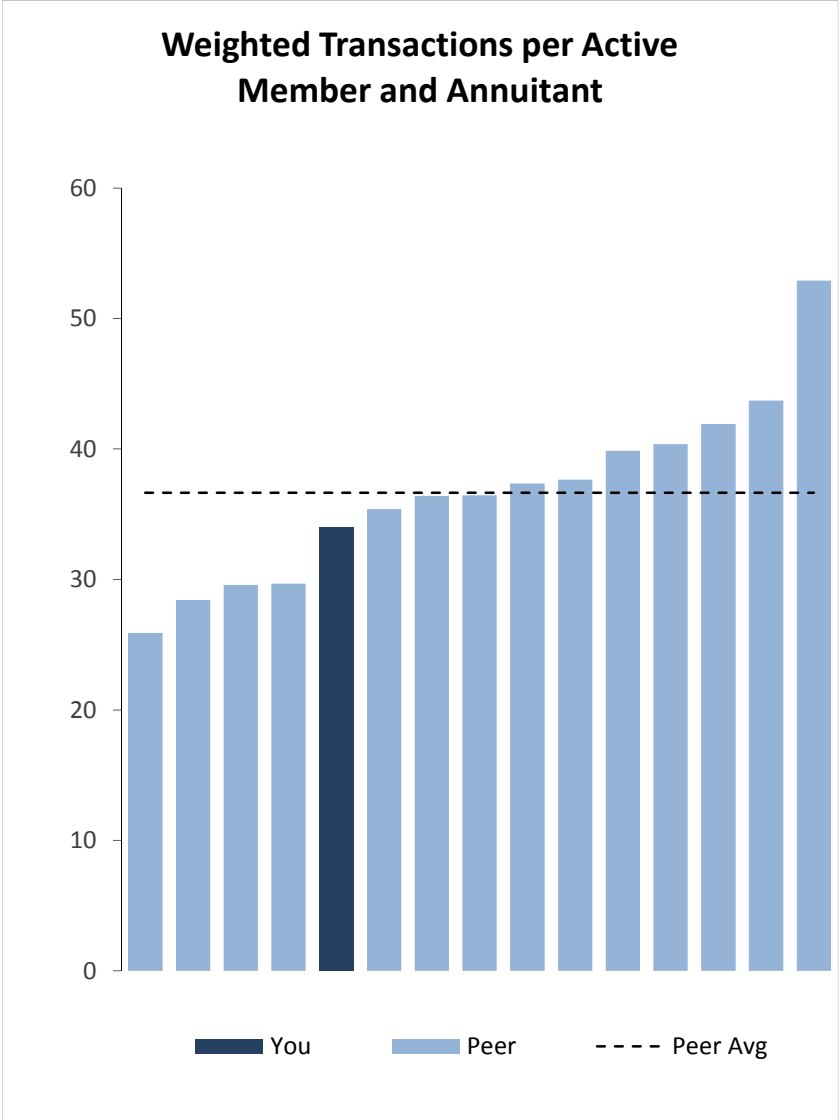
Your system had 7% more members than the peer weighted-average. Your larger size means that you had a cost advantage relative to the average peer of \$0.68 per member.

Size is a key driver of costs. More members lets you spread your fixed costs over a larger base. But the benefit of economies of scale is not linear. Scale economies diminish as systems get larger.

How Changes in Membership Impact Your Cost			
% Change in Members	# of Members	Predicted Cost per Member	Increase/-Decrease
-75%	107,622	\$88.36	\$29.67
-50%	215,244	\$68.58	\$9.89
-25%	322,866	\$61.98	\$3.30
0%	430,488	\$58.68	\$0.00
+25%	538,110	\$56.71	-\$1.98
+50%	645,732	\$55.39	-\$3.30
+75%	753,354	\$54.44	-\$4.24

The peer-average is weighted with a higher weight to smaller plans because the relationship between size and cost is not linear.

Reason 2: You had lower transaction volumes per member (workloads).



