

CEM Benefit Administration Benchmarking Analysis

Executive Summary

In 1998, STRS Ohio was one of eight leading international pension systems that participated in the inaugural Benefit Administration benchmarking project developed by Cost Effectiveness Measurement, Inc., of Toronto, Ontario (CEM). The purpose of the survey is to provide insight into benefit administration costs, service levels and industry best practices. Fiscal year 2022 costs and services were benchmarked against 41 leading global pension systems from the United States and Canada.

STRS Ohio earned the second highest service-level score. STRS Ohio has had the top rated service level in 12 of the 25 years of the Benefits Administration Survey. This past year, the STRS Ohio service score was 93 compared to a peer median of 81 while the cost per active member and annuitant was \$98 compared to a peer average of \$109.

Christopher Doll, Director, Client Coverage, CEM Benchmarking, will present a summary of the 2022 benchmarking results that will help Board members gain an understanding of:

- How STRS Ohio's total pension administration costs compare to its peers;
- How STRS Ohio's service levels compare to its peers in key service areas; and
- The relationship between service and cost for the benchmarked systems.

Background

As a global information company, CEM provides performance benchmarking in Defined Benefit Investments and Defined Contribution Plans as well as Benefit Administration. STRS Ohio has participated in the Investment benchmarking study since its inception in the early 1990s. Retirement systems participating in the benefits administration survey gain a better understanding of their business and why their service levels and costs are high or low when compared to their peers. Through the Best Practices Benchmarking, peer network and participation in the annual conference, participants share information that will help improve performance and provide better service to members.

Board action

No action is requested.



STRS Ohio

CEM Pension Admin Report - 2022

September 2023

64 leading global pension systems participate in the benchmarking service.

Participants

United States

Arizona SRS
CalPERS
CalSTRS
Colorado PERA
Delaware PERS
Florida RS
Idaho PERS
Illinois MRF
Indiana PRS
Iowa PERS
KPERS
Kentucky PPA
LACERA
Michigan ORS
Minnesota State RS
North Carolina RS
NYC TRS
NYCERS
NYSLRS
Ohio PERS
Oregon PERS
Pennsylvania PSERS

PSRS PEERS of Missouri
South Dakota RS
STRS Ohio
TRS Illinois
TRS of Texas
Utah RS
Virginia RS
Washington State DRS

Canada

Alberta Pension Services
Alberta Teachers
BC Pension Corporation
Canadian Forces PP
Federal Public Service PP
LAPP of Alberta
Municipal Pension Plan of BC
Ontario Pension Board
Ontario Teachers
OPTrust
RCMP

The Netherlands*

ABN Amro PF
ABP
Metaal en Techniek
PF Vervoer
PFZW
Rabobank PF

Middle East

Abu Dhabi RPB

United Kingdom*

Armed Forces Pension Scheme
BSA NHS Pensions
BT Pension Scheme
Greater Manchester PF
Local Pensions Partnership
Lothian PF
Merseyside PF
Pension Protection Fund
Principal Civil Service
Royal Mail Pensions
Scottish Public Pensions Agency
Teachers' Pensions
Tyne & Wear PF
Universities Superannuation
West Midlands Metro
West Yorkshire PF

