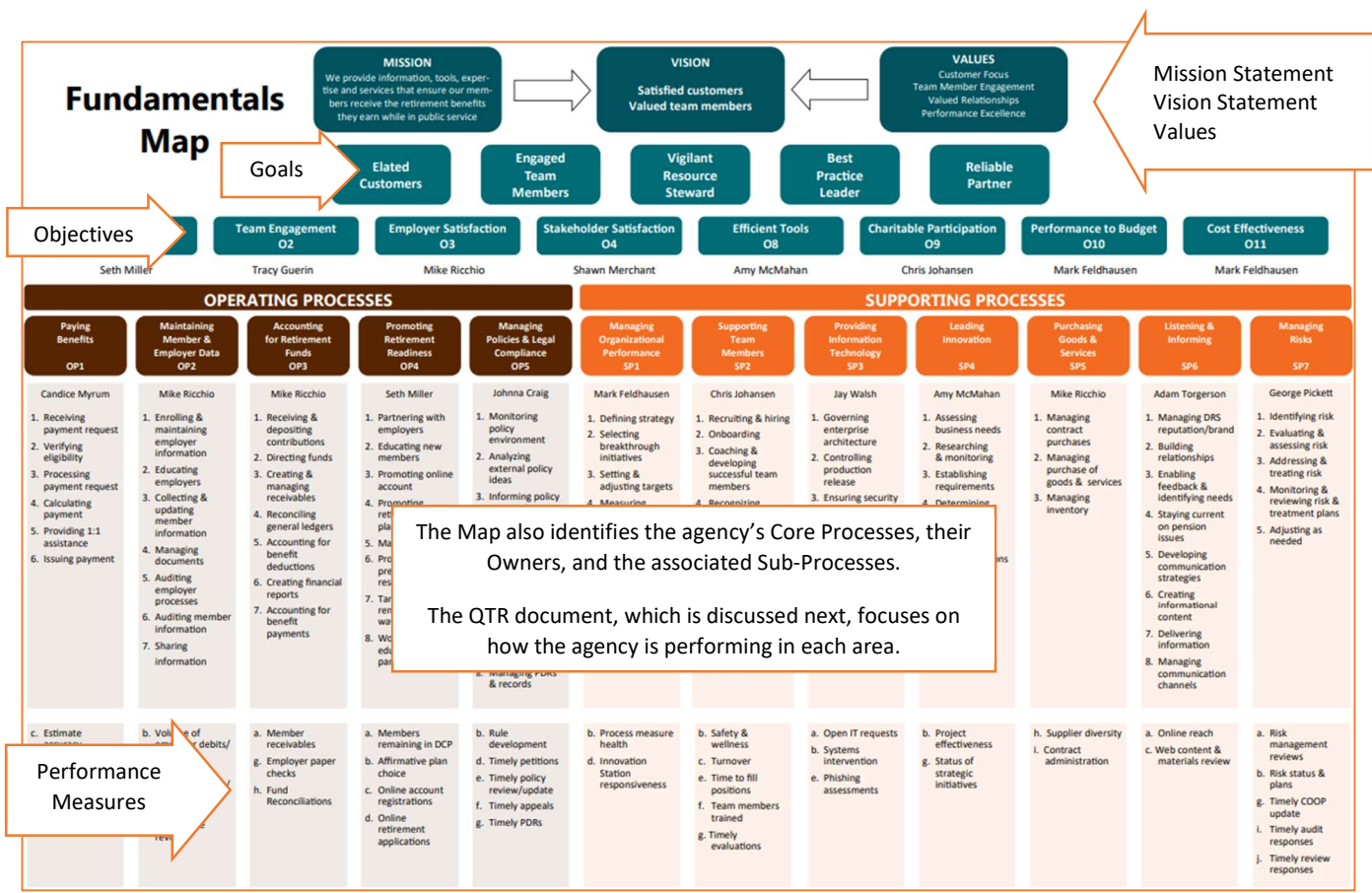




2023-25 Strategic Plan

DRS' strategic plan is primarily represented by two documents: 1) the Fundamentals Map and 2) the Quarterly Target Review (QTR). Those documents* contain numerous elements recommended in the *Strategic Plan Guidelines* from the Office of Financial Management.

