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STATE RETIREMENT
and PENSION SYSTEM

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Maryland State Retirement Agency

Testimony of R. Dean Kenderdine, Executive Director

Before the

House Appropriations Committee
February 2, 2018

&

Senate Budget & Taxation Committee
February 6, 2018

Good afternoon, Chairman and members of the committee. As the Executive Director of the State Retirement Agency (SRA), it is my pleasure to present and discuss, on behalf of the System's Board of Trustees, the Agency's proposed budget for fiscal year 2019.

The SRA carries out two equally important business functions: the administration of member and retiree benefits, and the management of invested assets. The continued success of these two core processes is of critical importance to the more than 402,000 active, vested and retired State and local participating employees, teachers, police, judges, law enforcement officers, correctional officers and legislators whom we serve.

Before I begin the Agency's budget presentation, I would like to state that we concur with all of the Department of Legislative Services analyst's recommendations with the exception of the recommendation that we continue to pay all Investment Division operational expenses from administrative fees rather than from the trust fund. We will address his comments in the course of this presentation as we update the committee on some of the Agency's activities over the past year and the progress we have made.

Investment Management

The Maryland State Retirement and Pension System earned a net investment return of 10.02 percent in fiscal year 2017. In addition to exceeding the actuarial return target of 7.55%, the fund also surpassed the return of the policy benchmark by 0.15%. After the payment of benefits, the market value of assets increased by approximately $3.6 billion, from $45.5 billion on June 30, 2016 to $49.1 billion on June 30, 2017, resulting in a funded ratio of 71.8 percent as of June 30, 2017 compared to 70.5 percent at the end of fiscal year 2016. The top-performing asset class for the year was Growth Equity, which consists of both public and private equity.

Net Returns as of June 30, 2017

	1 year	3 year	5 year	10 year
Total Plan	10.02%	4.55%	7.64%	4.15%
Policy Benchmark	9.88%	4.06%	6.89%	3.75%

According to preliminary performance reports as of December 31, 2017, the System's total portfolio returned 6.96 percent on investments for fiscal year-to-date, trailing the policy benchmark by roughly 20 basis points, or 0.20%. The market value of assets as of December 31, 2017 was approximately $51.88 billion.

The System's investment performance during fiscal year 2017 is summarized in the following exhibit:

	FY 2017 SRPS Performance	FY 2017 Benchmark Performance	SRPS Allocation June 30, 2017
Public Equity	19.0%		38.7%
Custom Benchmark		20.1%	
U.S. Equity	18.4%		10.6%
Russell 3000		18.5%	
International Equity	18.2%		9.3%
MSCI ACWI ex. U.S.		20.5%	
MSCI EAFE		20.3%	
MSCI Emerging Markets		23.8%	
MSCI World ex U.S.		19.5%	
Global Equity	16.7%		11.2%
MSCI AC World		18.8%	
Emerging Markets Equity	24.3		7.6%
MSCI Emerging Markets		23.8%	
Private Equity	16.4%		10.3%
Custom State Street PE		13.7%	
Rate Sensitive	-2.1%		21.0%
Custom Benchmark		-3.2%	
BC U.S. Gov't Long Index		-7.0%	
BC U.S. TIPS Index		-0.7%	
Credit/Debt Strategies	10.0%		9.5%
Custom Benchmark		9.9%	
BC High Yield		12.7%	
S&P LSTA Leveraged Loan		7.4%	
JP Morgan GBI EM GD		6.4%	
JP Morgan EMBI GD		6.0%	
JP Morgan CEMBI Broad		7.0%	
Real Assets	4.7%		12.1%
Custom Benchmark		5.1%	

NCREIF ODCE		8.3%	
FTSE EPRA NAREIT		0.2%	
Bloomberg Commodities Index		-6.5%	
Absolute Return	3.3%		7.2%
Custom Benchmark		6.2%	
Cash and Cash Equitization	5.1%		1.2%
Custom Benchmark		0.5%	
TOTAL FUND	**10.0%**	**9.9%**	**100%**

The **public equity portfolio** returned 19.02 percent, compared with a return of 20.12 percent for its blended benchmark. The program has three components: U.S Equity, International Developed Equity and Emerging Markets Equity.

The U.S. public equity portfolio returned 18.44 percent, trailing the return of the Russell 3000 Index by 7 basis points. The international equity portfolio returned 18.23 percent compared to 19.49 percent for its benchmark, the Morgan Stanley Capital International (MSCI) World ex-U.S. Index. The emerging markets equity program returned 24.26 percent, outperforming the 23.75 percent for its benchmark, the MSCI Emerging Markets Index, a broad measure of stock performance in emerging markets.

