



District of Columbia Retirement Board
Performance Oversight Hearing

Before the

Council of the District of Columbia
Committee of the Whole

March 10, 2015

OPENING REMARKS

Good afternoon Chairman Mendelson and members of the Council of the District of Columbia Committee of the Whole. I am Eric Stanchfield, Executive Director of the District of Columbia Retirement Board (DCRB). I will testify on our recent performance and provide you with an overview of the Agency's goals and strategic initiatives for the future.

Joining me today to respond to the Committee's questions are Sheila Morgan-Johnson, Chief Investment and Chief Operations Officer; 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; Joan Passerino, Director of Stakeholder Communication and Outreach; and Anthony Shelborne, Controller.

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. 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 Firefighters' Retirement Fund (collectively referred to as the "Fund") and to provide our members with a range of retirement administration services. Our mission is to provide these services to our members from their date of initial participation in the District of Columbia Teachers' Retirement Plan and the District of Columbia Police Officers and Firefighters' Retirement Plan (collectively referred to as the "Plans") throughout their lifetime and their survivors' lifetime, and to safeguard the integrity of the Fund.

DCRB manages and controls the Fund, which is held in trust for the exclusive benefit of all Plan participants, and their eligible survivors and beneficiaries. The Fund assets can be used only to pay benefits to Plan members and associated administrative expenses necessary to pay benefits and operate the retirement program.

DCRB's Board of Trustees (Board) 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 this Council. In addition, the DC Treasurer serves on the Board as an ex-officio (non-voting) member (*representing the District's CFO*). Trustees, who are fiduciaries, must act solely in the interest of all Plan members.

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. DCRB, as Plan Administrator, is responsible for investing the assets of the Fund and for providing a range of administrative services to our members. DCRB also serves as third-party administrator for benefits for which the US Department of the Treasury is responsible.

As of September 30, 2014, the Plans had 23,982 active members, annuitants and survivors. Of this number, 13,932 were retirees and survivors who receive monthly pension

payments and 10,050 were active members. Our Fiscal Year 2015 operating budget is \$30.3 million, and includes a total of 57.6 FTEs.

As of September 30, 2014, the Fund was valued at \$6.3 billion, an increase of approximately \$540 million in the total asset value over the previous 12 months. I am pleased to report that as of October 1, 2014, the Plan's aggregate funded ratio was 101.4 percent. For the individual Funds, the ratios are as follows: Teachers' at 88.6 percent, and Police and Firefighters' at 107.3 percent.

DCRB'S FIVE OVERARCHING GOALS

We continue to move forward with a focus on achieving five overarching goals. These goals include:

1. Expanding and improving benefits administration capabilities while assuring benefits are paid to our members timely and accurately.
2. Prudently investing Fund assets to provide long-term sustainable risk-adjusted returns.
3. Refining DCRB's organizational structure to meet changing agency responsibilities and needs.
4. Fostering member and stakeholder trust through enhanced communications and collaborative outreach.
5. Safeguarding the integrity of the Fund.

Using these five goals as a guide, I would like to outline our accomplishments during Fiscal Year 2014, and conclude my testimony with an overview of our progress and plans for Fiscal Year 2015 and beyond.

DCRB'S FISCAL YEAR 2014 ACCOMPLISHMENTS

During Fiscal Year 2014, DCRB made significant progress toward achieving each of its five strategic goals. The following is a brief review of achievements and progress made toward each goal.

1. Expanding and improving benefits administration capabilities while assuring benefits are paid to our members timely and accurately.

In Fiscal Year 2014, we made progress on two critical projects aimed at expanding and improving benefits administration. These projects—Data Reclamation and Business Process Reengineering — help ensure that our members will benefit from business processes that reflect current industry practices.

Data Reclamation

One of the primary objectives of the Data Reclamation project is to establish a database of service, salary, and contribution history that will reduce the processing time required to pay initial pension payments. In addition, this database ultimately will enable the production of annual benefit statements for active members.

We continued our partnership on pension data integrity with key District stakeholder agencies, including: the District of Columbia Public Schools; the Metropolitan Police Department; the Office of the Chief Technology Officer; the Office of Pay and Retirement Services; and the District of Columbia Department of Human Resources (representing the Fire and Emergency Medical Services Department).

