



**District of Columbia Retirement Board  
Performance Oversight Hearing**

**Before the**

**Council of the District of Columbia  
Committee of the Whole**

**March 8, 2016**

## **OPENING REMARKS**

Good afternoon Chairman Mendelson and members of the Council of the District of Columbia Committee of the Whole. I am Sheila Morgan-Johnson, Acting Executive Director and Chief Investment Officer of the District of Columbia Retirement Board (DCRB). Eric Stanchfield, DCRB's Executive Director, could not be here today to provide testimony because he is recovering from surgery. On his behalf, I will testify on our recent performance and provide an overview of the Agency's goals and strategic initiatives for the near future.

Joining me today to respond to the Committee's questions are Johnetta Bond, Chief Benefits Officer, as well as, Ed Koebel, of Cavanaugh Macdonald, our independent actuary. Other senior staff in attendance include Erie Sampson, General Counsel; Peter Dewar, Chief Technology Officer; Anthony Shelborne, Chief Financial Officer, and Joan Passerino, Director of Stakeholder Communication and Outreach.

DCRB is an independent agency of the District of Columbia government that was created by Congress in 1979 under the District of Columbia Retirement Reform Act. DCRB has two core missions—managing the pension trust fund and administering retirement benefits for police officers, firefighters and teachers of the District of Columbia.

The Agency has exclusive authority and discretion to manage the assets of the District of Columbia Teachers' Retirement Fund and the District of Columbia Police Officers and Fire Fighters' Retirement Fund (collectively referred to as the "Fund"), that are held in trust for the sole benefit of all Plan participants, and their eligible survivors and beneficiaries. The Fund assets can be used only to pay benefits to Plan members, as well as associated expenses necessary to administer the retirement program.

DCRB pays benefits and provides a range of retirement administration services to members of the District of Columbia Teachers' Retirement Plan and the District of Columbia Police Officers and Firefighters' Retirement Plan (collectively referred to as the "Plans") from their date of initial participation in the Plans as well as throughout their lifetime and the lifetime of their survivors. These Replacement Plans were adopted by the District on July 1, 1997. DCRB also serves as the third-party administrator for benefits under the frozen federal plans, for which the U.S. Department of the Treasury is financially responsible.

DCRB's Board (the "Board") has 12 Trustees, six (6) of whom are elected by the participant groups, three (3) who are appointed by the Mayor, and three (3) who are appointed by this Council. In addition, the DC Treasurer (representing the District's Chief Financial Officer), serves on the Board as an ex-officio (non-voting) member. Trustees, who are fiduciaries, must act solely in the interest of all Plan members.

It should be noted that the District government, as the employer, is the Plan Sponsor, and is responsible for the design of the Plans and for paying the required employer contributions into

the Fund. In addition to employer contributions, Trust income includes employee contributions and investment earnings.

As of September 30, 2015, there were 24,394 total members in the frozen federal plans and active District Plans, of which 16,730 are funded by the District. Of the District funded members, 6,327 were retirees and survivors, and 10,403 were active members. I am pleased to report that as of October 1, 2015, the District Plans' aggregate funded ratio was 101.7 percent. The Fund ratios are: 88.7 percent for the Teachers' Plan, and 107.6 percent for the Police and Firefighters' Plan.

As of September 30, 2015, the Fund was valued at \$6.1 billion, a decrease of approximately \$201 million in the total asset value over the previous 12 months. Our Fiscal Year 2016 operating budget is \$32.3 million, and includes a total of 62.6 full-time employees.

## **DCRB'S FIVE STRATEGIC GOALS**

We continue to move forward with a focus on achieving the following five strategic goals:

1. Safeguard the integrity of the Fund.
2. Prudently invest Fund assets to provide long-term, sustainable, risk-adjusted returns.
3. Expand and improve benefits administration capabilities, to assure that benefits are paid to our members accurately and timely.
4. Refine DCRB's organizational structure to meet changing agency responsibilities and needs.
5. Foster member and stakeholder trust through enhanced communications and collaborative outreach.

## **DCRB'S ACCOMPLISHMENTS IN FY 2015 AND INITIATIVES FOR FY 2016 AND BEYOND**

Using these five goals as a guide, I will summarize our Fiscal Year 2015 accomplishments, as well as provide an overview of our progress and plans for Fiscal Year 2016 and beyond.

### **1. Safeguard the integrity of the Fund.**

The Board's independent actuary conducts an actuarial valuation each year. Also during Fiscal Year 2015, we engaged an independent actuarial firm to perform an actuarial audit. This review provides an additional set of "eyes" and technical expertise to review our independent actuary's

assumptions and calculations. The actuarial audit resulted in a finding that the assumptions, methods, and certifications used in the annual actuarial valuations are generally sound and reasonable, and that they conform to the appropriate Actuarial Standards of Practice. Further, based on the samples tested, the audit found no reason to question the reliability of valuation results.

