



CalPERS

CEM Pension Administration Benchmark Report - 2023

June 16, 2024

Key takeaways:

Complexity

- Your total complexity score of 59 was above the peer median of 40.

Cost

- Your total pension administration cost of \$194 per active member and annuitant was \$64 above the peer average of \$130.
- Between 2016 and 2023 your total pension administration cost per active member and annuitant decreased by 3.9% per annum. During the same period, the average cost of your peers with 8 consecutive years of data increased by 2.4% per annum.

Service

- The CEM service model was updated to capture the change in digital adoption and transformation in the pension industry over the last eight years. It also takes a more member-centric view: scores are calculated by member journey.
- Your total service score was 84. This was above the peer median of 79.
- Your service score has increased from 83 to 84 between 2016 and 2023.

Insights are based on the 70 global pension systems that participate in the benchmarking service.

Systems

United States

Arizona SRS
CalPERS
CalSTRS
Colorado PERA
Delaware PERS
Florida RS
Idaho PERS
Illinois MRF
Indiana PRS
Iowa PERS
Kansas PERS
LACERA
Michigan ORS
Minnesota State RS
Nevada PERS
New Mexico PERA
NYC TRS
NYCERS
NYSLRS
Ohio PERS
Oregon PERS

Pennsylvania PSERS
PSRS PEERS of Missouri
South Dakota RS
STRS Ohio
TRS Illinois
TRS of Louisiana
TRS of Texas
University of California RP
Utah RS
Virginia RS
Washington State DRS

Australia

ESS Super

Denmark

ATP

South Africa

Eskom Pension and Provident Fund

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

ABP
Metaal en Techniek
PFZW

United Kingdom¹

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

1. Systems in the UK complete a different benchmarking survey. Their data is not included in this report.

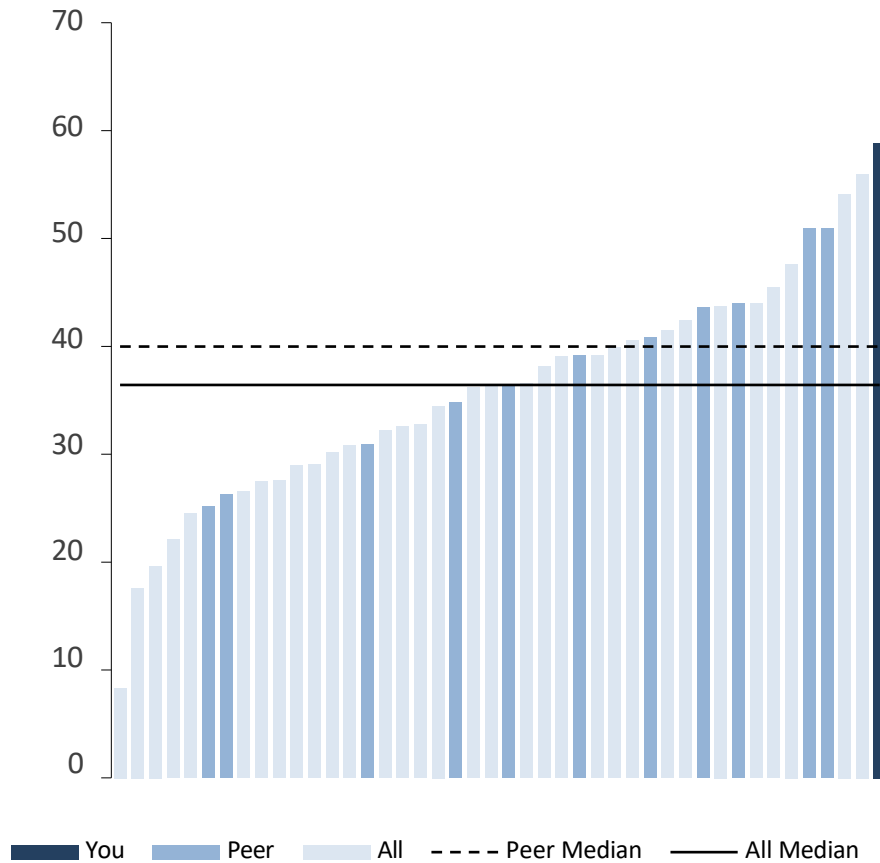
This report compares your pension administration costs and member service to a custom peer group.

Custom Peer Group for CalPERS				
#	System	Number of members (in 000s)		
		Active Members	Annuitants	Total ¹
1	CalPERS	926	792	1,717
2	TRS of Texas	953	490	1,443
3	NYSLRS	514	515	1,029
4	CalSTRS	459	329	788
5	BC Pension Corporation	382	233	615
6	Virginia RS	354	240	594
7	Washington State DRS	352	226	578
8	Ohio PERS	298	221	518
9	Pennsylvania PSERS	258	249	507
10	Michigan ORS	165	287	452
11	Ontario Teachers	183	153	336
	Median	354	249	594
	Average	440	339	780

1. 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 active members or annuitants.

Back office costs and productivity are impacted by system complexity. Your total complexity score of 59 was above the peer median of 40.

Total Complexity



Complexity Scores by Cause

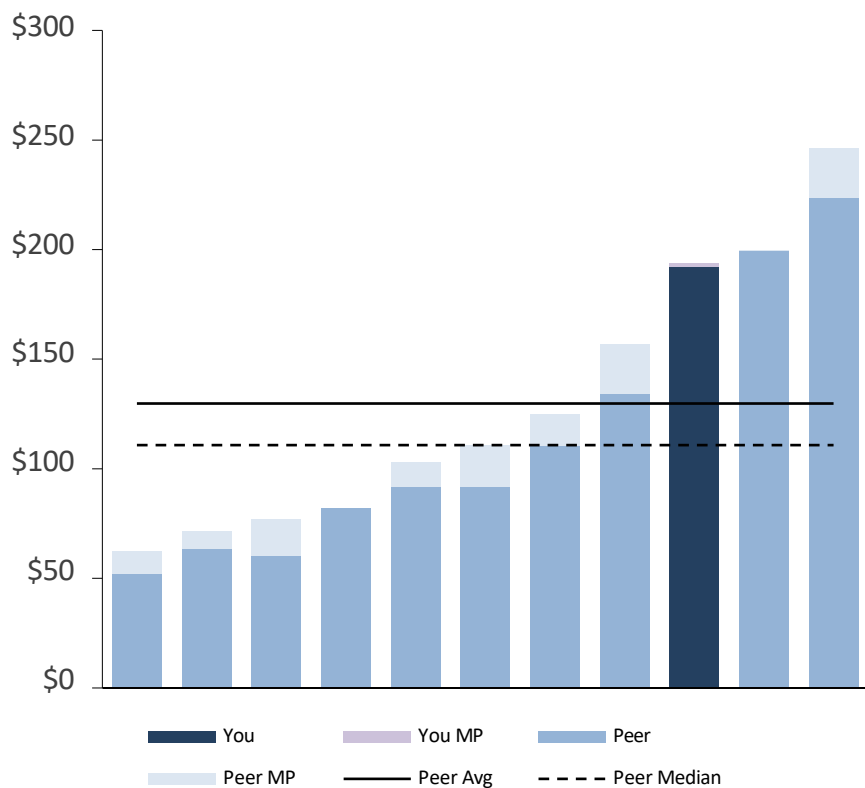
Cause	Weight	Complexity Score		
		You	Peer Avg	All Avg*
A Pension Payment Options	15.0%	55	39	37
B Customization Choices	20.0%	66	15	13
C Multiple Plan Types and Overlays	13.0%	15	26	25
D Multiple Benefit Formula	16.0%	64	52	47
E External Reciprocity	3.0%	35	34	23
F COLA Rules	4.0%	73	33	27
G Contribution Rates	3.0%	80	42	36
H Variable Compensation	4.0%	100	82	75
I Service Credit Rules	3.0%	47	42	39
J Divorce Rules	3.0%	100	78	63
K Purchase Rules	6.0%	52	62	58
L Refund Rules	4.0%	65	43	39
M Disability Rules	6.0%	76	60	55
Weighted Average	100.0%	59	40	36

CalPERS' global-highest complexity:

- Negatively impacts service
- Increases costs, particularly major projects and IT
- Reduces front office productivity

Your total pension administration cost of \$194 per active member and annuitant was \$64 above the peer average of \$130.

Pension Administration Cost Per Active Member and Annuitant ¹



1. Major project costs are denoted by the lighter shading on the bars. These one-off costs correspond to administration projects only.