The **rate sensitive portfolio** returned -2.08 percent, compared to -3.20 percent for its blended benchmark: 48% Barclays US Government Long Bond Index, 14% Barclays US Investment Grade Corporate Index, 14% Barclays US Securitized Index, and 24% Barclays US TIPS Index.

The **credit/debt strategies portfolio** returned 9.99 percent compared to 9.93 percent for its blended benchmark. The portfolio has a blended benchmark of 67 percent U.S. (80% BC U.S. Corporate High Yield Index, 20% S&P LSTA Leveraged Loan Index), and 33% Non-U.S. (50% JP Morgan GBI EM Global Diversified Index, 25% JP Morgan EMBI Global Diversified Index, 25% JP Morgan CEMBI Broad Index).

The **real assets portfolio** returned 4.67 percent, compared to 5.12 percent for its blended benchmark, which is dynamically calculated using the beginning market values of the real estate, commodities and natural resources/infrastructure sub-asset classes and their corresponding benchmarks.

The **absolute return portfolio** returned 3.31 percent, trailing the 6.16 percent return of its customized benchmark, which is the Hedge Funds Research, Inc. (HFRI) Fund of Funds Conservative Index plus 1%.

The **private equity portfolio** returned 16.44 percent, compared to the 13.67 percent return of its customized benchmark, the State Street Private Equity Index (one quarter lag). The program is still maturing and over time is expected to produce returns in excess of the public equity markets.

The System's **Terra Maria** program is comprised of smaller investment management firms—including many that are minority and/or women owned—focusing primarily on equity and fixed income investments. For fiscal year 2017, the program returned 14.6 percent, compared to 15.3 percent for its customized benchmark. While annualized performance for the five years ending June 30, 2017 has been negative relative to it customized benchmark, the return since inception has added value. Since inception, the Terra Maria program has achieved an annualized return of 5.69 percent, compared to 5.05 percent for the benchmark. It should be noted that the Terra Maria program was restructured in the second half of FY 2017 and since the restructuring was completed, performance has improved.

The Investment Division regularly solicits input on investment opportunities and best practices from a number of sources. The System's investment consultants are broadly utilized across the total portfolio in assisting staff in sourcing new investment ideas that improve the risk/return efficiency of the fund. Consultants are also helpful in providing insight into new trends and ideas among other public pension funds. The System also belongs to a number of trade associations, and participates in selective investment conferences, that are useful in establishing peer contacts and gaining market insight. By attending conferences that focus on emerging managers, the System is able to meet, and provide access to, promising smaller managers that might not be identified in the normal search process. Existing and prospective investment managers are also a valuable source of information in terms of market trends and investment opportunities.

Analyst's Comment: The agency should comment on its plans, if any, to generate higher returns given that equity markets are surging.

Agency response: Fiscal year 2017 was a strong year for investment returns, driven mainly by the performance of growth-oriented equities, which were up nearly 20% for the fiscal year. As the largest asset class in the portfolio, representing 49% of total fund assets as of June 30, 2017, equities helped the System achieve a return of 10.02% for the fiscal year, well in excess of the 7.55% actuarial target. Equity markets have continued to post impressive returns in fiscal year 2018, reaching all-time highs. The System has continued to benefit from this bull market, earning a return of 6.96% for the first six months of fiscal year 2018. In fact, as of December 31, 2017, the System has achieved an average annualized return over the last five years of 7.61%, exceeding its actuarial return assumption of 7.55%.

While the System's investment returns have outpaced both the actuarial assumed rate, as well as the policy benchmark over the past five years, the results rank toward the bottom when compared to other large pension funds. The System's peer ranking is a function of risk management and an asset allocation that is more defensive and balanced relative to the peer group. After the large stock market drawdowns that occurred during the tech bubble in the early 2000s and again during the financial crises in 2008-2009, the System determined that the fund was too exposed to the public equity market, which historically has been one of the most volatile asset classes. As a result, some of the public equity assets were re-allocated to other asset classes with less exposure to the stock market. While the System's allocation to public equity represents an underweight versus the peer group median of roughly 10%, it enables the System to achieve its actuarial return target, based on modeled long-term risk and return assumptions, with lower risk and a smoother return stream than the overall peer group. In addition, while the fund's allocation to public equity may be lower than most other funds, it still represents the fund's largest exposure by a wide margin with a long-term target of 37% of the total portfolio. The System accepts that during periods of strong public equity performance, as has been experienced over the past several years, it will lag the peer group. However, the System should perform better during periods of market stress and public equity drawdowns.

