



Statement

Of

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Before the

**Council of the District of Columbia
Committee on Government Operations
and the Environment**

March 9, 2010

Good morning, Madam Chair, and members of the Council of the District of Columbia Committee on Government Operations and the Environment. I am Eric Stanchfield, the District of Columbia Retirement Board's (DCRB) Executive Director.

It is a pleasure to be here to provide you with testimony related to the DCRB's performance and accomplishments during FY 2009. I will also provide you with an overview of the strategic initiatives that DCRB has begun and that we hope to implement over fiscal years 2010 and 2011.

With me today is DCRB's senior management team: Sheila Morgan-Johnson, Chief Investment Officer and Acting Chief Operations Officer, Joan Passerino, Chief Benefits Officer, Eric Sampson, General Counsel, and Tom Anderson, Director of Strategic Planning/Special Projects and Acting Chief Financial Officer.

I greatly appreciate the relationship that has been established between DCRB and your committee and staff. We look forward to working with you in the future.

For those who may not be familiar with the DCRB and its mission, let me provide a brief summary.

DCRB was created by the Retirement Reform Act (the "Reform Act") that was enacted by Congress in 1979. DCRB, which was initially established as an "investment-only" Board, is an independent agency of the District of Columbia government. DCRB's mission at that time was to manage and invest the assets of the District of Columbia Police Officers and Firefighters' Retirement Fund and the District of Columbia Teachers' Retirement Fund, otherwise referred to as either (the "Funds" or the "Trust"). Under the law, DCRB has exclusive authority and discretion to manage the assets of the Plans.

The Reform Act also established DCRB's structure, legal responsibilities, and composition. DCRB's Board of Trustees has 12 members, consisting of six (6) individuals who are elected by the participant groups, three (3) who are appointed by the Mayor, and three (3) who are appointed by the City Council. In addition, the District's Chief Financial Officer (or his designee) serves on the Board as an ex-officio member (non-voting).

The Funds are managed and controlled by DCRB, and they are held in trust by DCRB for the exclusive benefit of all plan participants, and their survivors and beneficiaries. The purpose of the Funds is to pay benefits to plan members, as well as the expenses required to administer the plans. Trustees who serve on the Board are required by law to act solely in the interest of the participants, whether those participants are actively employed or retired.

The Reform Act was passed just five years after Congress enacted the Employee Retirement Income Security Act of 1974 (known as ERISA). Since much of the Reform Act was modeled on ERISA standards, trustees apply the same ERISA prudent expert standard of care, skill, diligence, and loyalty that experts would use in similar circumstances to carry out their duties to the plans.

On October 1, 2005, in response to a statutory requirement, DCRB assumed certain benefits administration responsibilities for the District of Columbia Teachers' Retirement Plan and the District of Columbia Police Officers and Firefighters' Retirement Plan (the "Plans") from the District's Office of Pay and Retirement Services ("OPRS"). Those responsibilities included recordkeeping, related administrative tasks, and the payment of benefits for participants hired on or after July 1, 1997, who earned benefits under the District Funds. DCRB also assumed the same administrative responsibilities for participants hired prior to July 1, 1997 and whose benefit costs are the responsibility of the U.S. Treasury Department ("Treasury"). Those administrative functions were successfully transitioned to DCRB during FY 2006. During FY 2007, those functions became a routine part of the DCRB's operations.

Following the assumption of benefits administration responsibilities, we have made major efforts to carry out our expanded vision including:

- Calculating benefits for participants and their survivors accurately, and paying them to the appropriate parties in a timely manner, and
- Providing participants, beneficiaries and their representatives with administrative services that are accurate, prompt, and reflective of best practices in the benefits arena.

Now that I have identified DCRB's mission, my next comments will describe the context of our agency and will address our accomplishments and challenges during FY 2009. The testimony will conclude with a view toward future initiatives and our approach to adopting best practices and efficiencies for FY 2010 and beyond.

DCRB's staff functions are arranged under six budgetary programs — Investments, Benefits, Operations, Information Technology, Legal, and the Executive Office; each unit reporting to the Executive Director. The seventh budgetary program is set aside for the Board of Trustees. The head of each department is responsible for the operations of their department, and also serves as liaison to the Chair of a corresponding Board Committee. The Agency has an approved headcount of 47.6 full-time employees (FTEs), but currently has a staff of 41 FTEs. As in the past, we will continue to fill positions on an as needed basis.