Category	\$000s	\$ per Active Member and Annuitant	
		You	Peer Avg
Business-As-Usual Costs	329,886	192	118
Major Project Costs ¹	2,446	1	11
Total Pension Administration	332,332	194*	130*

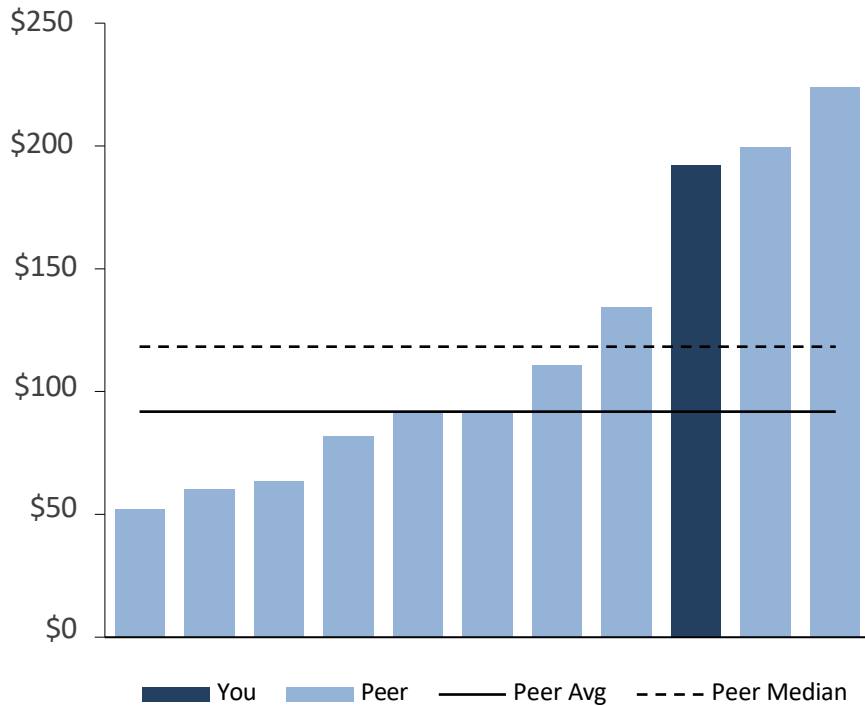
We include costs that are directly related to pension administration (e.g., staff costs or a third-party costs) plus attributions of governance, financial control, IT, building and utilities, HR, support services and other costs.

The costs associated with investment operations and investment management are specifically excluded.

*Note: totals may not add up due to rounding.

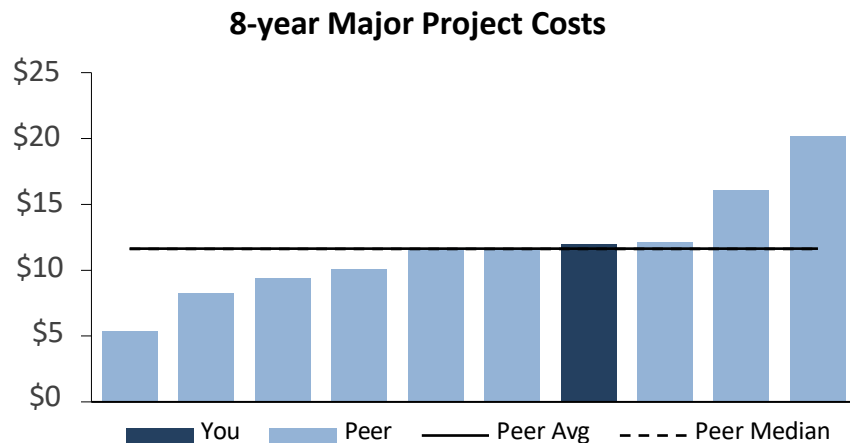
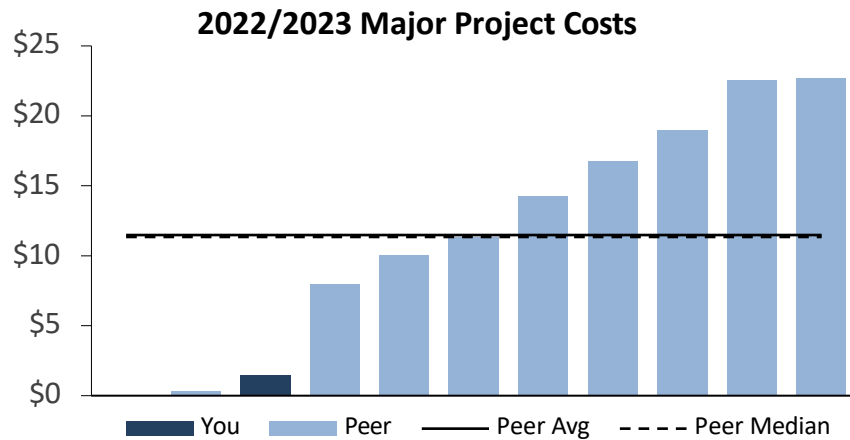
Your Business-As-Usual (BAU) costs of \$192 per active member and annuitant was \$74 above the peer average of \$118.

Business-As-Usual Costs Per Active Member and Annuitant



Category	\$000s	\$ per Active Member and Annuitant	
	You	You	Peer Avg
<u>Front office</u>			
Member Transactions	42,915	25	16
Member Communication	43,155	25	18
Collections & Data Maintenance	27,183	16	9
<u>Governance and support</u>			
Governance and Financial Control	30,454	18	9
Information Technology	92,534	54	41
Building	32,787	19	7
HR	11,688	7	4
Actuarial	11,215	7	2
Legal	12,309	7	5
Audit	2,335	1	2
Pay-as-you-go Benefits	35	0	1
Other Support Services	23,277	14	5
Total Pension Administration	329,886	192	118

Your Major Project costs of \$1 per active member and annuitant was \$10 below the peer average of \$11.



1. These costs are averaged over as many years as possible based on the system participation record, with a maximum of 8 years. Systems that have submitted less than 8 years of data are excluded.

Category	Major Project Cost \$000s	\$ per Active Member and Annuitant	
	You	You	Peer Avg
Single year 2022/2023	2,446	1	11
Multi-year average ¹	20,527	12	12

What is included in major project costs:

- One-off costs that were not capitalized.
- Current year amortization on capitalized costs.
- Excluding attributed costs for healthcare, and optional and third-party administered benefits, if applicable.

Project costs reported this year by you:

- 2023 IT System Improvements
- 2023 Info Security Risk Metrics
- 2023 IT Backup Disaster Recovery

Reasons why your total cost per member was \$64 above the peer average:

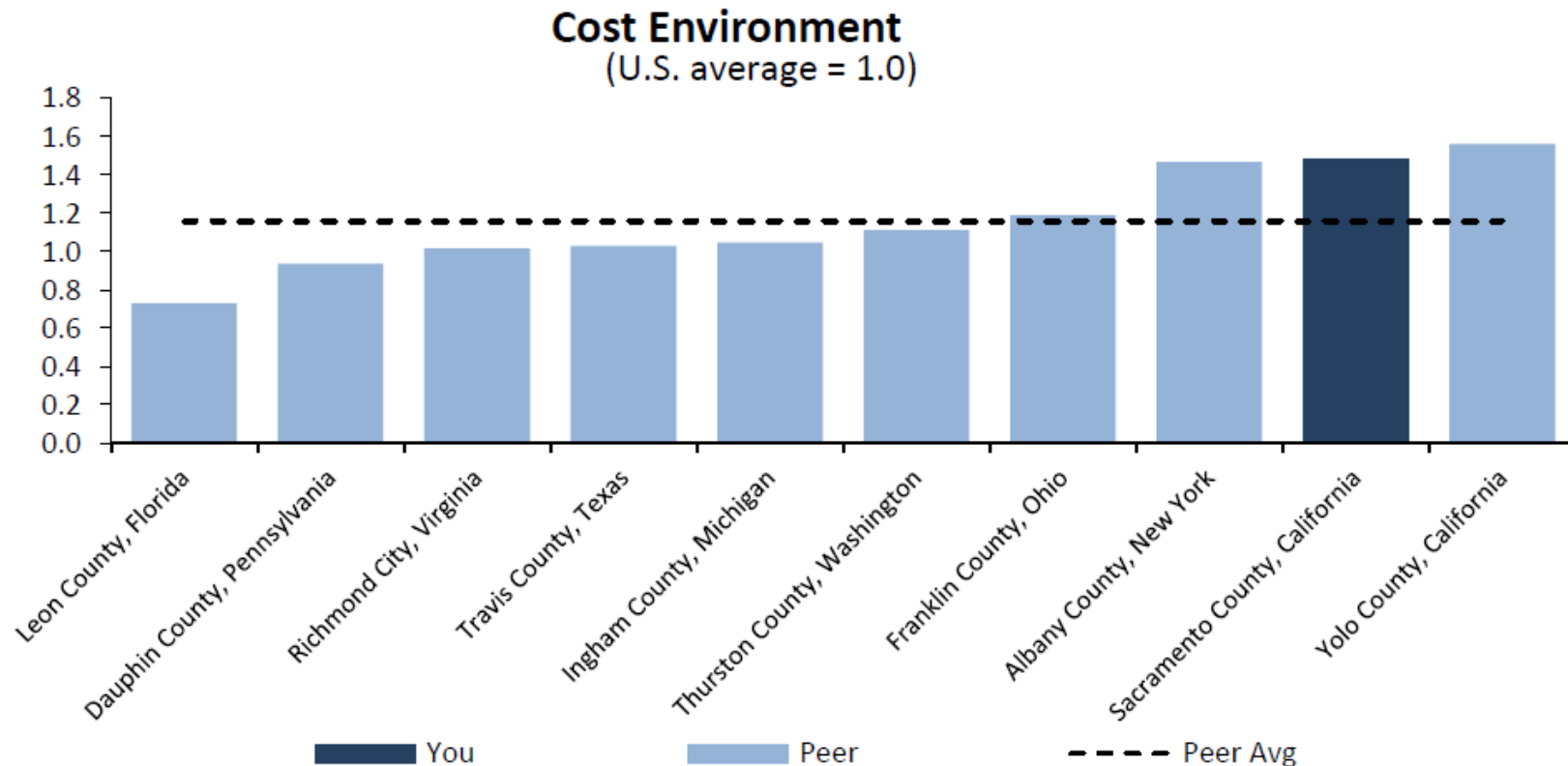
Reason	You	Peer Avg	Impact \$ per active member and annuitant
1 More front office FTE per 10,000 members	5.0 FTE	3.5 FTE	\$23
2 Equal third party costs per member in the front office	\$7	\$6	\$1
3 Higher costs per FTE			
Salaries and Benefits (incl. retiree benefits) ¹	\$137,328	\$125,979	
Building and Utilities	\$20,809	\$11,714	
HR	\$7,418	\$6,713	
IT Desktop, Networks, Telecom	<u>\$6,985</u>	<u>\$19,499</u>	
Total	\$172,539	\$163,906	\$5
4 Higher support costs per member ²			
Governance and Financial Control	\$21	\$11	
Major Projects	\$1	\$14	
IT Strategy, Database, Applications	\$52	\$31	
IT Security	\$3	\$3	
Actuarial, Legal, Audit, Other	<u>\$32</u>	<u>\$16</u>	
Total	\$110	\$75	\$35
Total			\$64

1. 33% of your total salaries and benefits relates to benefits. This compares to a peer average of 30%.