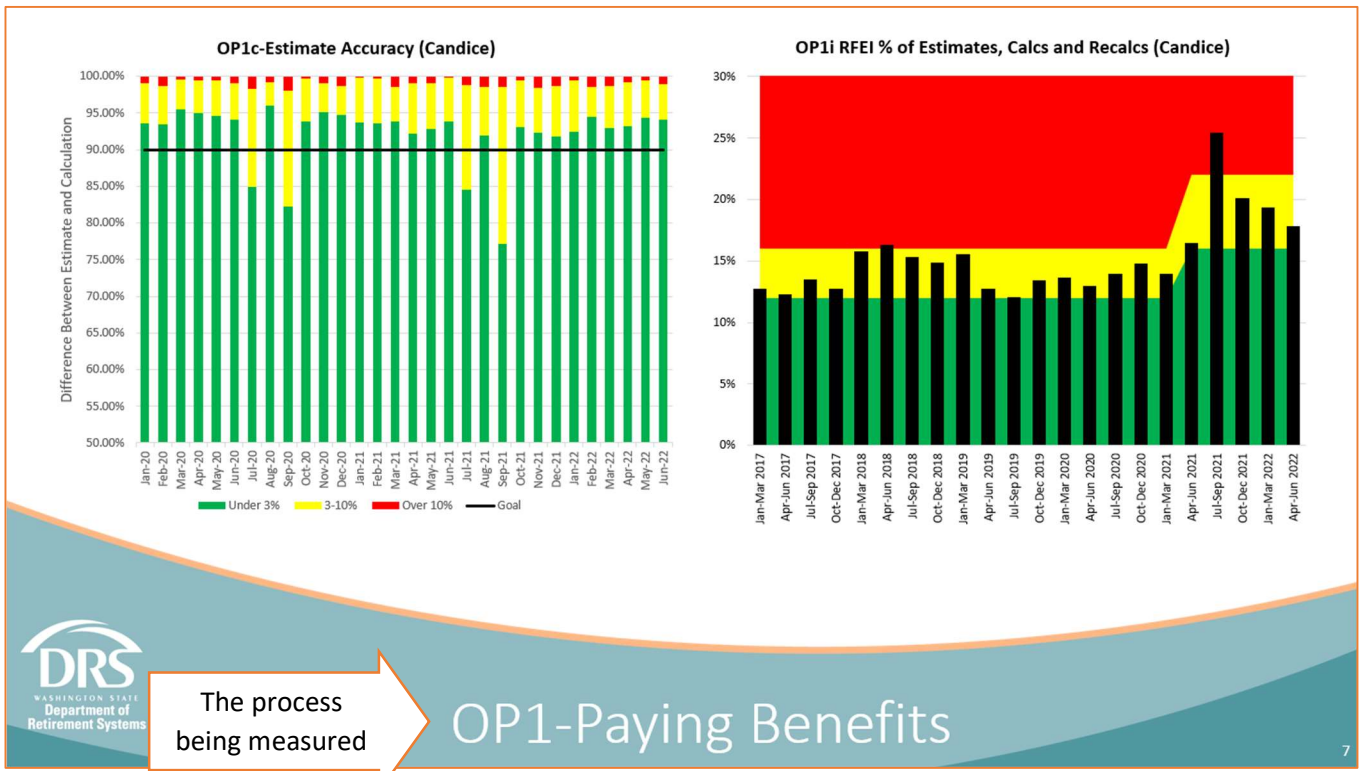
The following shows where certain elements are located on the Fundamentals Map:



The QTR document is much longer as it contains charts for almost 50 Outcome and Process Measures. While key performance measures are reviewed on a regular basis by the agency's Leadership Team, the full QTR document is updated every quarter, and discussed every other quarter with the agency's Team Leaders.