The Board of Trustees reviews the System's asset allocation on an annual basis. As part of this review, the Board analyzes the volatility of returns for various asset allocation options, in addition to return expectations. Risk is a critical component of the process, as portfolios with higher return volatility will result in lower asset values over time relative to lower risk portfolios, all else being equal. The objective of this process is to balance the goal of achieving required long-term returns with the goal of minimizing contribution volatility to arrive at an asset allocation with an efficient risk and return profile. As a result of its most recent review, the Board made only minor changes to the asset allocation, electing an allocation that meets the long-term return objective of the System with an acceptable level of risk. It should be noted that the System's asset allocation has been reviewed by three different investment consultants in the last four years. All three have confirmed that the Board's asset allocation is reasonably balanced and diversified, and did not recommend material changes in the current policy. The Board will continue to work with the Investment staff and consultants to ensure that its asset allocation continues to meet the objectives of the System, and to take advantage of investment opportunities as global economies and capital markets evolve over time.

Analyst's Comment: The board and the agency are asked to comment on their short- and long-term expectations for Investment Division staffing levels and compensation, including any planned performance bonuses, if the proposed legislation is enacted.

Agency response: In 2017, the Investment Division engaged outside consultants, Cutter Associates and The Funston Group, to evaluate the current state of the Investment Division, to explore the business case for moving some assets to internal management and to provide a roadmap to implementation. To initially address the current resource deficit within the Investment Division under the existing external management structure, the Agency and Board identified the need for an additional eight positions. Below is a table showing these positions and their respective budgeted salaries under the existing state salary scale. The actual salaries will be dependent on the qualifications of the candidates, and whether the proposed legislation is enacted.

Grade	Title	Target Salary	Salary Ranges
ES9	Managing Director – Fixed Income	$150,000	$114,874 - $153,532
22	Sr. Investment Analyst – Fixed Income	$103,743	$64,608 - $103,743
22	Sr. Investment Analyst - Compliance	$103,743	$64,608 - $103,743
20	Associate	$73,946	$56,743 - $91,107
20	Associate	$73,946	$56,743 - $91,107
20	Associate	$73,946	$56,743 - $91,107
17	Asst. Director - Administration	$60,815	$46,857 - $75,012
17	Accountant Lead Specialized	$60,815	$46,857 - $75,012
	Total Targeted Salary	*$700,954*	

In the long-term, the Board believes the required type and number of investment personnel and supporting services will change. To ensure the Board's ability to meet these immediate and long term resource needs, it has requested legislation through the Joint Committee on Pensions that would empower the Board to approve expenditures for the Investment Division. In the near term, the legislation would enable the Board to improve the ability to attract and retain investment staff and provide appropriate resources to support their activity. A more consistent and resourced staff is expected to improve investment performance in the near term as the Division increases the depth of human capital overseeing the fund. The Board anticipates increased levels of accountability both for itself and for the Investment Division. Both will use regular reporting to demonstrate how the authority is being implemented and its effectiveness.

The proposed legislation would also provide an appropriate governance structure, allowing the Board to consider an internal management function, which could result in lower management fees and improved net investment returns. The staffing recommendations to implement internal management contemplates a staged expansion of staff that follows a gradual progression of assets transitioning to internal management, focusing on phase-in periods of two years, five years and ten years. This gradual implementation will allow staff to build necessary infrastructure and expertise, demonstrate proof of concept and allow the Board to review and monitor performance on a smaller scale at the outset. For a more detailed potential implementation schedule, please refer to the summer study that was requested as part of the 2017 Joint Chairmen's Report.

The first stage of implementation would cover a roughly two-year period. During this phase, it is anticipated that staff would install the necessary infrastructure and begin to manage assets in a largely passive manner by the end of the period. As a milestone, the net annualized fee savings are projected to be approximately $18 million at the conclusion of Stage 1. During this period, it is anticipated that eight additional positions will be required, at an estimated total salary of $800,000.

At the end of this initial two year phase, the Investment Division will evaluate progress and determine whether to proceed to the second phase. Assuming successful implementation of phase one, the Investment Division will work on the next phase during the third through fifth years, which focuses on developing more active management products and increases its focus on co-investment in private assets. By the end of this period, the annualized net fee savings are projected to be in excess of $120 million. During this phase, the staffing level is expected to increase by nine positions, with an estimated total salary of $1.2 million.