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

Cost environment

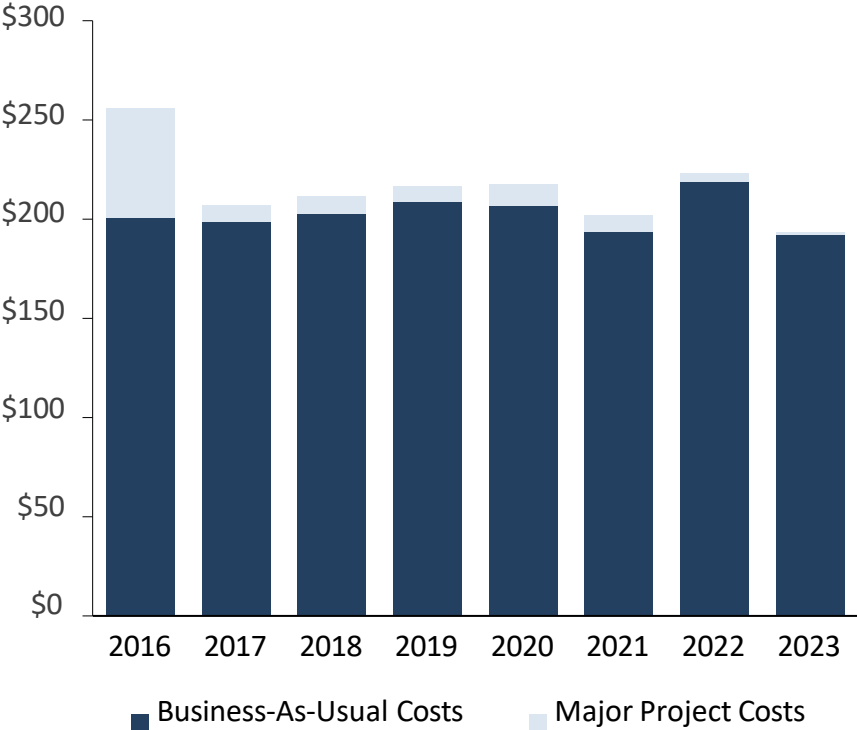
One cause of differences in 'cost per FTE' is cost environment. Your county had the highest cost environment in your peer group.



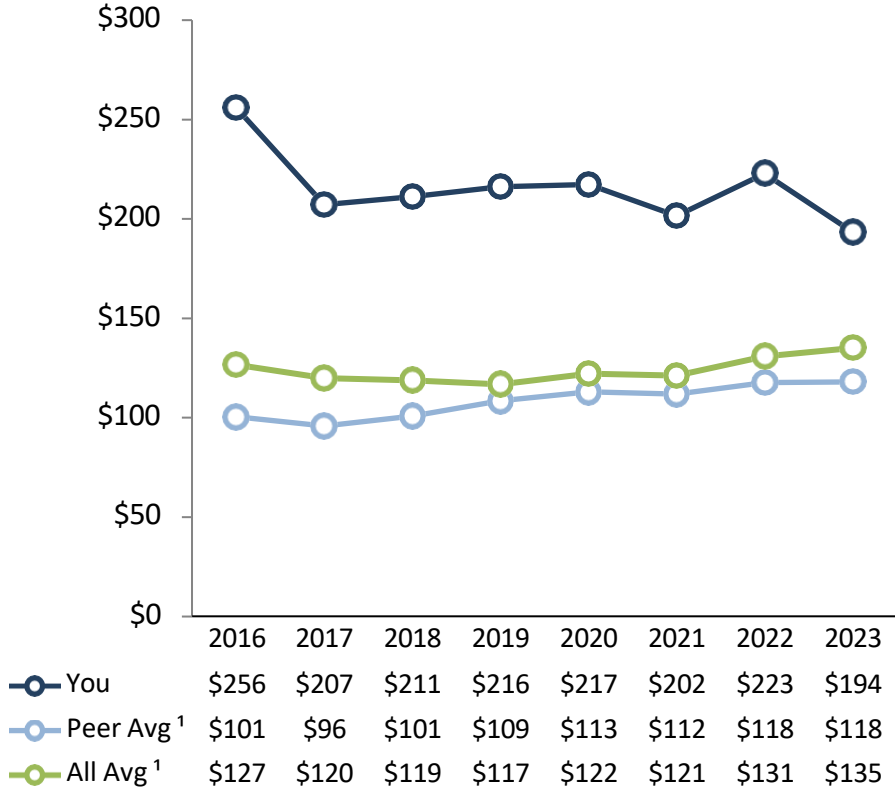
1. The cost environment is based on Bureau of Labor Statistics data for state government public administration wages within a given geographical area. It is normalized at 1 to be the national average. Source: Bureau of Labor Statistics (<http://www.bls.gov/>)

Between 2016 and 2023 your total pension administration cost per active member and annuitant decreased by 3.9% per annum. During the same period, the average cost of your peers with 8 consecutive years of data increased by 2.4% per annum.

Your Pension Administration Cost Per Active Member and Annuitant Trend



Pension Administration Cost Per Active and Annuitant Trend



1. Trend analysis is based on systems that have provided 8 consecutive years of data (10 of your 11 peers and 34 of the 47 systems in the universe).

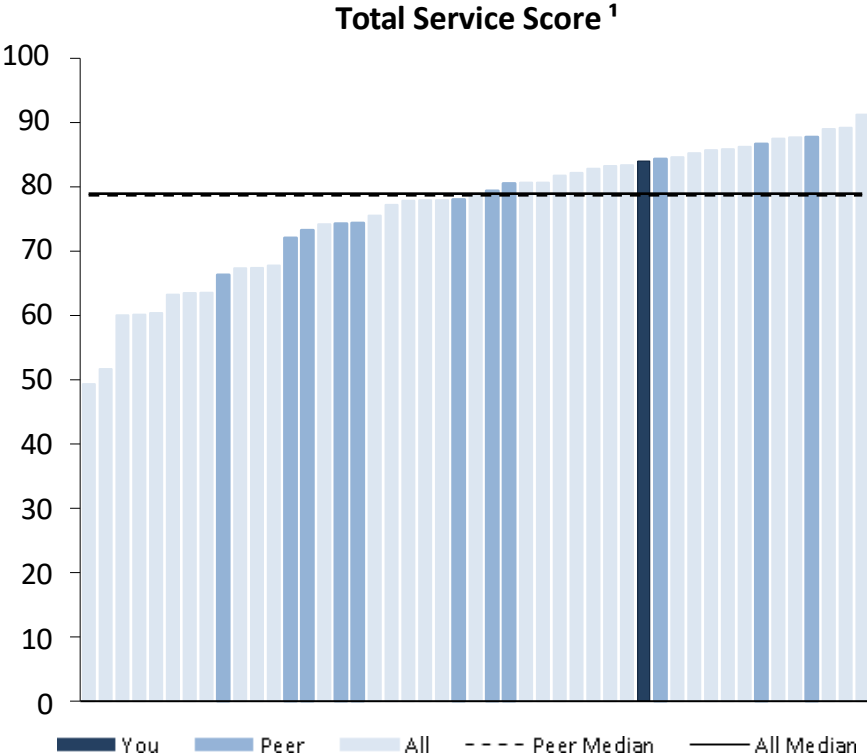
CEM's service score methodology was updated to reflect global pension administration trends.

- It has been eight years since the service methodology was last updated.
- The pandemic has accelerated digital adoption and transformation.
- Digital-first is now considered the highest service level by most members for transactions.

Key changes:

- The service score takes a more member-centric view of service: member journeys.
- Service metrics were added for digital member services and targeted campaigns.
- The service weights for digital activities were increased.
- Service metrics that are less relevant today, or minor and non-differentiating, were removed from the service model.
- The threshold to score maximum points for each service metric were updated based on what the new norm is in the pension industry. For example, a call wait time of 120 seconds gets a perfect score now versus 60 seconds in 2021, because more systems are allowing for longer wait times in favor of higher first contact resolutions.
- Please note that historic scores have been restated to reflect changes in methodology, and will differ from previous reports.