**The agency is also in the process of developing a new plan that emphasizes key strategies and measures, but it was not finalized in time for inclusion with DRS' biennial budget request.*

The review of the agency’s performance in a way that holds people fully accountable yet completely safe to raise real obstacles to expected performance, encourages the best possible corrective actions to move performance towards agreed upon targets.



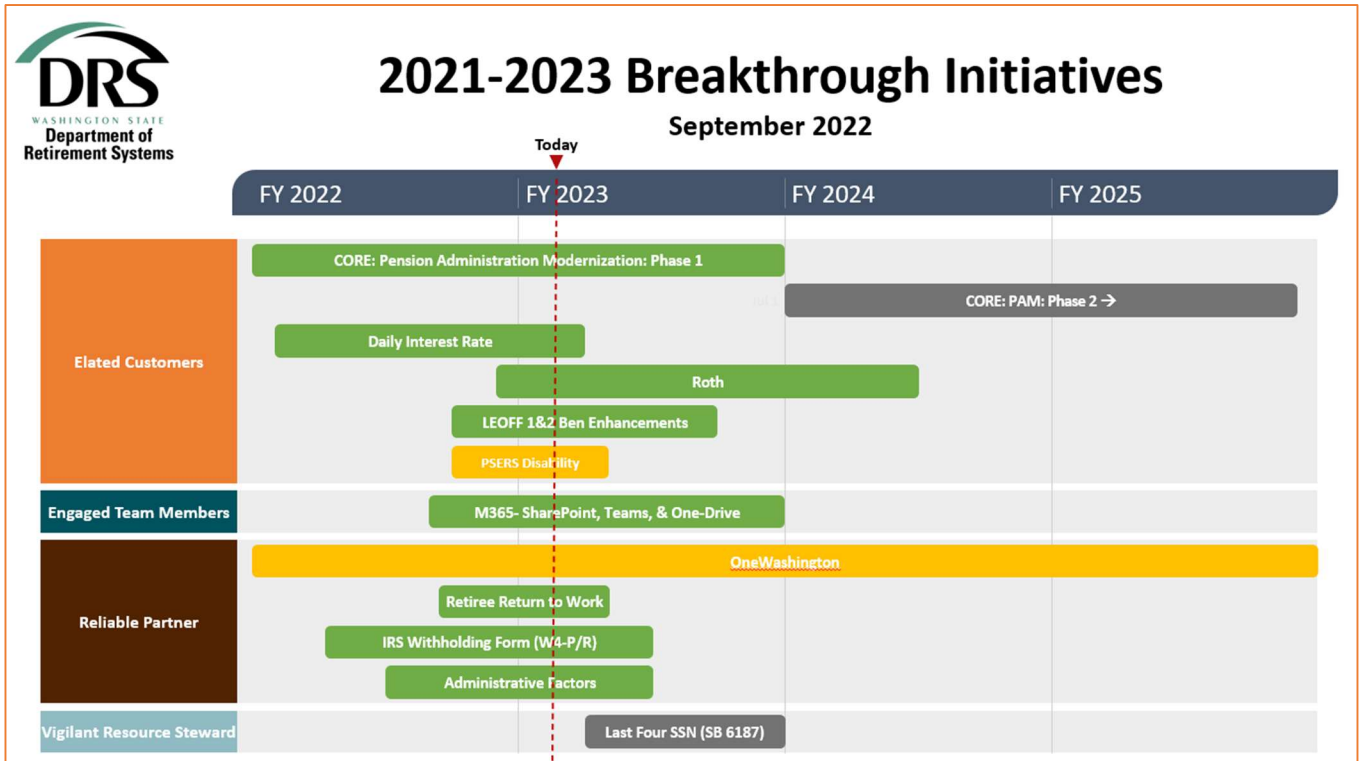
The slide above shows performance on two measures:

1. DRS provides members with a consistently high percentage of benefit estimates that end up being within three percent of the final benefit amount. Even though benefits can change after DRS receives final information from a public employer, the objective is to have accurate information in front of a member when they decide whether or not (and when) to retire.
2. The Request for Employer Information (RFEI) measure tracks the reasons why Retirement Specialists need to contact public employers for additional information during key steps in the process. Trends in the data help DRS identify causes and solutions to improve process efficiency internally, which results in improved service to members. The majority of the requests are sent when we’re performing the benefit estimate so that issues can be resolved prior to the retirement calculation.

DRS’ strategic plan has various performance measures that contribute to the Governor’s statewide priorities in Goal 5 of Results Washington. For example, we measure customer satisfaction, employee engagement and Lean project activity.

The image on the next page shows the agency’s “breakthrough initiatives” (i.e., implementing legislation, making changes required by the Internal Revenue Code, internal continuous improvement projects, etc.). They are displayed in a way that shows their status, expected duration, and the Key Goal to which they primarily contribute.

Projects shown in green are running according to their documented plan, those in yellow may have one aspect that is out of sync with its plan (e.g., it may be waiting for testing resources to be identified), while any in red would have an issue that requires action by the project manager and their executive sponsor(s). Items shown in gray have either not started or are awaiting funding in a future budget. When a project is shown in the red, the discussion during the QTR is an update on where the project team is at in analyzing the issue and identifying actions to get the project back on schedule.



The following elements from the *Strategic Plan Guidelines* aren't visible in the Fundamentals Map or the QTR but they are important factors in DRS' planning processes.

Assessment of Internal Capacity and Financial Health

The agency faces a couple of challenges in its internal capacity: 1) many of the legacy systems that are critical for agency operations are over 20 years old, and 2) the training program for new Retirement Specialists takes nearly 12 months to complete. The first is being addressed as we continue the process of modernizing our systems. The latter becomes a challenge if the agency is faced with an immediate workload increase that requires FTEs to process retirement-related transactions.

As for financial health, a historical challenge has been periodic transfers out of the agency's administrative account, as that reduces the agency's ability to fund large projects, without increasing fees. Although the agency has the statutory authority to set its administrative fee at the level that is necessary to cover the budget set by the legislature, the preference has been to maintain a stable fee as that is easier for public employers around the state to factor into their own budget processes.