Your weighted transactions were 7% below the peer average. Your lower transaction volumes decreased your total cost per member by an estimated \$2.34 relative to the peer average.

The following page shows where you are doing more and/or fewer transactions by front-office activity.

Where did you do more/fewer transactions?

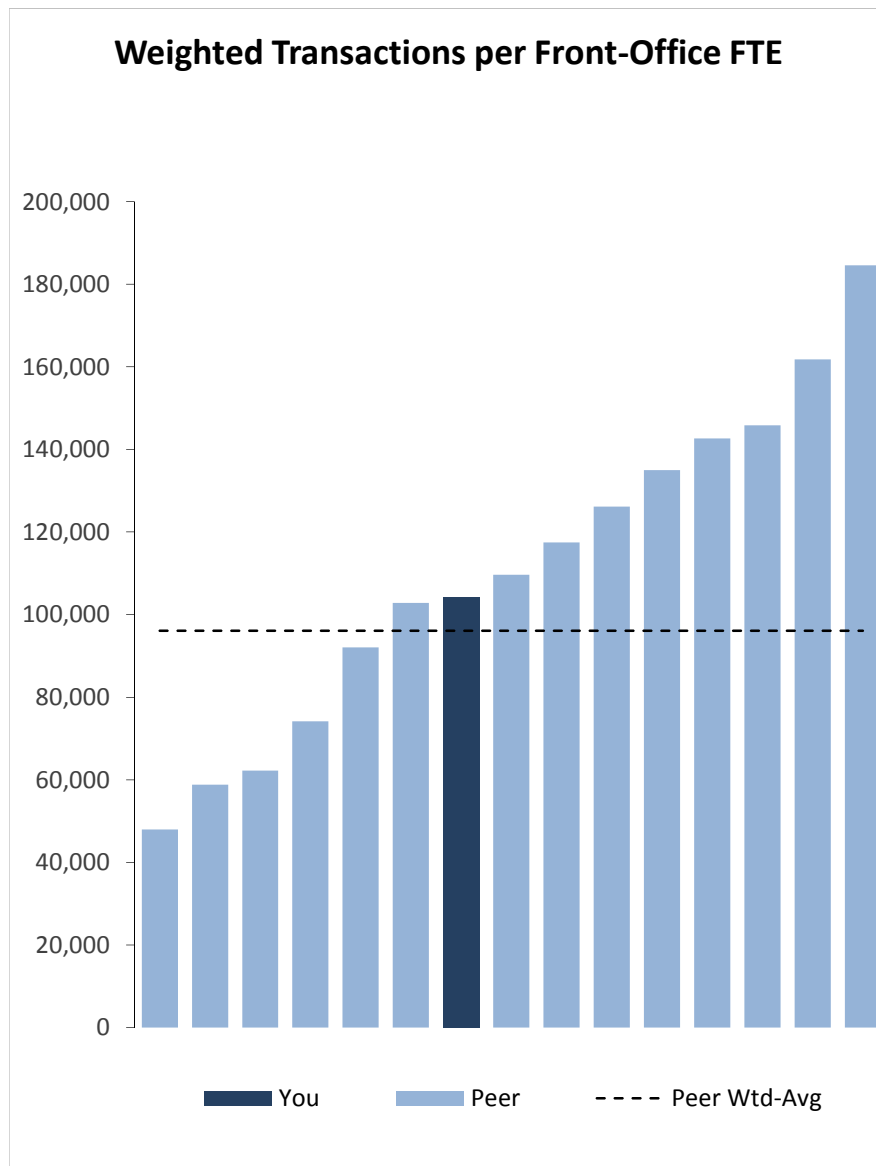
Where did you do more/fewer transactions?				
Front Office Transactions (or Transaction Driver)	Volume per 1,000 Active Members and Annuitants			\$ per Member Transaction Impact
	You	Peer Average	More/-Less	
1. Member Transactions				
a. Pension Payments (Annuitants)	403	389	4%	\$0.11
b. New Payee Inceptions	21	27	-20%	-\$0.76
c. Withdrawals and Transfers-out	13	26	-51%	-\$0.73
d. Purchases and Transfers-in	2	10	-83%	-\$1.37
e. Disability Applications*	6	3	119%	\$2.59
2. Member Communication				
a. Calls and Emails	476	692	-31%	-\$1.59
b. Incoming Mail	415	412	1%	\$0.01
c. Members Counseled 1-on-1	12	25	-53%	-\$0.81
d. Member Presentations	1	2	-53%	-\$0.84
e. Written Estimates	44	26	71%	\$1.20
3. Collections and Data Maintenance				
a. Data and Money from Employers (Active Members)	597	611	-2%	-\$0.07
b. Service to Employers (Active Members)	597	611	-2%	-\$0.03
c. Data Not from Employers (Actives, Inactives, Annuitants)	1,355	1,423	-5%	-\$0.04
Weighted Total	34,005	36,636	-7%	-\$2.34