We made improvements to the management of annuitant data in a number of ways, including implementing new security policies, reclaiming missing service history, and performing a comprehensive gap analysis. There were approximately 10,000 active member records at the time the analysis began. We are pleased to report that, at this time in collaboration with the agencies indicated, we have reclaimed all records with gaps in service history (4,600) and we are currently in the process of auditing those records.

The data will be instrumental in DCRB's ability to provide new retirees with an initial benefit payment within 30 days of receiving completed application packages, instead of the current 60-day timeframe.

The ultimate result of this effort will be a system where pension-related information is housed in a single secure location, and where records are managed electronically, using a calculation system owned and maintained by DCRB. This approach will align DCRB, operationally, with other public pension funds nationwide.

Business Process Reengineering (BPR)

The primary objectives of the BPR project—which we began in Fiscal Year 2013—are to improve accuracy, promote greater efficiency, and increase the speed of pension transactions.

As part of the BPR process, our Benefits Department reconfigured existing workflows; restructured the department; redefined and developed new roles; performed staff skills assessments; and delivered targeted training through the District's Workforce Development Administration.

We implemented BPR project recommendations throughout Fiscal Year 2014, while focusing on cross-training staff, performing quality reviews, and conducting business continuity planning.

2. Prudently investing Fund assets to provide long-term sustainable risk-adjusted returns.

The Fund posted a return of 8.4 percent for the fiscal year ended September 30, 2014. Since inception in October 1982, the Fund has generated an annualized gross return of 9.1 percent, surpassing the actuarial return target of 6.5 percent. We continue to review the Fund's strategic asset allocation to ensure outperformance of the actuarial return objective and to provide liquidity to meet Fund obligations.

3. Refining DCRB's organizational structure to meet agency responsibilities and needs.

The Benefits Department implemented a Quality Compliance Unit, which is responsible for second and third level review of annuity calculations. This enhanced review was put into place to minimize errors prior to the payment of benefits. The Benefits Department, with the assistance of the Information Technology Department, also obtained access to active payroll systems, both the legacy systems and the District's current PeopleSoft system, which allows DCRB to begin a retirement case prior to final receipt of all documents. This reduces the time from our receipt of the initial retirement application to the first annuity payment.

Business continuity in the event of a disaster is a critical goal of our agency. In Fiscal Year 2014, DCRB completed a number of projects focused on security and infrastructure availability, including updating our disaster recovery plan and implementing an alternate disaster recovery site. This site includes the remote replication of the agency's enterprise architecture to ensure continuity of operations.

During this past fiscal year, DCRB also refined policies and best practices to protect the sensitive member information managed by our Agency. 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. Additionally, we conduct annual cyber security training for all employees and contractors.

During Fiscal Year 2014, we provided annual training for staff and Trustees on ethics and fiduciary principles, and we issued PII policies to all staff and contractors. Finally, DCRB conducts background checks and fingerprinting for new DCRB employees and contractors.

4. Fostering member and stakeholder trust through enhanced communications and collaborative outreach.

The DCRB reaches out to members and the public to provide information on current issues and Fund performance. DCRB distributes its newsletter to our members via e-mail

and hard copy. We also maintain a retirement calculator on our website so active members can enter their information and receive personalized retirement estimates.

DCRB continues to receive member feedback by issuing surveys to callers, and by monitoring phone calls and correspondence for quality and training purposes. In Fiscal Year 2014, we utilized our website to provide more user-friendly access to our comprehensive annual financial reports, Board meeting minutes, and additional member forms. We mailed updated Summary Plan Descriptions to all members in 2013. Hard copies of these plan documents are provided to human resources offices for distribution to new members, and digital copies are available for download on our website.

5. Safeguarding the integrity of the Fund.

The Board contracts for an annual actuarial valuation prepared by our independent actuary. DCRB ensures that its financial reporting is in accord with the law and industry best practices by undergoing an annual financial audit. For Fiscal Year 2014, we received a “clean” opinion from an independent audit firm. DCRB publishes its audited financial statements in its Comprehensive Annual Financial Report (CAFR).

In Fiscal Year 2013, we once again received the Government Finance Officers Association’s (GFOA) Certificate of Achievement Award for Excellence in Financial Reporting. We have received this prestigious award for six consecutive years. DCRB will complete the CAFR for the fiscal year ended September 30, 2014 and submit it to GFOA by March 31, 2015. DCRB maintains the professional standards required to continue receiving the Public Pension Standards Award for plan design and administration, as set forth by the Public Pension Coordinating Council.