Your total service score was 84. This was above the peer median of 79.



1. The service score methodology was updated this year. Based on last year's service model, your service score would have been 77, which was above the all median of 74.

Looking at cost in isolation is unhelpful. Context is required, as is a means to measure value for money. CEM believes the right measure is member service, or the service score.

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.

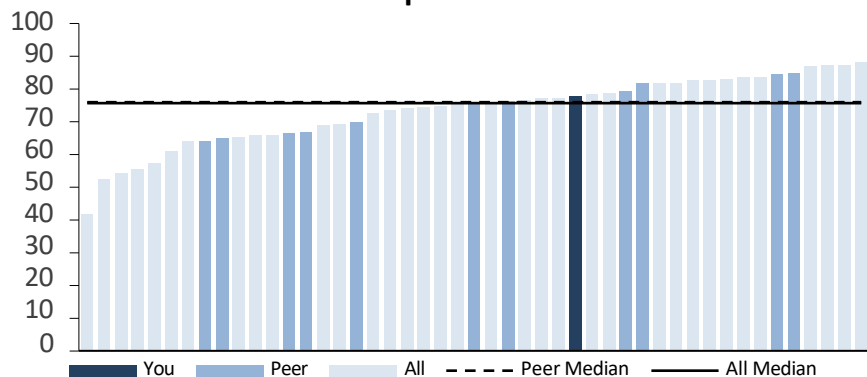
Higher service is not necessarily cost-effective. For example, the ability to answer the telephone 24 hours a day is higher service, but not cost effective.

Your total service score is the weighted average of the service scores for each of the four member journeys below.

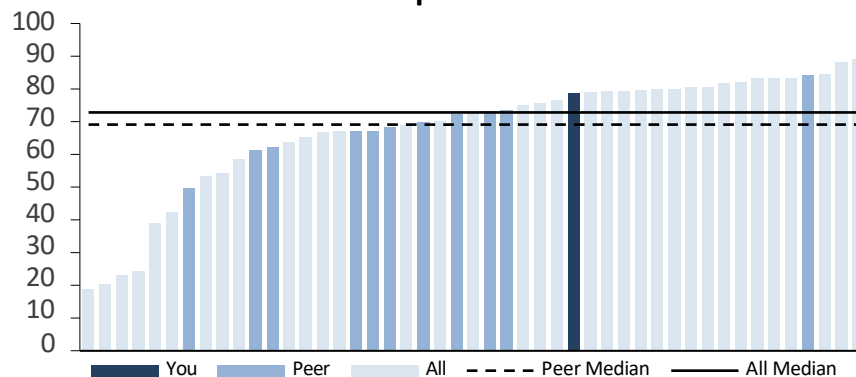
Service Scores by Journey			
Journey	Weight	You	Peer Median
Active member experience	30%	78	76
Inactive member experience	5%	79	69
Retiring experience	35%	87	78
Annuitant experience	30%	88	87
Total service score	100%	84	79

Service score by member journey and activity

Active Member Experience Service Score



Inactive Member Experience Service Score



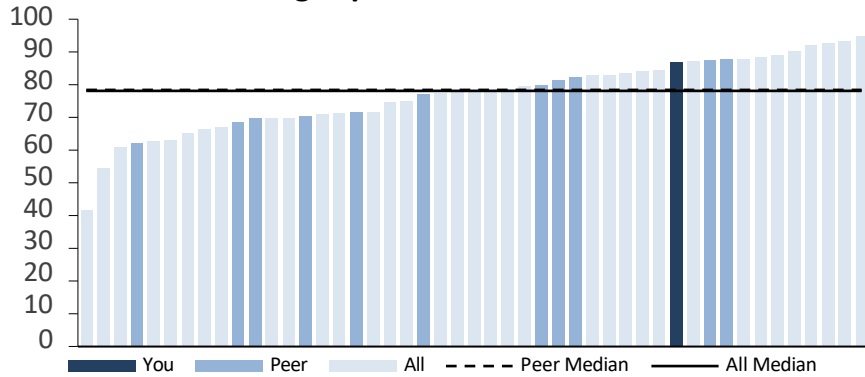
Activity	Weight	You	Peer Median
Targeted campaigns	7.5%	61	51
Purchases and Transfers-in	10.0%	40	51
Member statements	12.5%	55	80
---	---	---	---
---	---	---	---
Personal information	5.0%	100	95
Salary and service credit information	5.0%	100	88
Secure website accessibility	30.0%	98	93
Contact center: accessibility	7.5%	33	42
Contact center: capability	5.0%	88	87
Contact center: call quality	5.0%	89	89
1-on-1 counseling	5.0%	95	88
Member presentations	2.5%	100	100
Feedback	5.0%	90	73
Active member experience service score	100.0%	78	76

Activity	Weight	You	Peer Median
Targeted campaigns	10.0%	47	28
---	---	---	---
---	---	---	---
Tracking inactive members	10.0%	55	63
Transfers-out	5.0%	80	78
Personal information	7.5%	100	95
Salary and service credit information	5.0%	100	88
Secure website accessibility	40.0%	89	81
Contact center: accessibility	7.5%	33	42
Contact center: capability	5.0%	88	87
Contact center: call quality	5.0%	89	89
---	---	---	---
---	---	---	---
Feedback	5.0%	100	73
Inactive member experience service score	100.0%	79	69

Service score by member journey and activity

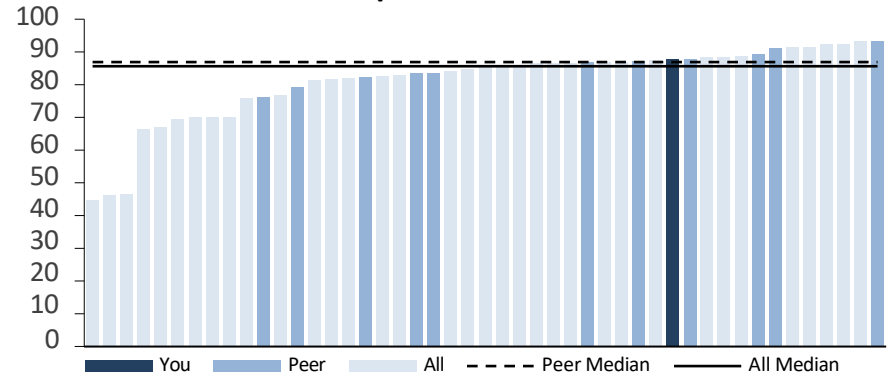
(continued)

Retiring Experience Service Score



Activity	Weight	You	Peer Median
Targeted campaigns	7.5%	100	55
Pension estimates: self-service	7.5%	73	82
Pension estimates: assisted service	2.5%	50	74
Retirement applications	7.5%	85	73
Pension inceptions	10.0%	90	90
Disability inceptions	5.0%	76	80
---	---	---	---
Personal information	2.5%	100	95
Salary and service credit information	2.5%	100	88
Secure website accessibility	20.0%	100	100
Contact center: accessibility	7.5%	33	42
Contact center: capability	5.0%	88	87
Contact center: call quality	5.0%	89	89
1-on-1 counseling	7.5%	95	88
Member presentations	5.0%	100	100
Feedback	5.0%	100	78
Retiring experience service score	100.0%	87	78

Annuitant Experience Service Score



Activity	Weight	You	Peer Median
Targeted campaigns	10.0%	40	59
---	---	---	---
---	---	---	---
---	---	---	---
---	---	---	---
Pension payments	30.0%	100	98
Personal information	5.0%	100	95
---	---	---	---
Secure website accessibility	32.5%	100	100
Contact center: accessibility	7.5%	33	42
Contact center: capability	5.0%	88	87
Contact center: call quality	5.0%	89	89
---	---	---	---
---	---	---	---
Feedback	5.0%	100	78
Annuitant experience service score	100.0%	88	87

Key outliers influencing your total member service score relative to peers

Higher than peers

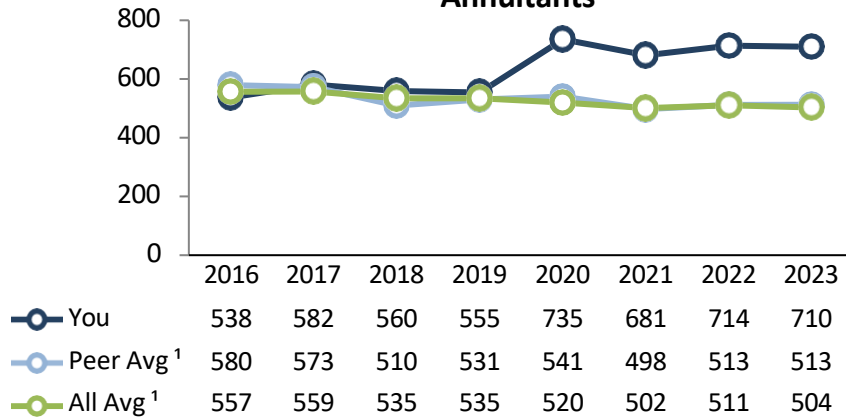
- Your secure messaging portal allows for members to upload documents (Peers: 66.7%) and includes a history of recent correspondence (Peers: 83.3%).
- 95.0% of your pensions (Peers: 93.8%) and 95.8% of your survivor pensions (Peers: 68.0%) are set up without a cashflow interruption of greater than 1 month.
- Members have access online to their complete annual history of salary and credit (Peers: 58.3%) and it is current to the most recent pay period (Peers: 83.3%).
- You score well for your comprehensive member experience surveying program. For example, you survey inactive members (Peers: 58.3%), your secure website (Peers: 58.3%), and the retirement experience (Peers: 75.0%).
- You provided more 1on1 counselling to your active members, particularly "in the field", meeting with 7.4% of active members vs peers at 2.1%. This will be partially driven by the higher complexity of your plan.