Differences in transaction volumes per member reflect differences in:

- Membership mix (active, inactive, annuitant)
- Member demographics. For example, you may have a higher proportion of active members approaching retirement.
- Member type/ industry group.
- System and plan complexity. For example, if you administer healthcare, you will have higher communication needs.
- Service Levels

* Although your disability applications transaction volume is recognized here, most of the costs related to disability are incurred by a third party administrator and are therefore excluded from the cost analysis.

Reason 3: You had higher transactions per FTE (total productivity).



Your weighted transactions per front-office FTE were 8% above the peer weighted-average (adjusted for economies of scale to avoid double counting). Your higher transaction volumes per FTE decreased your total cost per member by \$2.39 relative to the peer average.

Differences in transaction volumes per FTE are due to differences in:

- Economies of scale. CEM research shows that smaller systems had lower productivity than larger systems
- IT capability / on-line transactions
- Service levels
- Complexity of plan rules
- Staff skills and staff productivity
- Use of consultants versus internal staff
- Projects
- Organization design

It is important to emphasize that total productivity is not a measure of staff productivity; staff productivity is, however, a component of total productivity.

Reason 4: You had lower costs per FTE for: salaries and benefits, IT desktop, networks and telecom, building and utilities, and human resources.

Cost per FTE			
	You	Peer Avg	FTE-Wtd Peer Avg
Salaries and Benefits	\$72,870	\$84,377	\$84,585
Building and Utilities	\$6,867	\$9,726	\$9,940
Human Resources	\$1,973	\$2,795	\$3,057
IT Desktop, Networks, Telecom	\$4,208	\$9,823	\$9,521
Total	\$85,918	\$106,721	\$107,102

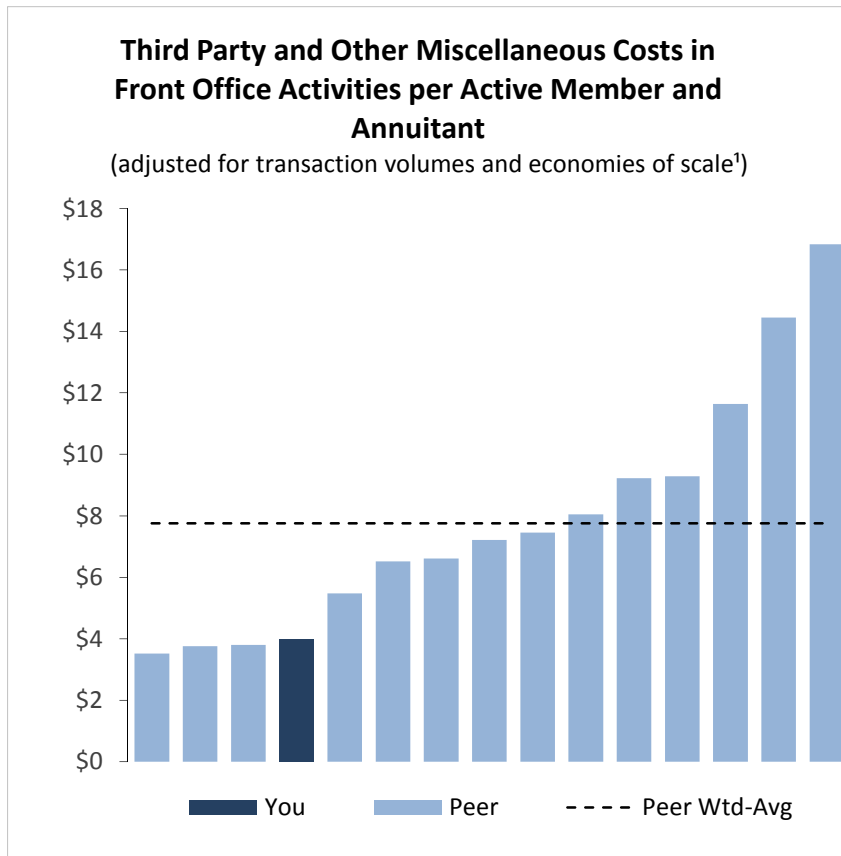
Your lower costs per FTE decreased your total cost by \$12.19 per member relative to the peer average.