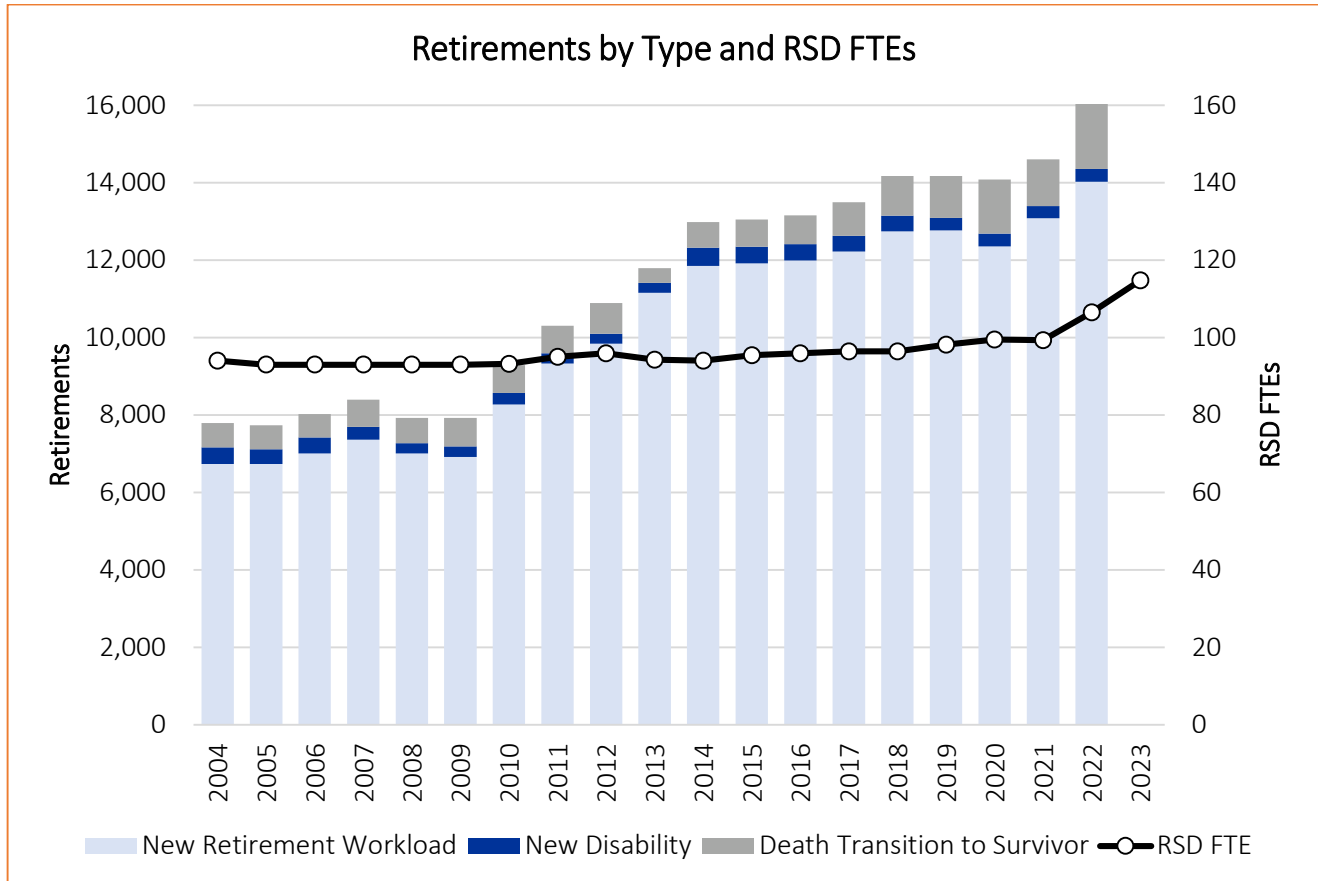
Another aspect of financial health is the extent to which the state (or nation's) economic situation can impact the agency's operating revenue.

- The primary source of revenue for DRS is an administrative fee that gets applied to the “covered compensation” base of over 340,000 active members in the state’s public pension systems. These members work for 1,400 public employers across state and local government, higher education and K-12.
- The other source of operating revenue for DRS is its administrative fee that gets applied to the assets in over 117,000 participant accounts in the state’s Deferred Compensation Program (DCP). While total assets in DCP exceeded \$6.4 billion for the first time in program history last December, market volatility has made revenue projection for next biennium quite challenging as assets declined to \$5.5 billion at the end of June 2022.

Neither one of these revenue sources line up with changes to the State General Fund in timing or magnitude.

Assessment of External Challenges and Opportunities

Some say that “a picture is worth a thousand words.” Well, the picture below says a lot about the workload increases DRS has experienced in the past 15 years as more public employees became eligible for and decided to retire. We continue to work with the Office of the State Actuary to project workload changes anticipated in the future. The chart also contains data on the FTEs budgeted in the Retirement Services Division.



While the agency has had success in getting members to use various self-service applications, we have almost exhausted the transactions that can be securely converted to self-service. Another aspect to keep in mind is that some of the transactions reflected in the chart take more time to process. As a result, even if the total number of retirements included levels off at 16,000 per year, if the proportion of death-related transactions increases, total internal workload would increase.