Lower than peers

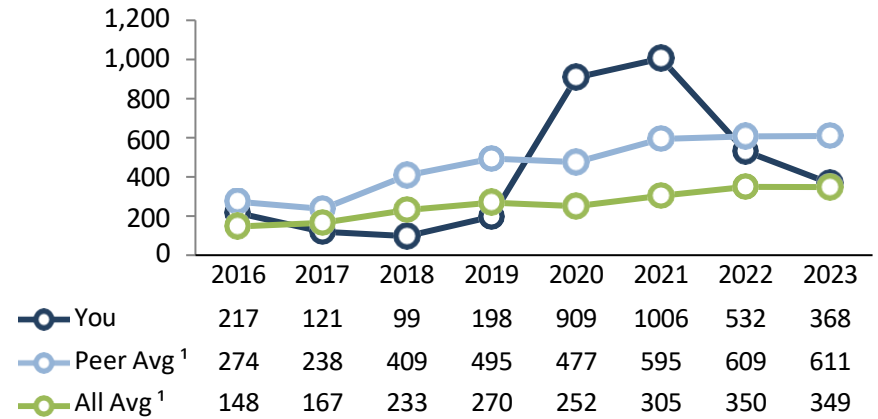
- 72.7% of your peers send an email notification when the member statement becomes available online. Additionally, 75.0% of your peers' member statements include pensionable earnings and an estimate of the future pension entitlement.
- Your secure website has lots of functionality, tools and members can access their own information, however, members accessing your website is below the peer average:
 - Actives - You: 38.6%, Peers: 46.8%
 - Inactives - You: 12.3%, Peers: 17.4%
 - Annuitants - You: 38.4%, Peers: 39.4%

The nature of member calls has changed in the last 8 years.

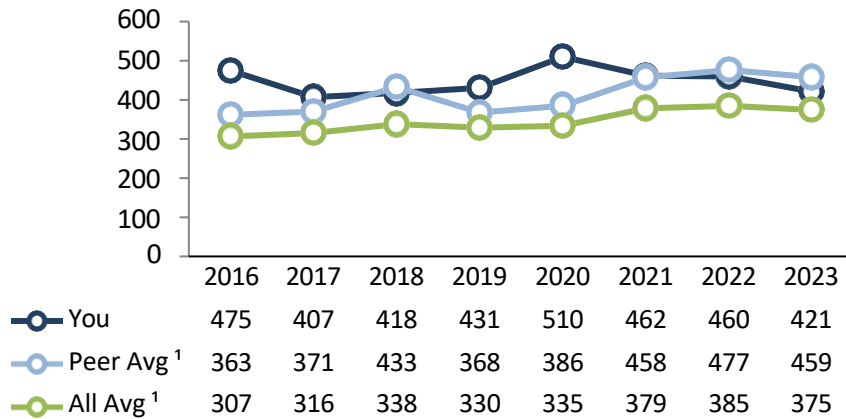
Incoming Calls per 1,000 Active Members and Annuitants



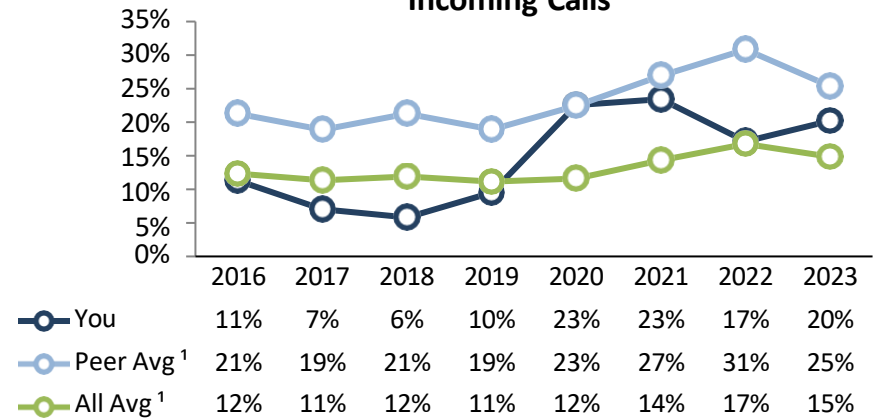
Call Wait Time, in Seconds



Time on Call, in Seconds



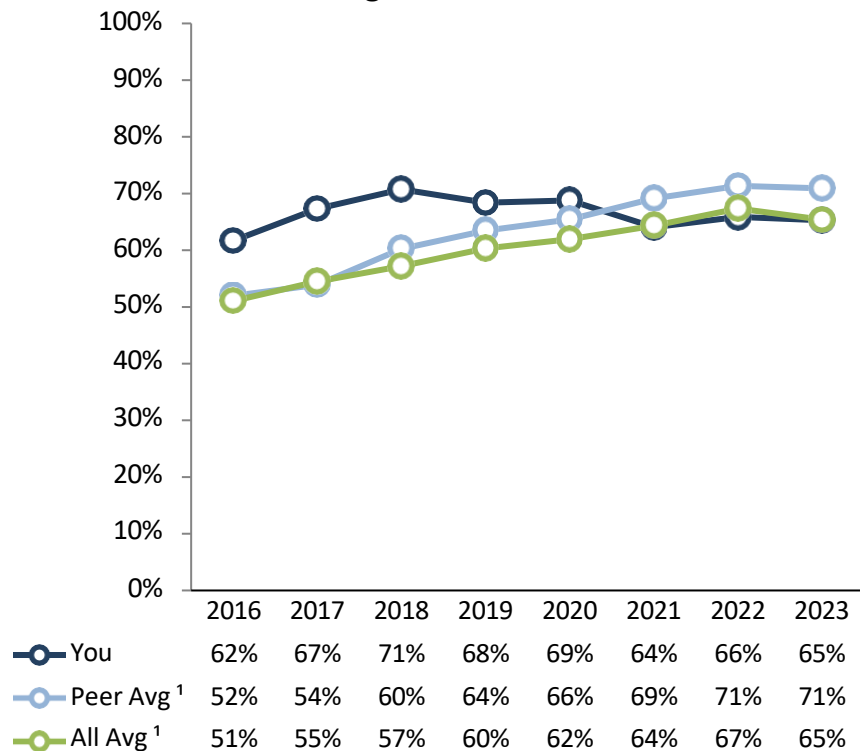
Undesired Call Outcomes as a Percent of Incoming Calls



1. Trend analysis is based on systems that have provided 8 consecutive years of data (11 of your 12 peers and 34 of the 47 systems in the universe).

The digital reach rate for your peers that have participated for 8 consecutive years has grown at a compound annual rate of 5% between 2016 and 2023. The all participant average is 4%. Your digital reach increased from 62% to 65% between 2016 and 2023.

Digital Reach Trend

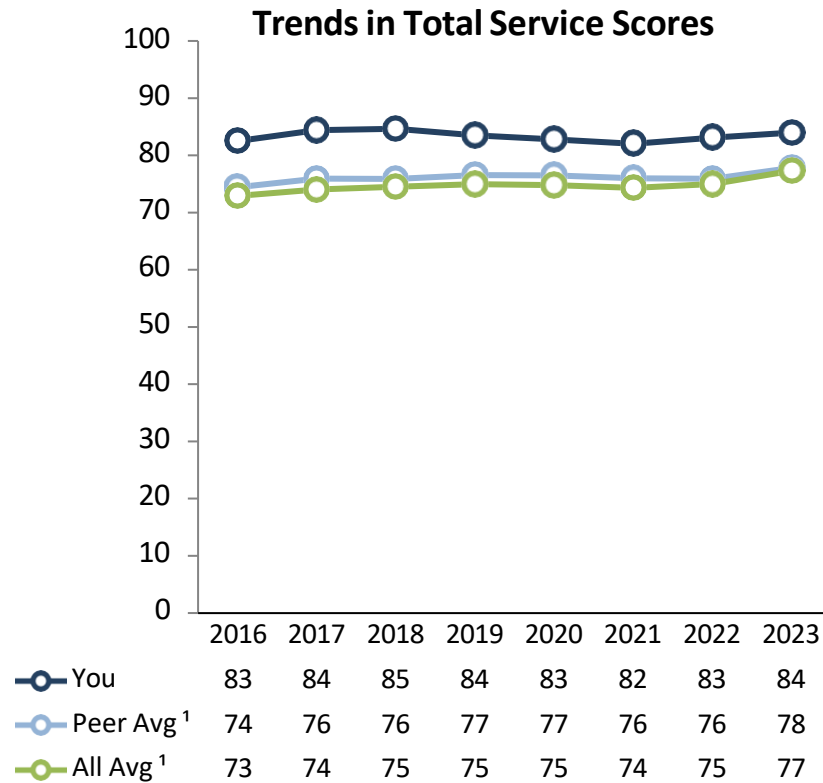


Digital reach measures the proportion of your self-service volumes versus self-service and assisted service transactions, as follows.