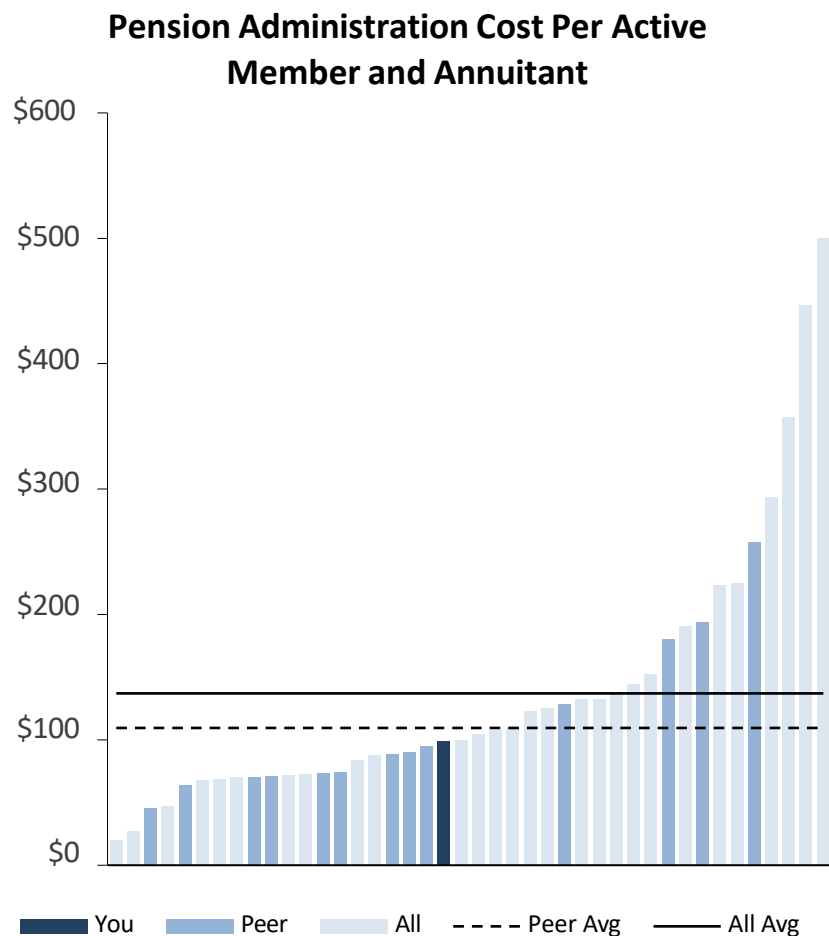
* Systems in the UK and most systems in the Netherlands, except ABP and PFZW, complete different benchmarking surveys and hence your analysis does not include their results.

The custom peer group for STRS Ohio consists of the following 14 peers:

Custom Peer Group for STRS Ohio			
Peers (sorted by size)	Membership (in 000's)		
	Active Members	Annuitants	Total
CalSTRS	449	327	776
Virginia RS	343	235	578
Washington State DRS	340	218	558
Ohio PERS	290	219	509
Indiana PRS	247	171	418
Arizona SRS	208	167	376
STRS Ohio	211	159	370
Colorado PERA	238	131	369
Oregon PERS	178	161	339
Ontario Teachers	182	151	333
Illinois MRF	172	145	317
Iowa PERS	176	132	308
TRS Illinois	166	129	295
KPERS	152	111	263
Peer Median	210	160	369
Peer Average	240	175	415

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 of \$98 per active member and annuitant was \$11 below the peer average of \$109.



Category	\$000s	\$ per Active Member and Annuitant	
	You	You	Peer Avg
<u>Front office</u>			
Member Transactions	5,299	14	12
Member Communication	7,823	21	17
Collections & Data Maintenance	1,867	5	8
<u>Governance and support</u>			
Governance and Financial Control	2,094	6	7
Major Projects	0	0	9
Information Technology	13,053	35	35
Building	3,117	8	5
Legal	823	2	3
HR, Actuarial, Audit, Other	2,326	6	12
Total Pension Administration	36,401	98	109

Your total pension administration cost was \$36.4 million. This excludes the fully-attributed cost of administering healthcare, and optional and third-party administered benefits of \$10.8 million.