The final phase concludes in the 10th year and anticipates 50% or more of assets are managed internally. By this point, staff will be engaged in more sophisticated active strategies which will produce incrementally more fee savings per dollar invested. The expected net annualized fee savings after 10 years is projected to be over $200 million. The projected savings cited in each stage are net savings after accounting for the costs of building the necessary infrastructure. In large part, the additional expense is attributable to additional headcount. It is difficult to project staffing levels ten years in the future. Similarly sized plans with internal management functions have as many as fifty to seventy investment focused staff compared to the system's current complement of 17. Those plans provide examples of an upper range on what may be implemented by the System.

Should the proposed legislation be enacted, the Board and Investment Division will establish policies and processes necessary to exercise these responsibilities. In the area of staffing and compensation, the Board will establish a detailed structure that will allow the System to operate on a competitive basis for investment positions. This compensation strategy will target alignment with Investment Division staff by providing incentives to achieve investment objectives, and conversely, disincentives for poor performance. For front office staff responsible for making investment decisions, the Board will consider a compensation plan that consists of a salary and incentive bonus program based on objective and quantifiable performance measurements. The result will be that these employees will need to meet investment performance goals to be paid at a similar rate to peers. The Board anticipates changes to existing staff compensation, while necessarily larger than historical to bring salaries into the range of market peers, will be a relatively small part of the Division's budget on an annual basis. The pace of salary increase will be determined by the individuals and the System meeting their investment objectives.

The Board and the Agency appreciates the serious consideration the legislature has afforded these proposed changes to the Investment Division and the investment program of the System. At their core, these proposals are about governance and the balance between the Board's responsibility to protect and enhance the value of System assets to meet its obligations to beneficiaries, and the responsibility of the executive and legislative branches to be efficient stewards of taxpayer funds.

Analyst's Comment: DLS recommends that only compensation, but not operational expenses, for the Investment Division be paid from the accumulation funds of the several systems. Operational expenses should continue to be paid from the administrative fees to minimize the effect on the accumulation funds.

Agency response: The Agency does not concur. We believe certain expenses should be included in the budgetary authority for the Board anticipated by the bill. Many of these items are tied directly to the division's headcount and their approval should be linked to the approval of additional positions.

Examples of these expenses include technology resources (computer hardware and software); data providers, such as Bloomberg; and risk systems, such as FactSet. Other items are anticipated to be incurred to support the System's efforts to lower fees through internal management and other initiatives. The Agency believes that governance of the Investment Division should address all of its activities so that systems, services and people are managed in a consistent, coordinated manner.
The one exception to this Agency position would be the expenses associated with the System's custodial banking services contract. Since the Board already has authority for that contract and it is not anticipated to be a budgeting obstacle, it could be reasonably excluded from the proposed legislation.

Information Systems

The Agency's data and voice technology platforms continue to operate reliably with virtually no production downtime. Since the last legislative session, upgrades and new releases have been successfully implemented to Employer Payroll Data Reporting (EPDR), the Deferred Retirement Option Program (DROP), deceased benefits tracking, and several other applications, operating systems, and utilities used by the Agency in its day-to-day operations.

In addition, significant strides were made in support of the Maryland Pension Administration System (MPAS), the complex custom-developed application completed in August 2010. MPAS continues to operate effectively without downtime and without significant error. The Agency replaced the MPAS business rules engine, completing work in FY17, and upgraded the MPAS hardware platform and operating components without any interruption, whatsoever.

In partnership with the Agency's Business Operations Office and Information Systems Division, the Maryland Pension Administration System (MPAS) Phase 2 initiative was completed during the fiscal year. This initiative focused on improving the integrity of membership data within the MPAS database, specifically the member's service and salary data used to calculate the monthly retirement benefit allowance. Successful outcomes included an automated auditing of over 290,000 membership records with data corrections made to service values that were communicated to over 16,000 individuals. Additionally, suspect service data were identified and flagged for over 52,000 records. This significant step, to improve nearly 40 years' of collected information, marked the completion of the MPAS Phase 2 business initiative, setting the stage for the start of Phase 3, Business Process Re-Engineering.

These data cleansing activities were completed on schedule and new controls were implemented in EPDR to minimize introduction of new anomalies or inconsistency in member service credit data moving forward. Indeed, MPAS-2 met or exceeded Agency expectations, with close to 90 percent of service credit records now linked and deemed usable for calculations without requiring full manual audit. Looking ahead, this outcome will greatly expedite the time it takes, on average, to produce benefits estimates—a major goal of the Agency and the Board of Trustees.