Digital reach	
Activity	Volume
Total secure website visits (A)	3,947,897
Incoming calls (B)	1,213,738
Incoming emails/secure messages (C)	202,112
Incoming letters (D)	680,851
Digital reach [A / (A + B + C + D)]	65%

1. Trend analysis is based on systems that have provided 8 consecutive years of data (11 of your 12 peers and 34 of the 47 systems in the universe).

Your service score has increased from 83 to 84 between 2016 and 2023.



Longer term changes

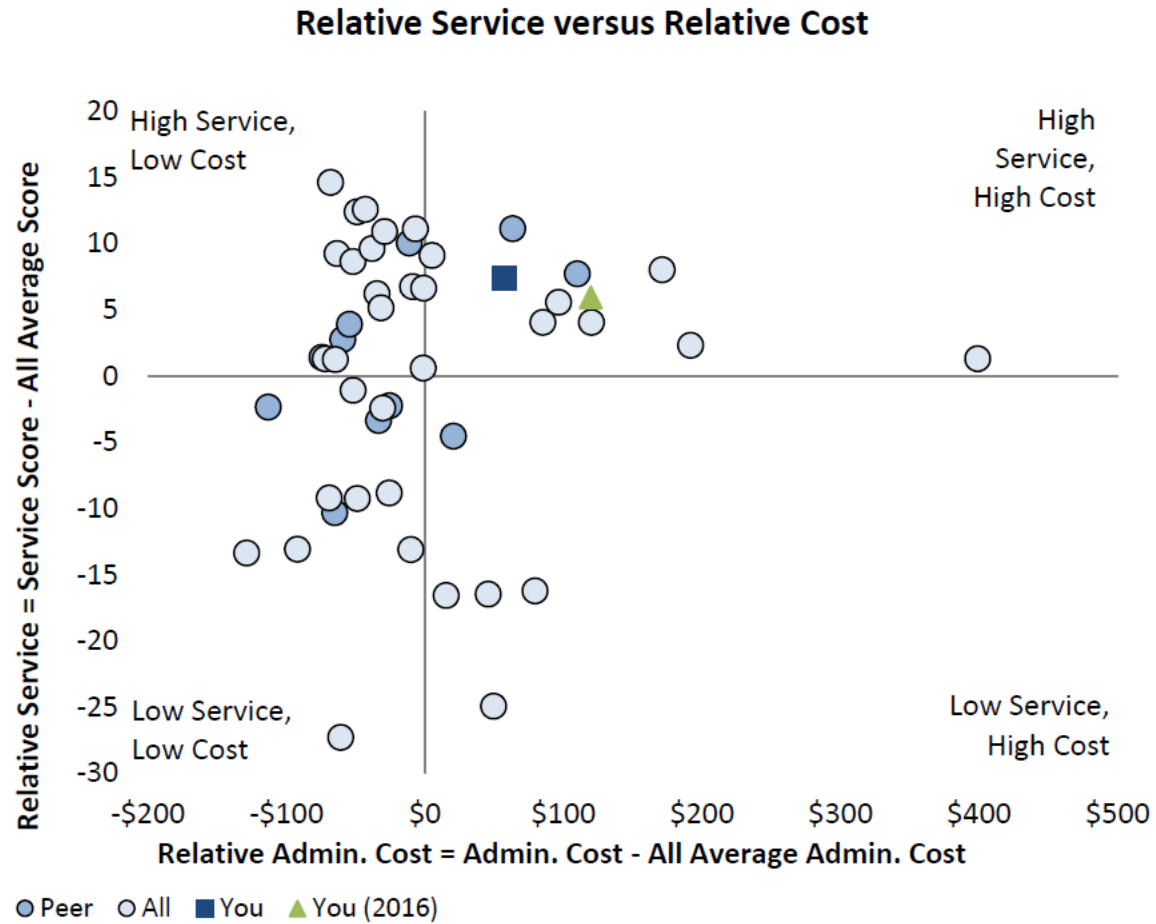
Call Center Covid Impacts

- Call wait times were significantly impacted by Covid. Your call wait times were 99 secs in 2019 and hit a high of 1,006 secs in 2021. Call wait times are coming down and were 368 secs in 2023 an improvement from 2022 at 532 secs. It should be noted that this improvement did not impact your score.
- Undesired call outcomes were impacted by Covid. Your undesired call outcomes were 5.8% of total calls in 2019 and reached a peak of 23.0% in 2021. Undesired call outcomes continue to fluctuate reducing to 17.0% in 2022 and increasing to 21.0% in 2023. These fluctuations did not impact your service score.
- Return to 1on1 counselling and member presentations have helped offset the call center challenges.

1. Trend analysis is based on systems that have provided 8 consecutive years of data (11 of your 12 peers and 34 of the 47 systems in the universe).

Note: Historic scores have been restated to reflect changes in methodology. Your historic service scores will differ from previous reports.

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



Key takeaways:

Complexity

- Your total complexity score of 59 was above the peer median of 40.

Cost

- Your total pension administration cost of \$194 per active member and annuitant was \$64 above the peer average of \$130.
- Between 2016 and 2023 your total pension administration cost per active member and annuitant decreased by 3.9% per annum. During the same period, the average cost of your peers with 8 consecutive years of data increased by 2.4% per annum.

Service

- The CEM service model was updated to capture the change in digital adoption and transformation in the pension industry over the last eight years. It also takes a more member-centric view: scores are calculated by member journey.
- Your total service score was 84. This was above the peer median of 79.
- Your service score has increased from 83 to 84 between 2016 and 2023.

Pension service organizations globally are experiencing significant changes.

Legacy system modernization AI
Service digitalization Cybersecurity
Data quality management Operational Excellence
Customer Experience Member engagement
Hybrid work Employee recruitment and retention
Regulatory change

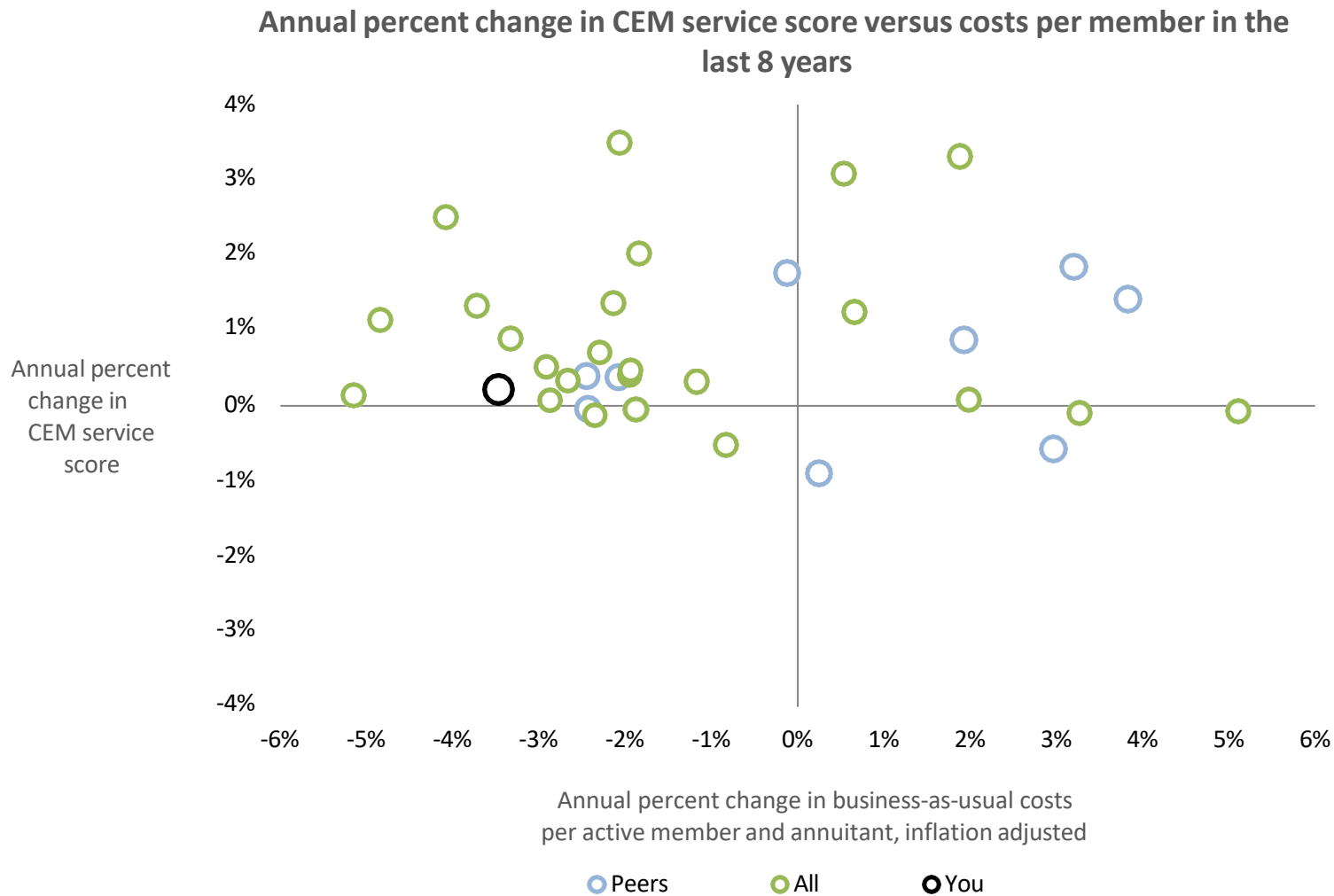
Digitalization

- Members have higher expectations based on their interactions with companies in other industries.
- Upgrading or replacing legacy systems is impacting the costs for most organizations.
- As digitalization increases, there is a growing concern about cybersecurity and data quality...
- ... and there are opportunities with robotic automation and AI.