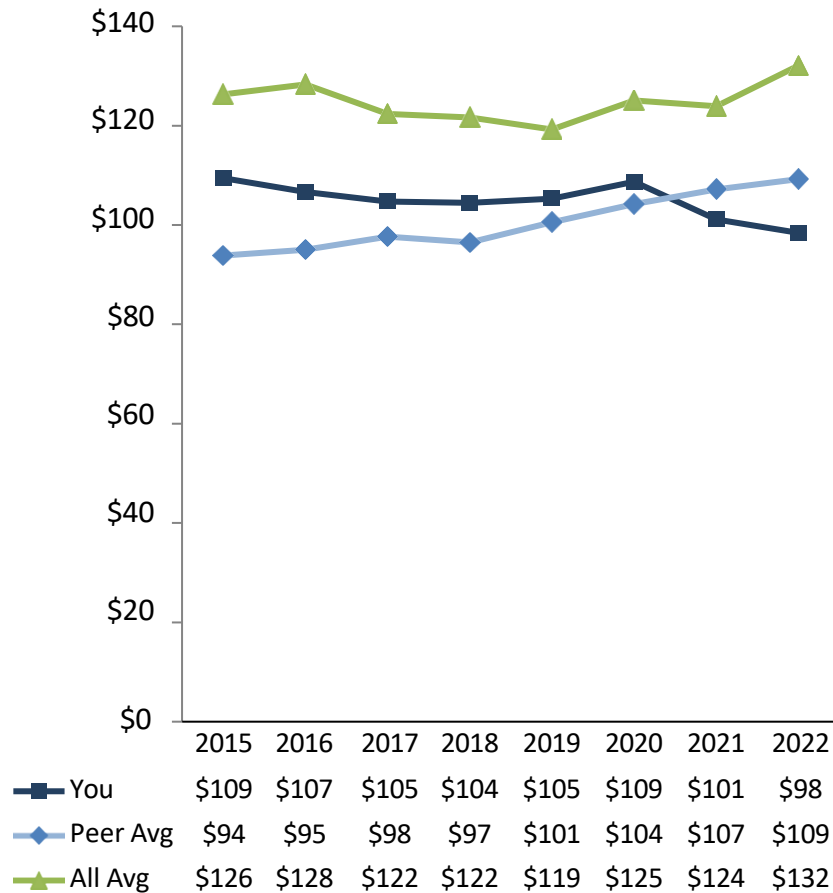
Reasons why your cost per member was \$11 below the peer average:

Reason	You	Peer Avg	Impact \$ per active member and annuitant
1 More front office FTE per 10,000 members	3.3 FTE	3.2 FTE	\$1
2 Higher third party costs per member in the front office	\$7	\$6	\$1
3 Higher costs per FTE			
Salaries and Benefits (incl. retiree benefits)	\$122,743	\$112,355	
Building and Utilities	\$17,078	\$9,922	
HR	\$3,776	\$5,612	
IT Desktop, Networks, Telecom	<u>\$17,165</u>	<u>\$22,589</u>	
Total	\$160,762	\$150,479	\$5
4 Lower support costs per member ¹			
Governance and Financial Control	\$7	\$9	
Major Projects	\$0	\$11	
IT Strategy, Database, Applications	\$30	\$26	
IT Security	\$2	\$2	
Actuarial, Legal, Audit, Other	<u>\$6</u>	<u>\$14</u>	
Total	\$44	\$62	-\$18
Total			-\$11

1. To avoid double counting, Governance and support costs are adjusted for differences in cost per FTE.

Cost trends:

Trend in Total Pension Administration Costs

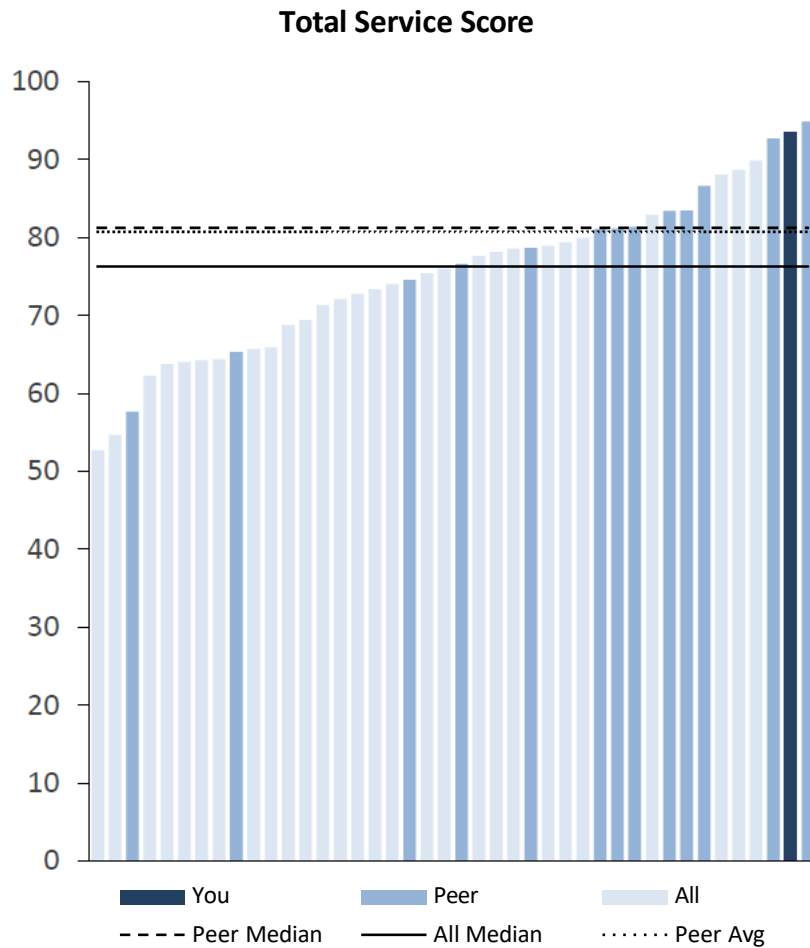


Between 2015 and 2022 your total pension administration cost per active member and annuitant decreased 1.5% per annum.

During the same period, the average cost of your peers with 8 consecutive years of data increased 2.2% per annum.

Trend analysis is based on systems that have provided 8 consecutive years of data (14 of your 14 peers and 35 of the 42 systems in the universe).

Your total service score was 93. This was above the peer median of 81 and was the second highest in the CEM universe.



Service is defined from a member’s perspective. Higher service means more channels, faster turnaround times, more availability, more choice, better content and higher quality. Higher service is not necessarily cost-effective. For example, the ability to answer the telephone 24 hours a day is higher service, but not cost effective.

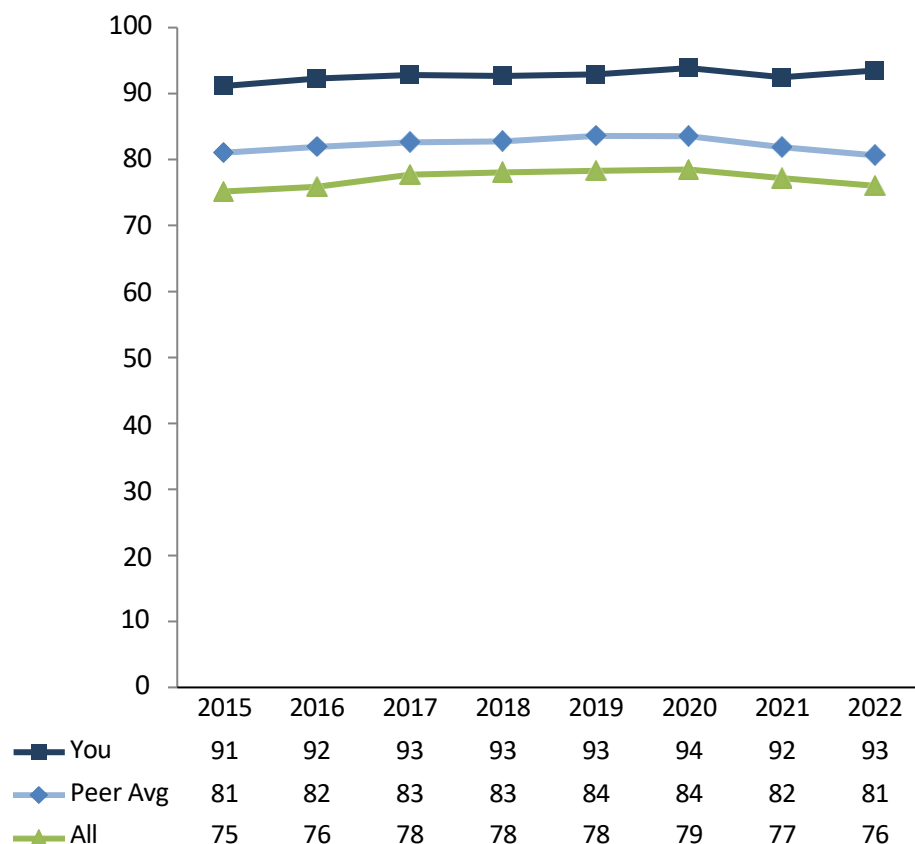
Service Scores by Activity			
Activity	Weight	You	Peer Median
1. Member Transactions			
Pension Payments	10.0%	100	100
Pension Inceptions	7.4%	93	91
Refunds, Withdrawals, and Transfers-out	1.3%	95	95
Purchases and Transfers-in	3.1%	98	93
Disability	3.8%	82	82
2. Member Communication			
Call Center	21.0%	96	65
1-on-1 Counseling	7.4%	92	80
Member Presentations	6.5%	100	100
Written Pension Estimates	4.7%	100	93
Mass Communication			
Website	21.3%	93	88
News and Targeted Communication	2.8%	81	81
Member statements	4.7%	97	88
3. Other			
Member Experience Surveying	5.0%	70	52
Disaster Recovery	1.0%	100	99
Weighted Total Service Score	100%	93	81