As part of DCRB's FY 2015 annual financial audit, we received a "clean" opinion from an independent audit firm. DCRB publishes its audited financial statements in its Comprehensive Annual Financial Report (CAFR). Copies of the actuarial valuation, financial audit, and CAFR are posted to DCRB's website each year. DCRB will continue to obtain clean audit opinions and report its financial activities according to governmental accounting standards.

As indicated by our Board Chair, Mr. Bress, DCRB once again received the Government Finance Officers Association's (GFOA) Certificate of Achievement Award for Excellence in Financial Reporting for FY 2014. We have received this award for seven consecutive years. DCRB will continue to publish its CAFR based on the standards required to obtain the GFOA's certificate of recognition in future years. In addition, DCRB will continue to maintain the professional standards required to continue receiving the Public Pension Standards Award for plan funding. These activities are consistent with the Board's fiduciary duties and pension administration best practices.

Business continuity in the event of a disaster is critical to our Agency. DCRB completed a number of projects focused on security and infrastructure availability, including updating our disaster recovery and continuity of operations plans. Also, DCRB will utilize these plans in conjunction with the Agency's disaster recovery site.

Data security continues to be a priority for us. We have implemented various data security measures to mitigate the risk of data loss and to keep sensitive, personally identifiable information (PII) confidential. We conduct annual training and ensure awareness of PII policies by all staff and contractors. DCRB also conducts background checks on all DCRB employees and independent contractors.

As with other organizations, cyber-security threats continue to be of concern to DCRB's operations, and pose a serious challenge to our Agency. Mitigating this risk has been a focus of the Agency, and DCRB has invested in training and cyber-security insurance, updated our security policies, and is contracting with an incident response vendor to assist the Agency if a cyber-security event were to occur. In addition, DCRB will continue to follow professional standards and best practices in the information technology area for security, project management, and service delivery.

Finally, the Board's Audit Committee provides independent review and oversight of DCRB's financial reporting processes and internal controls.

## **2. Prudently invest Fund assets to provide long-term sustainable risk-adjusted returns.**

In concert with the overall market decline, the Fund posted a -3.9 percent return for the fiscal year ended September 30, 2015. Since inception in October 1982, the Fund has generated an annualized gross return of 8.7 percent, surpassing the actuarial return target of 6.5 percent.

DCRB's ongoing responsibility is to prudently manage the Fund assets, with the goal of earning a return that meets or exceeds DCRB's actuarial investment return assumption of 6.5 percent over the long-term. In building a solid foundation for achieving long-term, sustainable risk-adjusted returns, we routinely review investment manager performance against benchmark returns, rebalance the portfolio when appropriate to maintain compliance with asset allocation targets, and periodically review the Fund's strategic asset allocation.

During Fiscal Year 2016, DCRB will conduct an asset-liability study to assure the continued alignment of the Board's asset allocation policy with the long-term liability structure.

During FY 2015, the Board selected the Northern Trust Company to replace State Street Bank as the Fund's custodial bank. The transfer of assets to Northern Trust was successfully completed on December 1, 2015. This change will result in a projected administrative savings of \$300,000 over the next three years.

## **3. Expand and improve benefits administration capabilities, to assure that benefits are paid to our members accurately and timely.**

In Fiscal Year 2013, DCRB launched a Retirement Modernization Program focused on the areas of benefits administration and information technology. The FY 2015 projects, and those scheduled for FY 2016, include activities that will lead to our eventual acquisition of a Pension Information Management System ("PIMS").

In the future, the PIMS will be a benefits administration system where pension-related information is kept in one location and electronically maintained and controlled by DCRB. This system will also enable DCRB to provide a full range of retirement services for Plan members. An RFP related to this system will be released in 2016.

The elements of this Program are as follows:

### **Data Reclamation Project**

The primary objective of the Data Reclamation Project, which was completed in 2015, was to establish a database of service, salary, and contribution history that will increase accuracy and reduce the processing time required to calculate initial pension payments.

In partnership with the District of Columbia Public Schools (DCPS), the Metropolitan Police Department (MPD), the Office of the Chief Technology Officer (OCTO), the Office of Pay and Retirement Services (OPRS), and the District of Columbia Department of Human Resources

(DCHR), DCRB reclaimed missing data for 4,600 of approximately 10,000 active member records where there were gaps in service history.

The data will be instrumental in DCRB's ability to provide new retirees with an accurate benefit payment within 30 days of receiving completed retirement packages from the human resource offices, instead of the current 60- to 90-day timeframe.

### **Data Integration Project**

DCRB and OCTO initiated data feeds of pension-related information to DCRB from the District's PeopleSoft system. The data feeds will assure that current and future member data is complete and accurate, and is reflective of a comprehensive individual retirement record of member information.