The accumulated backlog of improvements and updates reported last year to MPAS is now virtually complete and several additional strides were taken towards eventually opening MPAS up to real-time access by, and transactions with, participants and employers. This includes progress towards automating the calculation of average final compensation, another critical component (together with service credit, discussed above) towards eventual automation of retirement benefits calculation.

With these baseline activities at or nearing completion, the Agency initiates MPAS-3. This project was accepted by the Department of Information Technology on March 23, 2017 as a "Major IT Development Project" (MITDP) because of its scope, as required by the General Assembly last year. A contract has been awarded for the initial business process consulting and transition management services. That contract started January 4, 2018. In addition to these consulting services, proposals were due on January

16, 2018 for systems development and business analyst services, which will eventually provide sufficient supplemental technical staffing to support MPAS-3 for the project's anticipated four year duration.

The budget request for fiscal year 2019 that is before the legislature will provide the requisite resources to move forward methodically, consistent with the Agency's long-term strategic plan. The Agency and the MSRPS Board of Trustees request full funding of this over-the-target budget request. After 12 years of planning and successful prerequisite work, the time has arrived to achieve the full MPAS return-on-investment.

The Agency's other internal applications continue to function well, including our fund accounting application, our Intranet, the service credit buy-back calculator, document imaging, voice technology and call center functions, the interactive voice response system, and utilities such as electronic mail and calendaring. MPAS-3 promises to integrate many of these stand-alone applications, to improve the efficiency of Agency business operations and technology. The Agency is currently evaluating competitive proposals from various contractors to update its public Internet site, with planned completion later this calendar year.

The Agency's information security profile remains strong, as confirmed by recent independent audits, although this situation does not allow for complacency. Security threats continue to evolve and the Agency endeavors to stay vigilant, reflective of the risk inherent in the activities transacted in support of MSRPS participants. That risk profile will change as the Agency implements online transaction processing, and the proposed FY19 budget reflects that change.

The Agency selectively uses Internet "cloud-based" applications where there is specific business advantage. For example, the application used by our Board of Trustees to manage its agenda is still cloud-based, and has functioned well as the Agency's secure Board Portal. Our Member Services operation uses an Internet-based application for members to schedule appointments to see counselors. In addition, the Agency utilizes services provided by the State, such as networkMaryland and the State's Workday human resources application, along with general budgeting and accounting applications.

In sum, the Agency's information technology continues to operate reliably, securely, and efficiently to serve our membership, employers, and staff, and the Agency continues to incrementally improve existing applications. With this current budget request for fiscal year 2019, the Agency intends to move ahead with its strategy for Internet-based real-time production of benefits estimates, application integration, further automation of member relations and document management, and service improvement for all 403,000 MSRPS participants, and with the approximately 150 employers we support across the State.

Analyst's Comment: The Agency is asked to update the committees on the current status of MPAS-3 and describe the expected allocation of fiscal 2019 funds.

Agency response: The contract for Business Process Engineering Consulting and Project Management Services began on January 4, 2018. Several kick-off meetings were held with the Agency's staff to introduce the consultant team, educate them about the Maryland Pension Administration System (MPAS) Phase 3 – Business Process Engineering project and their roles in various phases of the project. Also, the consultant team, in partnership with Agency's Administration Division and Business Operations Office, developed the initial draft of the business processes that will be included in the Business Process Re-engineering effort. The planned activities are Business Process Discovery Sessions to document the "as-is" model of each business process with the respective division's staff members. In addition, there will be two contracts initiated in FY 2018 for the purpose of providing technical and business analyst support for MPAS-3 for the project's duration. Proposals (under the State's CATS+ program) have already been received by the Agency and award of these contracts is anticipated in March/April 2018. Therefore, the assembly of the entire project team is moving according to schedule.

The MPAS-3 initiative will focus on improving the overall efficiency of all business operations seeking optimal automated solutions. Preliminary MPAS-3 plans include an evaluation of each current "as is" business function and the development of a desired "to be" business model with anticipation of reengineering certain functions to transform them from the current batch processing mode to a more modern and efficient process. MPAS enhancements will most likely include the automation of current manual processes; a robust automated workflow; and a fully integrated customer relations management tool. A major focus of the MPAS-3 initiative is to establish a secure authentication process, allowing participants of the System access to their information, generate retirement benefit estimates, and the ability to transact certain business with the Agency via a secure online portal.