Examples of key service measures included in your total service score:

Select Key Service Metrics	You		Peer Avg
	2021	2022	
<u>Member Contacts</u>			
• % of calls resulting in undesired outcomes (busy signals, messages, hang-ups)	4%	1%	15%
• Average total wait time including time negotiating auto attendants, etc.	50 secs	16 secs	307 secs
<u>Website</u>			
• Can members access their own data in a secure environment?	Yes	Yes	100% Yes
• Do you have an online calculator linked to member data?	Yes	Yes	93% Yes
• # of other website tools offered such as changing address information, registering for counseling sessions and/or workshops, viewing or printing tax receipts, etc.	20	20	17
<u>1 on-1 Counseling and Member Presentations</u>			
• % of your active membership that attended a 1-on-1 counseling session	5.4%	5.6%	2.1%
• % of your active membership that attended a presentation	2.8%	4.2%	6.3%
<u>Pension Inceptions</u>			
• What % of annuity pension inceptions are paid without an interruption of cash flow greater than 1 month between the final pay check and the first pension check?	100.0%	100.0%	90.1%
<u>Member Statements</u>			
• How current is an active member's data in the statements that the member receives?	3.0 mos	2.5 mos	2.3 mos
• Do statements provide an estimate of the future pension entitlement?	Yes	Yes	79% Yes

Your service score has increased from 91 to 93 between 2015 and 2022.

Trends in Total Service Scores



Trend analysis is based on systems that have provided 8 consecutive years of data (14 of your 14 peers and 35 of the 42 systems in the universe).

Historic scores have been restated to reflect changes in methodology. Therefore, your historic service scores may differ from previous reports.