To provide context for our FY 2009 activities, as of September 30, 2009, the Plans had 24,867 members, of whom 14,478 were retirees and survivors who receive monthly pension payments and 10,389 were active members.

Our FY 2009 activities were as follows:

Investment Management:

- As of September 30, 2009, the Funds' net assets equaled \$3.74 billion, which is approximately equal to the Funds' net asset value at the end of FY 2008 (\$3.73 billion). This is a significant improvement over the unprecedented decline we experienced last year.
- The investment performance of the Funds has exceeded DCRB's actuarial investment target rate of return of 7% by 207 basis points, or 2.1%, for the 27-year period from its inception in October 1982 through September 30, 2009. During the life of the Trust, the Funds have earned an annualized return of 9.1%.
- The DCRB Board, upon the recommendation of its independent actuary, lowered its actuarial long-term rate of return expectation to a conservative 7% from 7.5%. The current national average is 8%, although I anticipate that other funds will lower their assumptions in the coming months.
- DCRB conducted an asset liability study in FY 2009. An independent consulting firm concluded that DCRB's current asset allocation is reasonable and the portfolio is well diversified. They recommended some fine tuning of our allocation to gain incremental efficiencies, but no major changes. We are currently reviewing the consultant's recommendations.

Benefits Administration:

- Since FY 2008, enhancing the Benefits Administration function and expanding customer service have become an increasing focus of our agency. We have built a productive and collaborative relationship with Treasury and with stakeholders in other District agencies. DCRB, as Plan Administrator, calculates benefits and processes payments for plan members, but is not responsible for changes in plan design, participant enrollments, or determining eligibility for retirement or disability. These responsibilities rest with other District agencies.
- A scanning project was completed during FY 2008. This project digitized retiree records (approximately 3.4 million images) that were previously maintained in paper form. In FY 2009, the backlog of documents that had accumulated during the initial records conversion project was substantially cleared. We will complete that project and develop an electronic workflow process later this calendar year.
- The Benefits Department's Member Services Center responded to over 15,860 telephone calls and 905 customer visits made by participants during FY 2009. In survey feedback received from a random sampling of those who contacted us, our services were rated by our customers as 1.3 on a scale where 1 is excellent and 5 is poor. Although our

performance has been rated highly, our goal is to improve and expand member services over the coming years.

Agency Initiatives and Accomplishments

- During FY 2009, DCRB was among the few public systems that received the Public Pension Coordinating Council Recognition Award for Funding. This is based on DCRB's comprehensive benefit program, funding adequacy, annual actuarial valuation, an unqualified audit opinion, written investment policies, fiduciary standards, and effective member communications.
- DCRB also earned the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting for the agency's FY 2008 Comprehensive Annual Financial Report (CAFR). The certificate is the highest form of recognition in the area of governmental accounting and financial reporting, and its attainment represents a significant accomplishment for DCRB.
- DCRB's continued efforts to manage resources and control costs have kept our operating expenses at a reasonable and prudent level during FY 2009.
- We have established a policy for fingerprinting, criminal and background checks, and credit checks for all current and future personnel. We believe this practice adds an extra level of security for the Trust.
- DCRB's FY 2009 Actuarial Valuation indicated that the assets in the Funds supporting the Plans are sufficient to pay the accrued liabilities.
- DCRB has improved its accounting and procurement procedures as the needs of the Agency continue to evolve.
- During FY 2009, DCRB enhanced its communications with members by improving its website and adding a benefits calculator, which allows Plan members to enter their own information on-line to compute a quick and simple estimate of their benefits. As of February 18, 2010, the site had a total of 1,513 visits and an average 302 visits per month since its implementation in September 2009.
- As I discussed last year, a 2007 retirement information system study recommended a series of technology upgrades aimed at supporting initiatives that will automate the benefits administration function and will allow DCRB to provide enhanced services to its members. The initiatives, and the timelines applicable to each of them, include the following:
 - As mentioned earlier, DCRB completed the imaging of over 3.4 million one-of-a-kind records that are crucial to benefits administration and disaster recovery.