DCRB'S STRATEGIC INITIATIVES FOR FISCAL YEARS 2015 AND BEYOND

Having summarized our recent accomplishments, I now would like to highlight our current and upcoming initiatives aimed at achieving our strategic goals during Fiscal Year 2015 and beyond.

1. Expanding and improving member benefits administration capabilities while assuring benefits are paid to our members timely and accurately.

In Fiscal Year 2013, DCRB launched a multi-year, Retirement Modernization Program focused on the areas of benefits administration and information technology. During Fiscal Years 2015 and 2016, that program will include three main projects, two of which, BPR and Data Reclamation, were discussed earlier in our FY 2014 progress report. I would now like to talk about additional initiatives for Fiscal Year 2015, specifically, activities that will lead up to our eventual acquisition of a Pension Information Management System ("PIMS").

The PIMS will enable DCRB to provide a full range of retirement services for members—including benefits statements, benefit estimates, member self-service, and the integration of pension data into systems designed to produce pension payments.

During Fiscal Year 2015, DCRB plans to implement an Enterprise Data Quality tool and a Master Data Management (MDM) system that will allow DCRB to collect Plan member information from multiple systems into a single data source. This MDM system will gather data from the District's PeopleSoft active member repository and from Treasury's STAR annuitant system, and aggregate the information in a database that will become a single source for maintaining the Plan. All of these efforts are intended to reduce reliance on paper documents and minimize the turnaround time to deliver initial pension payments to our members.

2. Prudently investing Fund assets to provide long-term sustainable risk adjusted returns.

DCRB's ongoing objective 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% over the long-term. To complement the significant progress previously mentioned in building a solid foundation for achieving long-term, sustainable risk-adjusted returns, we routinely review investment manager performance against benchmark returns; and rebalance the portfolio when appropriate to maintain compliance with asset allocation targets. Further, we are moving forward with searches for investment consultants and a custodial bank, targeted for completion in 2015 and 2016.

3. Refining DCRB's organizational structure to meet agency responsibilities and needs.

In Fiscal Year 2014, an Audit Committee charter was formally established. One of the key responsibilities of this Committee is to provide independent review and oversight of

DCRB's financial reporting processes and internal controls. Committee initiatives will be refined during Fiscal Year 2015. In addition, DCRB will train and prepare its staff to use new applications and systems that will improve our operations, and we will continue our practice of filling any vacant positions on an as-needed basis. During the early months of Fiscal Year 2015, DCRB sponsored a pension training program, conducted by the International Foundation of Employee Benefit Plans (IFEBC), which included courses on Governance, Legislative and Regulatory Developments, the Legal Environment, Actuarial Principles, Pension Plan Design, Investments, Business Improvement Strategies, and Emerging Issues. Many DCRB staff as well as Trustees attended this program, which was also included partners from several other District agencies, as well as pension professionals from Arlington County and the City of Alexandria. As a result of their attending the training and completing the required examinations, 18 DCRB staff members received the IFEBC's Certificate of Achievement in Public Plan Policy (CAPP).

4. Fostering member and stakeholder trust through enhanced communications and collaborative outreach.

In Fiscal Year 2015, we plan to enhance staff efficiency by developing intranet capabilities (an "employee portal") that will enhance collaboration through improved staff communication and information sharing. The employee portal will enable DCRB to migrate to a more secure information-sharing organization. In this future state, authorized staff will be able to access information in the event of a disaster.

DCRB will enhance its outreach and collaboration with stakeholder agencies and will also work with those agencies to streamline our processes.

5. Safeguarding the integrity of the Fund.

We will increase our protective capabilities to counter the threat of cyber-crime. The Agency continues to develop its security framework using current industry practices and technology, as well as knowledgeable resources.

Our governance of business processes in the information technology area will be enhanced by seeking the International Organization for Standardization (ISO) certification. This will allow us to standardize service delivery and project management.

Finally, in Fiscal Year 2015, we are undertaking an actuarial audit, which will be completed by an independent actuarial firm. This review provides an additional set of "eyes" and technical expertise to review our independent actuary's assumptions and calculations.

In summary, I am pleased to report that the Fund is in excellent shape. Our Board has maintained conservative investment assumptions, the Plan is in sound financial condition, and we pay members timely. We have a skilled 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 our members.

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. 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.