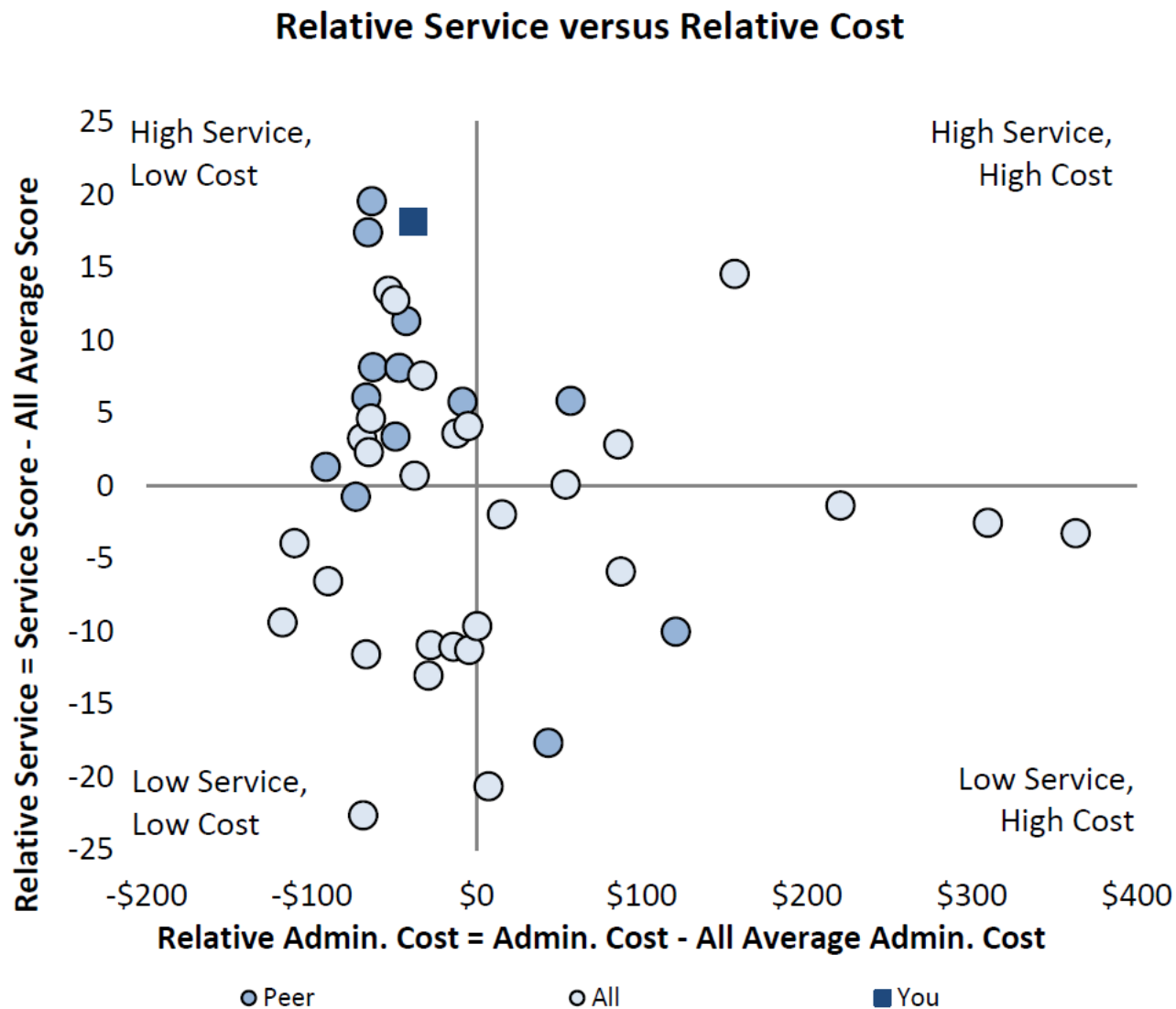
Service improvements made compared to last year:

- **Undesired call outcomes:** Compared to last year your % of undesired call outcomes recovered, decreasing from 4.3% to 1.3%. Your call wait time decreased from 50 seconds to 16 seconds.
- **1-on-1 counseling:** Your % of counseling sessions in the field as a % of total sessions (including video conference) increased from 10% to 52%. Offsetting the increased service score due to higher demand was the longer wait time for pre-scheduled sessions: 10 days versus 0 days last year.

Service improvements made compared to 2015:

- **Website:** You've added 3 online tools in the past 8 years: viewing the status of retirement applications, changing beneficiaries and applying for a refund or transfers-out.
- **Pension inceptions:** Your % of survivor pensions, paid within 1 month without cashflow interruption, increased from 35% to 94%.