- DCRB completed a feasibility study to evaluate an appropriate pension information system for the plans it administers. During FY 2010, an RFP will be released to procure a comprehensive pension information system. DCRB plans to begin the phased implementation of the system during FY 2011 and FY 2012.
- A pension interim repository was developed to retain the service history, salary, and contribution information that are used to compute pension benefits. A data reclamation project was begun during FY 2009 to gather and verify the historical data that will be entered into the repository. That census information, when completed, will constitute a book-of-record, which will significantly reduce the turnaround time currently required to pay initial pension payments, and will be used to produce annual benefits statements for active members. DCRB's ability to provide these expanded and improved services will be largely dependent upon the support and cooperation of upstream stakeholders who gather and maintain the data. DCRB's emergence as a full service retirement system requires the successful completion of these projects. This would make DCRB comparable to other states and municipalities.

Next, I will discuss our FY 2010 Performance Plan, which includes the following objectives:

Continue to reduce the amount of time from a member's retirement date to the receipt of their first retirement payment.

From FY 2007 to FY 2008, DCRB increased the rate of first payment to new retirees within three months of their retirement, from 61%, to 69%. In FY 2009, despite a 20% jump in the number of retirements, that turnaround time remained stable at 69%.

Significant improvement to turnaround times will occur once the new retirement information system is fully operational. At that time, we will have historical data loaded to the database and new information entered into the system electronically. That process will eliminate the need to gather and review all retirement-related information at retirement.

In the interim, DCRB plans to reduce the turnaround time as much as possible by refining its core business processes to eliminate redundancies and inefficiencies as described below.

Continue to Automate and Streamline Benefits Administration Operations.

Operating in a predominantly electronic environment will require the reengineering of processes that were designed for the current manual operations. During FY 2010, DCRB will review all of its business processes, eliminating any existing inefficiencies, and mapping every step in each process. We will then identify revised workflows that will support the new electronic environment. To accomplish this change, DCRB will complete a plan to automate its document intake workflow and integrate it with its scanning operations.

The new process will begin with the imaging of incoming documents (mail, e-mail, faxes) and establishing automatic workflow chains for each of its core business processes, following a map

of the new steps in each process. These changes should result in further reducing processing times while historical data is being gathered, verified, and entered into the pension interim repository, and a retirement information system is being installed.

Control costs.

DCRB is reviewing its budget to find areas where costs can be reduced and efficiencies increased.

Investment-related costs are a significant part of the DCRB budget. DCRB is negotiating investment management fee reductions in an effort to reduce expenses and assure that DCRB's costs are in line with standard benchmarks.

DCRB has reviewed its procurement process and has restructured the budget to increase accountability of agency managers. The agency has also standardized its contract administration procedures across all departments.

In accordance with the federal Split Benefit regulations, Treasury's retirement system calculates the benefit split between the District and Federal trusts. DCRB is working with Treasury on a plan for a final reconciliation of pension liabilities between the two trusts. The purpose of this reconciliation is to ensure that the District and Treasury have paid their appropriate share for split benefits paid to retirees from 1997 through 2007, before Treasury's retirement system was programmed to calculate the separate amount automatically. Depending upon the outcome of this review, there may be significant additional costs to the District.

Reduce investment risk.

DCRB's risk control policies are set forth in a three tiered approach. The first level is the total portfolio, where the primary tool for risk control is the asset liability analysis. As mentioned earlier, DCRB completed its asset liability study in FY 2009. The second level consists of the asset class, where risk budgeting addresses how much active management risk the portfolio should take relative to the market. The third level is the investment manager where risk is controlled through the manager investment guidelines. During FY 2010, DCRB will focus on controlling risk at the asset class and manager levels.

Improve communications with plan members.

DCRB has developed a communications plan for FY 2010 and beyond that will significantly enhance our ability to interact with Plan members. The communications plan consists of adopting a standardized communication portfolio, including user-friendly forms for members and educational materials for all stakeholders, developing a more interactive website, centralizing membership data, and continuing to improve the Comprehensive Annual Financial Report.

In summary, I'm pleased to report that the Trust is in excellent shape. Our Board, following the recommendation of its independent actuary, has maintained conservative investment assumptions, the Plans are well funded, and members are paid on time each month. I believe we are establishing the foundation to manage the transformation initiatives that DCRB has planned for the next few years. It is essential that we accomplish these goals if we are to create the high-level, comprehensive retirement services system that our members deserve. As we proceed, we may seek your assistance and the Council's help to carry out this vision, and look forward to working with you as we have in the past.

This concludes DCRB's Performance Testimony for FY 2010. We look forward to answering your questions now and in the future.