Post-pandemic impacts

- More transactions are happening on secure websites.
- Organizations continue to adjust to hybrid work models.
- Employee recruitment and retention challenges are disrupting pension operations.
- There has been a substantial decrease in call service levels.

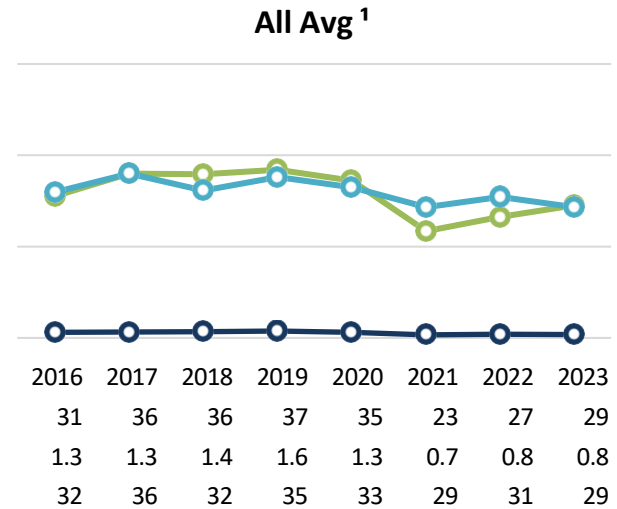
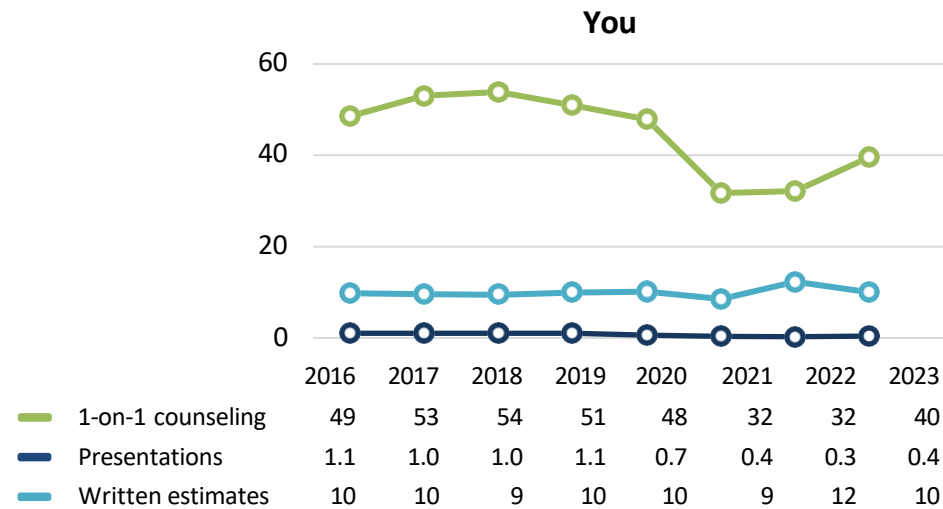
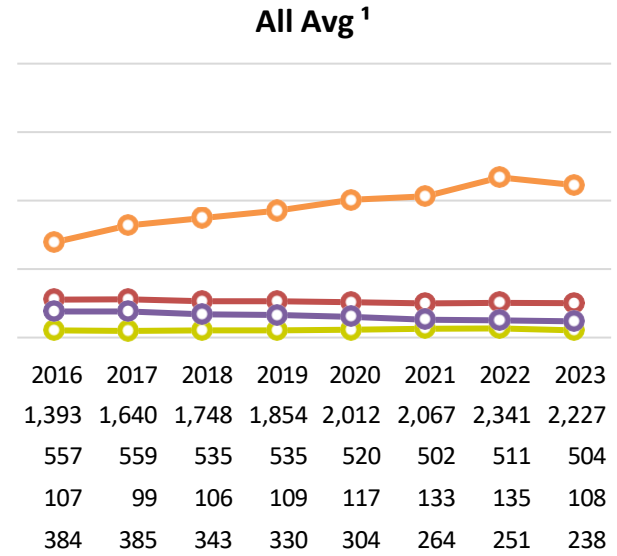
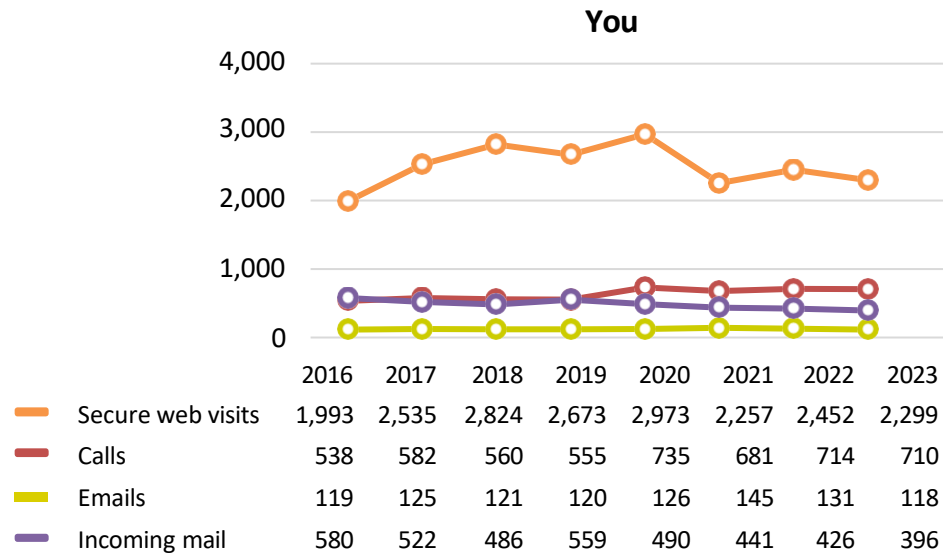
76% of plans with eight consecutive years of data improved their service score between 2016 and 2023. On average, the improvement was 1.2% per year. 56% of plans improved their service score while decreasing their business-as-usual costs per member.



1. Trend analysis is based on systems that have provided 8 consecutive years of data (10 of your 11 peers and 34 of the 47 systems in the universe).

Greater digitalization is the key driver for higher service scores.