The relationship between service and pension administration cost in the CEM Universe:



Key takeaways:

Service

- Your total service score was 93. This was above the peer median of 81.
- Your service score has increased from 91 to 93 between 2015 and 2022.

Cost

- Your total pension administration cost of \$98 per active member and annuitant was \$11 below the peer average of \$109.
- Between 2015 and 2022 your total pension administration cost per active member and annuitant decreased 1.5% per annum.
- During the same period, the average cost of your peers with 8 consecutive years of data increased 2.2% per annum.

Global trends:

1. IT is playing an increasingly greater role in pension administration.
 - Maintaining and/or replacing legacy systems is impacting the costs and service model for pension administration.
 - IT investments and the pandemic have accelerated digital adoption.
2. Digital-first has become highest service for most members and transactions, and has improved cost-effectiveness.
 - Self-serve containment: more transactions are available and completed online. Members are opting in to receiving electronic communication.
 - Straight-through processing: converting transactions to use straight-through processing continues to contribute to process and cost efficiencies.
 - Continuous improvement: more than half of schemes are using tools such as Lean, Six-Sigma, One and Done.
 - Counseling and presentations: reduced emphasis on in-person. Plans are re-allocating resources from lower impact activities to activities where assisted service adds more value.
3. Customer experience has become mission critical for some plans.
 - Leadership believes customer experience is strategically critical for the future of pension plans.
 - Member expectations are higher than ever before.
 - Plans that solicit and manage member feedback can exercise better cost control.
4. Cybersecurity remains top of mind.
 - Breaches are slightly down but security concerns remain high. Increase in unauthorized access to data or systems are anticipated.
 - Technology is changing: more organizations are moving to the cloud due to security concerns.
 - More plans are getting cyber liability coverage and premiums are increasing.
5. Plans are dealing with the new normal regarding the post-pandemic workforce.
 - Some key challenges are employee recruitment and onboarding, retention and succession, managing remote teams, and incentivize a return to the office.





STRS Ohio Defined Contribution Plan Update

Sept. 21, 2023

- **Defined Contribution Program Overview**
- **Fiduciary Audit**
- **Program Statistics**
- **Investment Choices**
- **Next Steps & Questions**

- **Defined Contribution Program was implemented July 1, 2001**
 - Includes both the Defined Contribution Plan (DC) and Combined Plan (CO)
- **New members have 180 days to select DC Plan or CO Plan instead of Defined Benefit Plan (DB)**
 - If no action is taken, new members are defaulted into the DB Plan
 - Members in the DC Plan or CO Plan have the opportunity to change plans on or before June 1 of their fifth year of membership

- **Develop a board continuing education program for DC Plan fiduciary duties, plan design and oversight**
- **Hire an independent DC Plan advisor and independent investment consultant**
- **More formally assign an individual in the STRS Ohio organization to lead the DC Plan**
- **Engage in a review of the DC Plan design and all policies, practices and processes for the DC Plan**
- **Establish board agenda items explicit to required DC Plan and CO Plan matters and assign oversight of the plan features to a board committee**
- **Establish a Statement of Investment Objectives and Policy (SIOP) and monitoring process for the DC Plan**

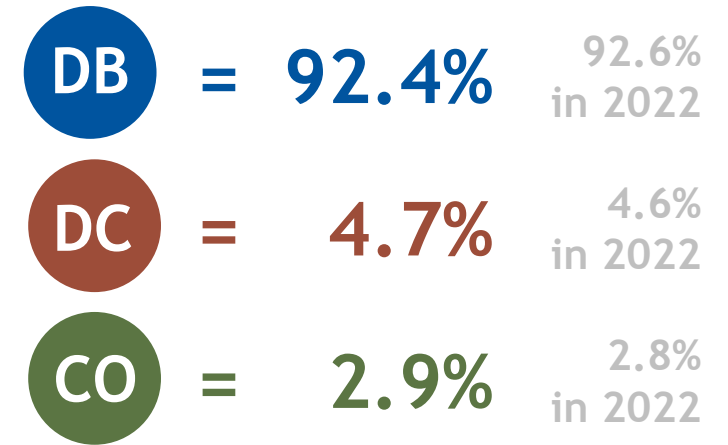
- **27,881 enrolled participants as of Sept. 8, 2023**
 - New enrollments up slightly from this time last year
- **\$92,523 average account balance**
- **\$2.6 billion in total assets for DC Plan and defined contribution portion of CO Plan as of Sept. 8, 2023**
- **13,590 have an online account – lower than voluntary programs**
- **48 millionaires**
- **Average age of DC Plan participant is 43.2**