The agency's top priority for funding in 2023-25 continues to address the increasing gap between workload and FTEs. The decision package requests funding to hire additional Retirement Specialists (RS') and adjust the compensation level of their agency-unique job classification series to bring both aspects closer to our US peer group of other large public pension administrators. Recent benchmarking data identified that DRS had 38 percent fewer "front office" FTEs per member and the compensation rate for those same FTEs was 12 percent lower than our peer group.

Performance Analysis

In addition to Results Washington and the QTR process, the agency has another method to assess its performance: international public pension administration benchmarking. Results of the most recent analysis is tentatively scheduled to be presented to the Select Committee on Pension Policy this September. It shows that DRS:

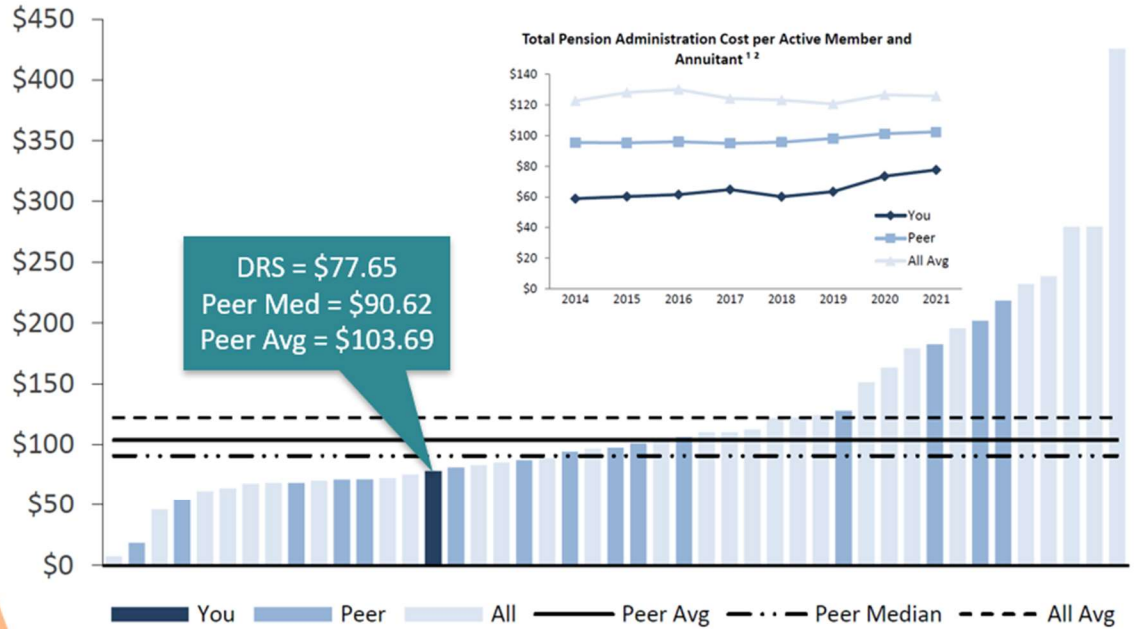
- Administers a very complex group of pension plans,
- Developed highly capable IT systems (at a relatively low IT cost),
- Consistently operates at a low total cost and
- Provides a level of service to members that has experienced a declining score.

The chart below, as well as other pieces of benchmarking data, can be used to analyze the agency's budget. While DRS' total cost per member increased from the prior fiscal year, it can be attributed to the one-time cost of major projects, while the agency's ongoing cost remains very low.

Other data in the study shows that DRS is in the lowest quartile (25%) of participants when it comes to the number of FTEs per member yet has the 5th highest score for pension plan complexity. Participation in comprehensive benchmarking also provides DRS with information on best practices in the industry, as well as data that can be used in Lean analyses around the agency.

Total Cost

Pension Administration Cost Per Active Member and Annuitant



DRS = \$77.65
Peer Med = \$90.62
Peer Avg = \$103.69

DRS increased by \$4 from 2020.