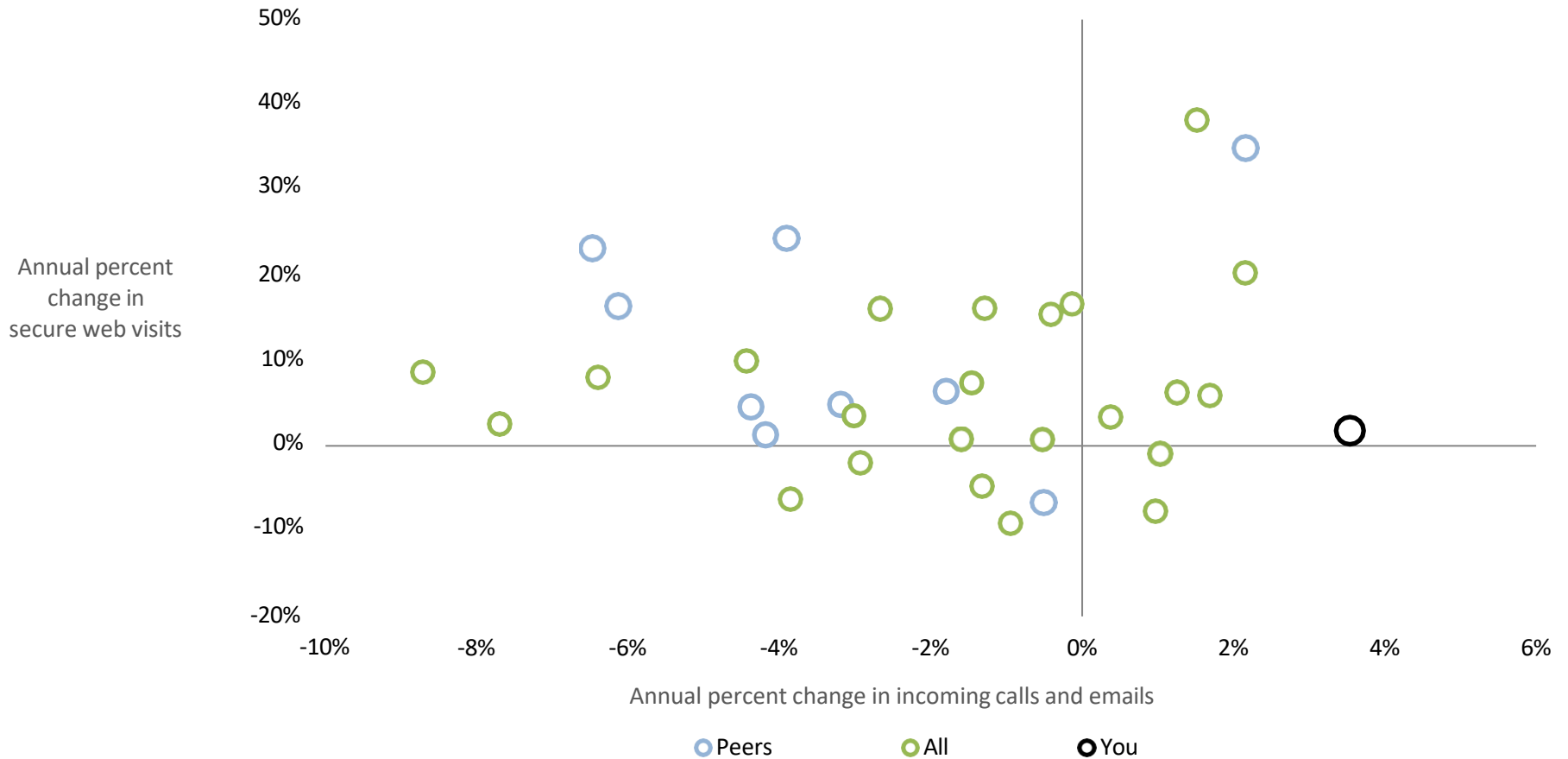
Transactions per 1,000 members



1. Trend analysis is based on 34 systems that provided 8 consecutive years of data.

58% of plans with eight consecutive years of data have increased secure web visits while decreasing incoming call and email volumes.

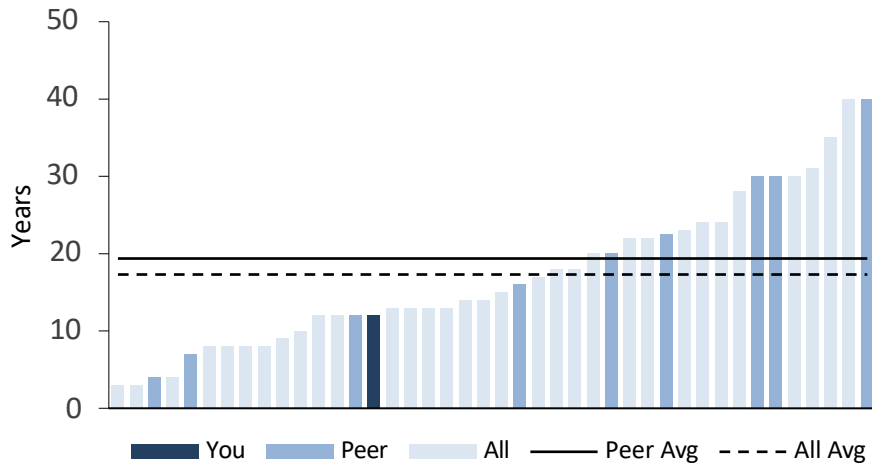
Annual percent change in secure web visits versus incoming calls² in the last 8 years.



1. Trend analysis is based on systems that have provided 8 consecutive years of data (10 of your 11 peers and 34 of the 47 systems in the universe).
2. Volumes are calculated per 1,000 active members and annuitants.

You are not replacing your existing pension administration system. 20 systems are replacing their administration system.

Age of your existing administration system



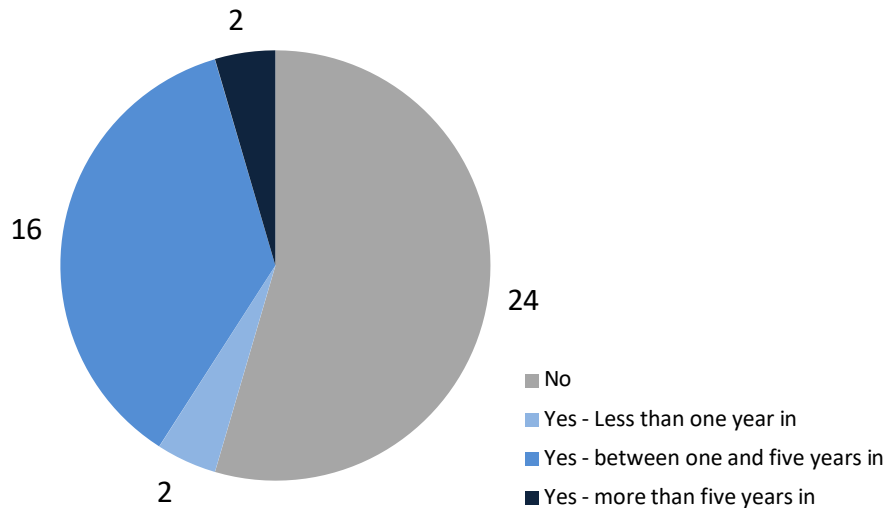
The core pension administration system:

- For 40% of plans, the current system was built in-house.
- For 34% of plans, the current system was built a third-party.
- For 17% of plans their in-house solution was built by a third-party.

System customization:

- 33% of plans whose current system is third-party, required greater than 90% customization on the third-party solution.
- On average, 60% customization was required on third-party solutions.

Plans replacing their existing system



Plans with cloud access are using AI to improve their operations. Most commonly, plans start with low-risk AI use cases in their contact centers to support to service agents.

Common use cases

Contact center

- Automatically create a call transcript and add the post-call summary to the Client Relationship Management (CRM) system.
- Perform call quality assurance and sentiment assessments.

Document management

- Aggregate internal documents into discrete repositories, with meta data, so staff can easily query these repositories for the data they need.

Automation

- Robotic automation of routine back-office tasks.

Proof-of-life verification

- Tracking/identifying members with facial recognition technology

Less common or higher risk use cases

Contact center

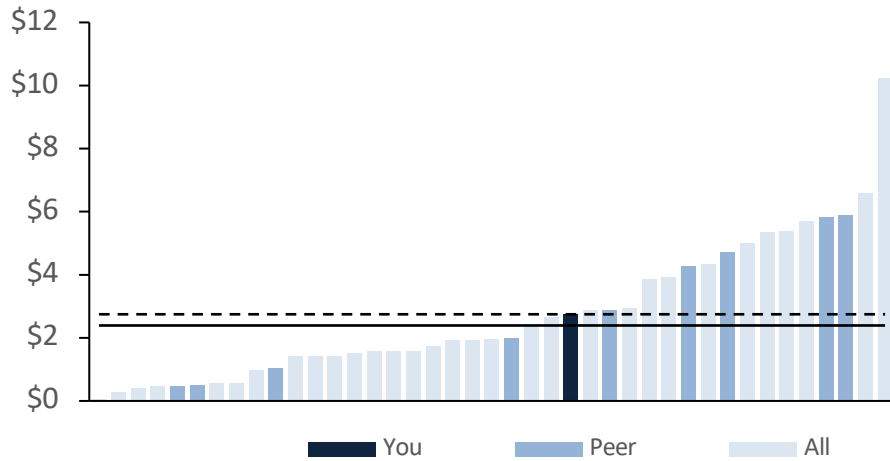
- Redirect members to digital channels and guide workflow with an AI assistant that integrates CRM and browser-based solutions.
- Chatbots for processing member information and answering their questions.
- Predicting a member's next question real-time, on call.
- Real-time, on-call member satisfaction metrics based on voice recognition.

Data quality management

- Large-scale analysis and cleaning of member data.

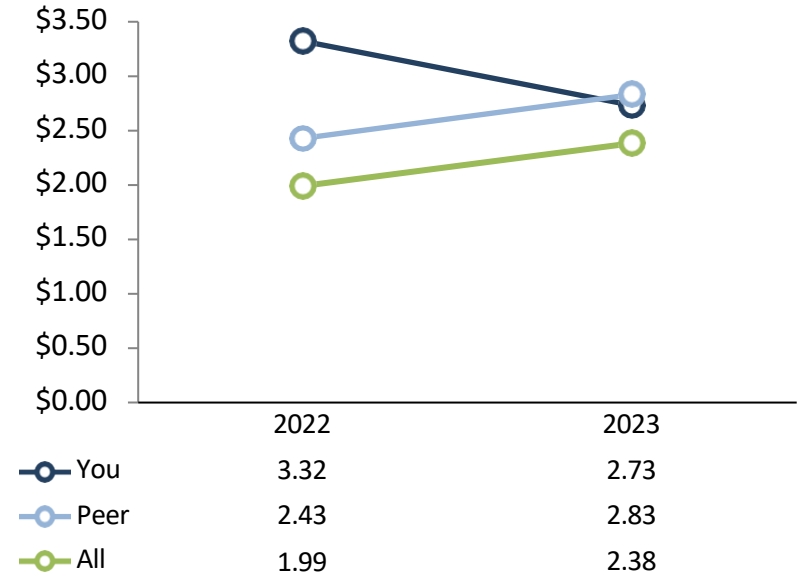
IT security is an increasing concern for all systems. Your costs and staffing of IT security compare to your peers as follows:

IT Security Costs per Member



Your IT security cost per member was \$2.73 versus a peer average of \$2.75.

Your IT Security Cost per Member Trend



Thank you



Christopher Doll

Director, Client Coverage

–

ChrisD@cembenchmarking.com

CEMbenchmarking.com