Program Statistics – All Plans

Overall Plan Participation

Plan	Active	Inactive	Total
DB	184,861	152,224	337,085
DC	11,180	5,799	16,979
CO	8,084	2,456	10,540

Percent of Total Enrollment

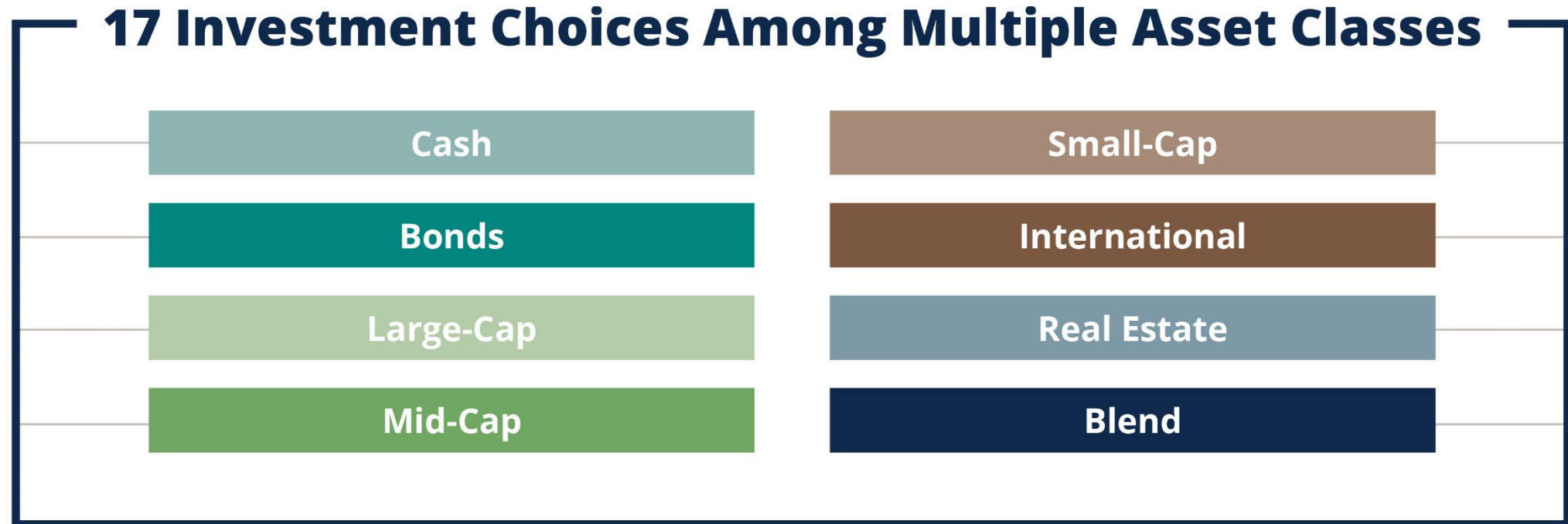


Fiscal 2023 new member initial plan selections: 20,579

2022	73% defaulted to DB	12% elected DB	10% elected DC	5% elected CO
2023	79% defaulted to DB	9% elected DB	8% elected DC	4% elected CO

Fiscal 2023 final plan selections: 1,651

2022	5% moved to DB	60% remain in DC	31% remain in CO	4% move within program
2023	5% moved to DB	61% remain in DC	31% remain in CO	3% move within program



- 17 investment choices
- Includes eight Target Choice Options



Next Steps & Questions

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