The peer average is weighted such that peers with more FTEs get a higher weight because 'cost per FTE' differences matter more for peers with more FTEs.

Differences in your cost per FTE reflect differences in:

- Organization structure, strategy and history.
 - Outsourcing and use of consultants.
 - Cost environment of your location vs. peers.
- Labor costs in your area were 7% below the peer average.

Reason 5: You had lower third party and other miscellaneous costs in the front-office activities.



Your third party and other miscellaneous costs (such as travel, office supplies, etc.) in the front-office activities² were \$3.98 per member which was 49% below the adjusted peer weighted average of \$7.75. Your lower third party costs decreased your total cost per member by \$4.07 relative to the peer average.

1. To avoid double counting, peer costs are adjusted for differences in transaction volumes and economies of scale.
2. Front office activities are activities that come in contact with clients or employers, such as paying pensions, member calls and presentations. It excludes back-office activities such as Governance and Financial Control, Major Projects and Support Services.

Reason 6: You paid less for back-office activities.

Back-Office Activities - Adjusted Cost per Member			
Back Office Activities	You	Peer Avg	More/ -less
Governance and Financial Control	\$5.77	\$5.10	\$0.68
Major Projects	\$4.38	\$8.19	-\$3.81
IT Strategy, Database, Applications	\$13.35	\$12.61	\$0.74
Actuarial, Legal, Audit, Other	\$4.87	\$9.36	-\$4.49
Total	\$28.38	\$35.26	-\$6.88