### **Data Management Project**

The Data Management Project consists of three important technology applications that DCRB will use to manage member data. These are: 1) a data quality tool to perform continuous reviews of data received by DCRB from other District agencies; 2) a master data management system to serve as a central repository for Plan member data; and 3) a tool that will facilitate communications among systems. This project was initiated during the last quarter of FY 2015.

During Fiscal Years 2016 and 2017, DCRB will continue to receive data feeds from the District's PeopleSoft system; initiate the electronic transmission of member data directly to the U.S. Department of the Treasury's (Treasury) pension benefit calculation system (eliminating the current manual data entry process); upgrade our Member Services phone system; and support the employer reported pension-related member data.

### **Pension System Feasibility Study and Requirements Analysis Project**

During FY 2015, DCRB completed a Pension System Feasibility Study and Requirements Analysis Project to gather essential information for the development of a pension information system. The study included performing market research to acquire insight into the commercial availability of features and functionality.

### **Pension Information Management System (PIMS) Project**

During FY 2015, DCRB issued a Request for Information related to the development and implementation of a PIMS. The responses identified state-of-the-art capabilities and functions available in the pension industry. This information was useful in the development of DCRB's draft Request for Proposal (RFP) which is scheduled for release later this year.

## **4. Refine DCRB's organizational structure to meet agency responsibilities and needs.**

During 2015, we also implemented a DCRB employee portal to improve staff communication and efficiency and to facilitate collaboration through information sharing. The employee portal has enabled DCRB to migrate to a more secure information-sharing organization. The portal will also allow authorized staff to access information and work remotely in the event of a disaster.

The Agency will continue to provide annual training for staff and Trustees on ethics and fiduciary principles, and ensure awareness of Personally Identifiable Information (PII) policies by all staff and contractors. Further, Trustees recently updated Board governance rules and guidelines. DCRB will also identify performance gaps and training needs and fill key staff vacancies, as needed, during Fiscal Year 2016.

Our primary focus over the next few years will be to transform our organizational structure from an operation that is currently manual and paper-based to an automated, digital environment that facilitates self-service and the production of benefit calculations, payments and other services accurately, timely and more efficiently.

**5. Foster member and stakeholder trust through enhanced communications and collaborative outreach.**

DCRB reaches out to members and the public to provide information on Fund performance and current issues. During FY 2015, DCRB added a special Teachers' Edition newsletter that was published over the summer, when many teachers consider retirement. In FY 2016, DCRB published a special Police/Fire Edition newsletter for public safety officers. The focus of these newsletters is to provide information about retirement benefits and to encourage retirement planning. DCRB distributes newsletters to our members via e-mail and hard copy.

DCRB will maintain communication with Plan members about retirement benefits through the newsletters, additional correspondence, and website communications. During 2016, we will also update the Plans' Summary Plan Descriptions, which are required to be updated during 2017.

In late FY 2015, DCRB initiated a "Benefits Community of Interest" group, which includes human resources personnel from stakeholder District agencies. We met in October 2015, and plan to meet periodically to discuss subjects and issues of mutual interest. This group will be of special importance as DCRB begins the process of selecting the PIMS in FY 2017.

DCRB will continue to expand its collaboration with District human resources offices to provide retirement workshops for retiring plan members. During FY 2015, DCRB joined with DCPS in hosting a Teachers' Retirement Workshop, which was held at DCRB offices. Attendees were provided with information about the Teachers' Retirement Plan, given an overview of the retirement process, and a guest speaker from the Social Security Administration's training division spoke about Social Security and Medicare benefits. Another workshop for teachers is being planned for later this month.

During FY 2016, DCRB plans to use social media as a component of our communications portfolio and we are reviewing our website to assure compliance with federal legislation for members with disabilities. Further, as a result of recent work with the District's Office of the Chief Technology Officer, our website was recently updated to ensure compatibility with mobile devices. We also maintain a retirement calculator on our website so active members can enter

their information and receive personalized retirement estimates. DCRB will communicate with Plan members and update the DCRB website to include relevant content as needed.

DCRB continues to receive member feedback by issuing surveys to callers, and by monitoring phone calls and correspondence for quality and training purposes.

## **CONCLUSION**

In summary, we are pleased to report that the Fund is in excellent shape. Our Board has maintained conservative investment assumptions, the Plans are in sound financial condition, and we strive to pay members accurately and timely. We have an engaged Board and an experienced team managing our strategic initiatives. And, most importantly, we continue to make strides toward creating a comprehensive retirement system to serve the needs of Plan participants.

In closing, I'd like to thank the Committee for your support in helping us to carry out this vision. As we proceed, we may seek your assistance to help us accomplish our goals and we look forward to working with you and your staff.

This concludes DCRB's Performance Testimony. We look forward to answering your questions. Thank you.