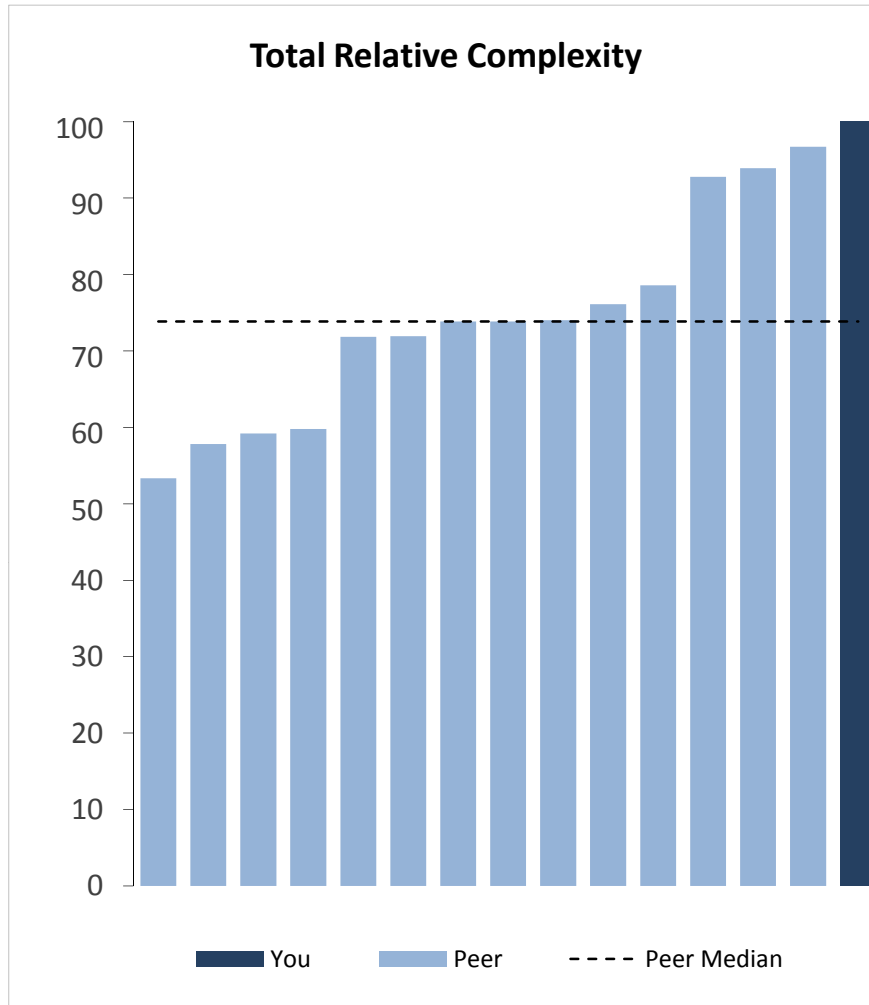
To avoid double counting, back office costs are adjusted for economies of scale and cost per FTE for: salaries, benefits, building, utilities, IT desktop and human resources. Before adjustments, your total costs for the above back-office activities were \$36. The unadjusted peer average was \$58.

Your adjusted cost per active member and annuitant of \$28.38 for back-office activities was below the peer average of \$35.26. Paying less for back-office activities decreased your total cost per member by \$6.88 relative to the peer average.

Differences in cost per member for back-office activities reflects differences in:

- How much you do. For example, some systems invest more in disaster recovery.
- IT capability
- IT investment cycle
- Plan complexity

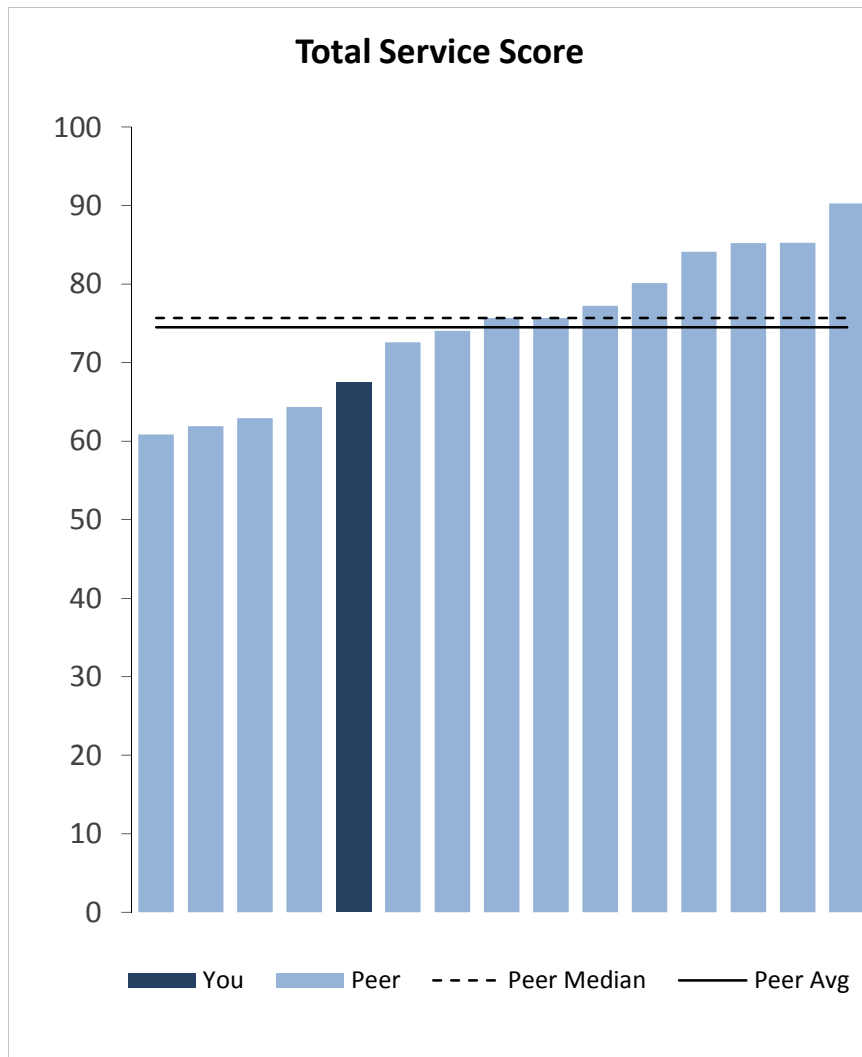
Back-office costs and productivity are impacted by system complexity. Your total relative complexity score of 100 was the highest in the peer group.



**Relative Complexity Score by Cause
(0 least - 100 most)**

Cause	You	Peer Median
Pension Payment Options	58	60
Customization Choices	74	9
Multiple Plan Types and Overlays	95	63
Multiple Benefit Formula	27	44
External Reciprocity	35	35
COLA Rules	12	23
Contribution Rates	41	43
Variable Compensation	100	100
Service Credit Rules	59	61
Divorce Rules	100	55
Purchase Rules	55	65
Refund Rules	27	39
Disability Rules	86	82
Translation	0	0
Defined Contribution Plan Rules	100	100
Total Relative Complexity	100	74

Your total service score was 67. This was below the peer median of 76.



Service is defined from a member's perspective. Higher service means faster turnaround times, more availability, more choice and higher quality. Examples of key service metrics are shown on the next page.

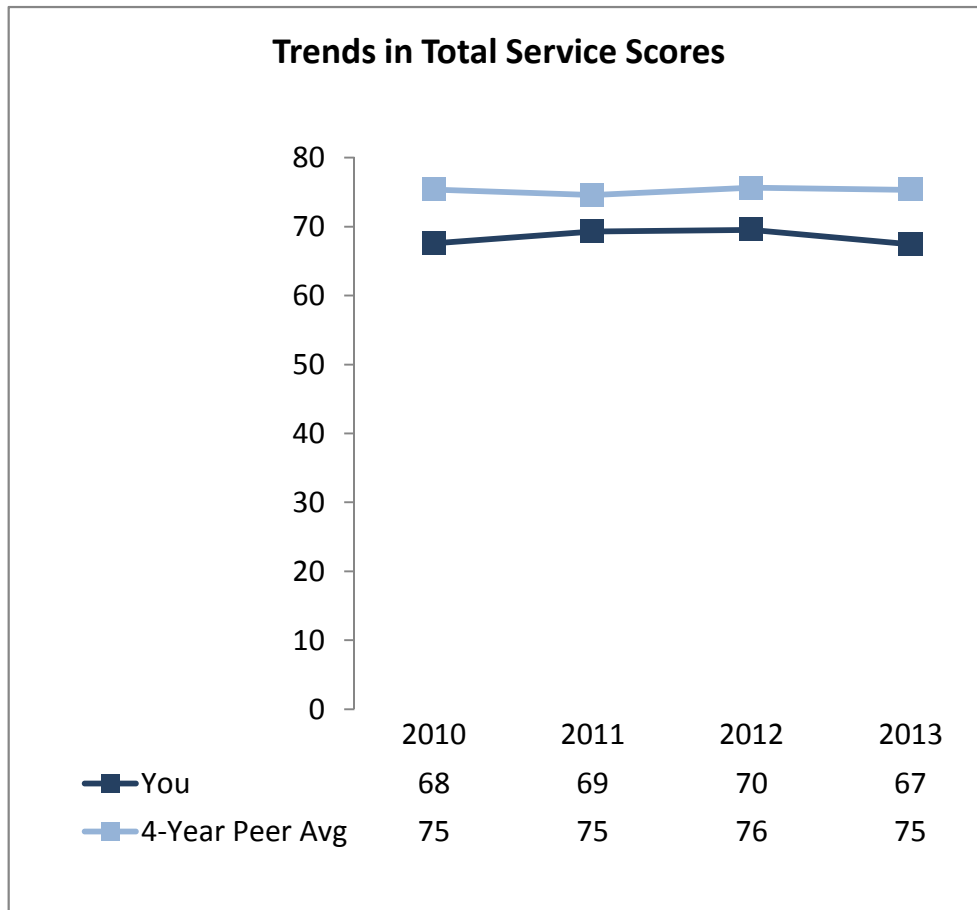
A higher service score is not necessarily better. This is because:

- High service may not always be cost effective or optimal. For example, it is higher service for your members to have a contact center open 24 hours a day. But few systems would be able to justify the cost.
- The weights CEM uses are an approximation of the importance of individual service elements. The weights will not always reflect the relative importance that you or your members attach to individual service elements.

The total service score is the weighted average of the activity level service scores.

Service Scores by Activity				
Activity	Weight	Score out of 100		
		You	Peer Median	% Higher /-Lower
1. Member Transactions				
a. Pension Payments	19.7%	95	97	-2%
b. Pension Inceptions	7.4%	91	85	7%
c. Withdrawals and Transfers-out	0.3%	10	85	-88%
d. Purchases and Transfers-in	3.1%	76	82	-7%
e. Disability	4.8%	82	82	0%
2. Member Communication				
a. Call Center	21.2%	40	52	-23%
c. 1-on-1 Counseling	7.4%	61	90	-32%
d. Member Presentations	6.5%	92	87	6%
e. Written Pension Estimates	4.7%	63	85	-26%
f. Mass Communication				
a. Website	7.6%	41	77	-47%
b. Newsletters	3.8%	80	90	-11%
c. Member statements	6.6%	81	86	-6%
d. Other mass communication	0.9%	50	51	-2%
3. Other				
Satisfaction Surveying	5.0%	26	37	-30%
Disaster Recovery	1.0%	58	87	-33%
Weighted Total Service Score	100.0%	67	76	-12%

Service scores have remained relatively flat between 2010 and 2013.



Your total service score has decreased 1 point since 2010.

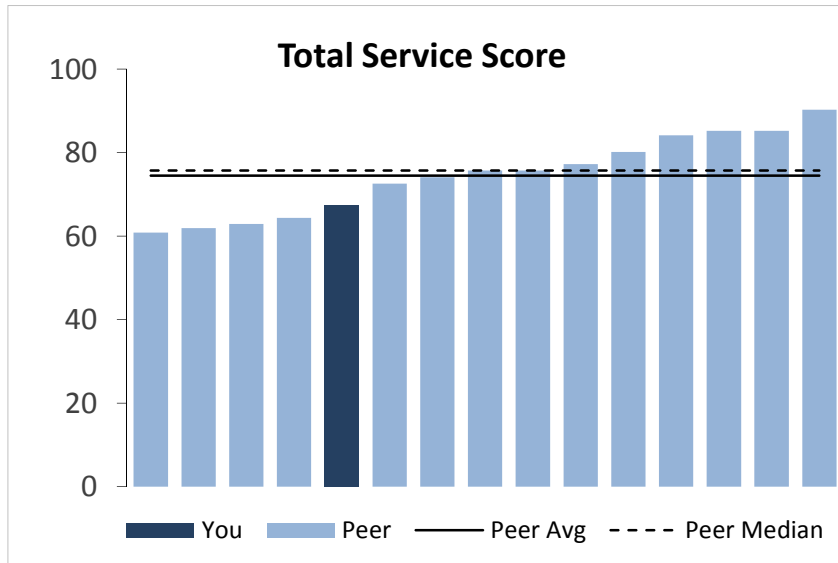
This was the result of a 6% increase in your undesired call outcomes (i.e., busy signals, abandoned calls) from 7% in 2010 to 13% in 2013.

Trend analysis is based on systems that have provided 4 consecutive years of data (13 of your 15 peers).

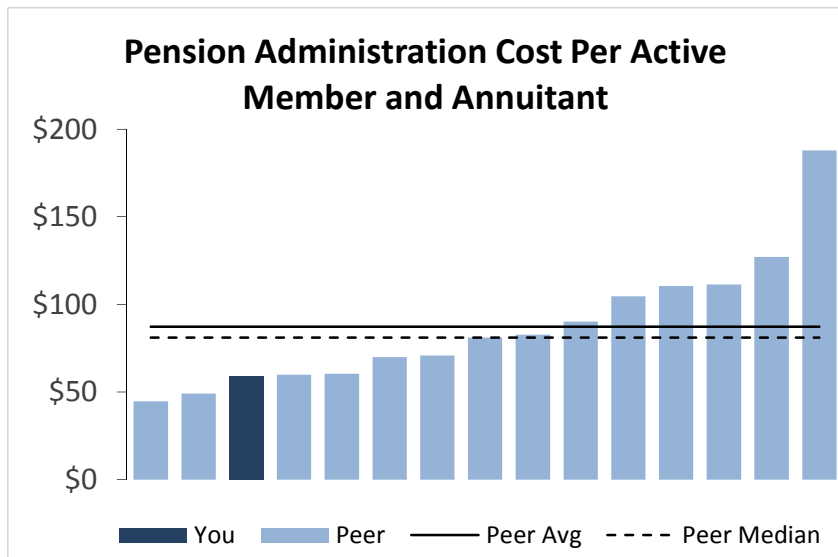
One key to service improvement is improved online capabilities.

Online Tool	<u>% offering tool</u>			<u>Volume per 1,000 active members and annuitants</u>		
	You	Peer	All	You	Peer Median	All Median
Benefit calculators						
In non-secure area	Yes	67%	53%	470.4	343.6	273.5
In secure area not linked to member data	No	20%	9%	n/a	24.4	53.3
In secure area linked to member's salary and service data	No	80%	87%	n/a	441.6	349.0
Service credit purchase calculator	Yes	67%	68%	5.8	65.2	67.4
Download forms	Yes	100%	100%	1,816.5	289.9	231.6
Register for counseling sessions	No	36%	31%	n/a	8.7	4.7
Register for presentations	Yes	64%	66%	3.6	14.7	15.7
Change address	No	80%	80%	n/a	23.0	26.6
Change beneficiary	No	47%	47%	n/a	20.6	40.6
Change family information	No	33%	28%	n/a	108.5	53.9
Tools for annuitants						
Change banking information for direct deposit	No	47%	43%	n/a	7.1	4.2
Change tax withholding amount	No	60%	44%	n/a	12.0	8.0
Download or print duplicate tax receipts	No	87%	69%	n/a	33.4	29.8
View annuity payment details	No	93%	75%	n/a	180.6	130.6
Apply for retirement	No	60%	38%	n/a	6.9	6.4
View status of online retirement application	n/a	60%	67%	n/a	47.6	28.3
View status of disability application	No	13%	7%	n/a	26.9	26.3
Secure mailbox	No	60%	42%	n/a	46.1	80.6
Download member statement	No	80%	85%	n/a	208.4	168.0
Digital file	No	27%	22%	n/a	396.6	396.6
Upload documents	No	18%	10%	n/a	7.1	7.1
View pensionable earnings and/or service without downloading	No	80%	87%	n/a	760.0	669.2
If yes: Are both salary and service data available?	n/a	100%	94%			
Online data up-to-date to the most recent pay period?	n/a	83%	73%			
Complete annual history from the beginning of employment?	n/a	67%	56%			

Key Takeaways:



Your total service score was 67. This was below the peer median of 76.



Your total pension administration cost was \$59 per active member and annuitant. This was \$29 below the peer average of \$87. The primary reasons why were:

- You had lower costs per FTE
- You paid less for back office activities