As noted by DLS, the Agency anticipates obtaining approximately 14 technical and business analyst contractors through these CATS+ vehicles, to initiate batch program conversion to online updates for staff and members, acquisition of commercial authentication services and incorporation of those services into a secure member portal, and programs to acquire and implement member relationship management, workflow management, and document management products. These activities will require construction of server and workstation platforms in advance of any product development or acquisition; therefore, hardware and software related to these platforms is also included in fiscal year 2019's requested appropriation.

Last, the technical resource contracts will be used to plan, and subsequently execute, interfaces among various applications and technologies, e.g., interfaces between the member relationship management product and existing Agency voice technology. Many of the MPAS-3 components will require multiple years to complete, and so it is critical to begin planning for them in fiscal year 2018, to ensure that procurement can proceed early in fiscal year 2019.

The fiscal year 2019 appropriation will also fund the oversight fee for the Department of Information Technology, as noted in DLS's exhibit on page 12.

Benefits Administration

Active membership increased slightly from 192,494 in fiscal year 2016 to 192,742 in fiscal year 2017 and we continue to see steady and consistent increases in the number of annuitants. At the end of fiscal year 2017, the number of retirees and beneficiaries receiving benefits increased 2.5 percent to 156,366 compared to 152,566 in the previous year. Over a ten-year period, the total number of annuitants has grown 39 percent from 112,422 in fiscal year 2008 to 156,366 in fiscal year 2017. Our current number of retirees and beneficiaries receiving monthly allowances is more than 160,000, as a result of new retirements since July 1, 2017.

During the past fiscal year, the Benefits Administration Division has continued to experience a number of vacancies in most units. Recruitment challenges resulting from continuation of the State's hiring freeze exemption, and frozen positions in order to meet the Agency's turnover requirement requires constant re-allocation of staff within the production areas of the Division to ensure timely completion of critical tasks and to minimize delays and backlogs to less critical duties. Hiring and retaining qualified staff has remained a challenge for most units of the Division throughout the fiscal year. However, staffing in the Member Services Unit has been stable with all positions filled by fully trained staff. This full staffing and the reduction in sending counselors to offsite locations has allowed the unit to meet its Call Center performance measures for fiscal year 2017:

Performance Measure	Performance Goal	FY2017 Performance Average
Calls Abandonment	Not to exceed 6.0%	5.38%
Average Wait Time	Not to Exceed 105 seconds	85 seconds

Completion of the MPAS-2 project, as discussed above, aids staff in auditing of accounts for purposes of providing members a retirement estimate and/or final retirement benefit amount. With these initiatives completed, the Agency is now focusing its efforts on the final phase of the MPAS initiative (MPAS-3).The Agency made extensive salary data corrections to nearly 6 million salary data elements, impacting over 140,000 member records. Additionally, a significant number of salary records were flagged as suspect. The Agency developed and implemented a comprehensive salary calculator tool that evaluates the member's complete work history, and accurately calculates the average final compensation in accordance with each plan's rules. Service and salary data coupled with the benefit formula as provided by law are the essential components used to calculate a retiree's monthly retirement allowance.

In conjunction with the MPAS-3 initiative, the Division continues to examine and evaluate its processes to provide accurate and complete information, and improve service levels to the System's participants. Educational videos for participants and employers continue to be developed and posted to the Agency's website and the Division has also expanded its use of webinars to deliver information to participants and employers. Improvements were also recently completed to the Agency's Interactive Voice Response system to allow callers the ability to be more quickly and easily transferred to a Retirement Benefits Specialist, should they need to speak to someone.

Analyst's Comments: The Board and Agency should comment on the factors that contributed to the significant improvement in call center performance, as well as any steps necessary to sustain that performance going forward. It should also comment on how it new goals compare to industry standards for call centers and whether the goals in effect prior to fiscal 2018 should be restored given the call center's improved performance.

Agency response: Several factors contributed to the Agency's improvement in Call Center performance. The most important factor was that the Agency's Member Services Unit has not experienced significant staff turnover. As a result of this low turnover, all staff in the Call Center have completed the approximate six month training period, and are able to independently and efficiently respond to member telephone inquiries. Other contributing factors include but are not limited to the Agency's utilization of webinars to communicate with employers and participants, thus keeping more staff on-site; continued updating and expansion of resources available for participants through our website; on-going Agency communications through our various newsletters to members and retirees; the utilization of skill-based routing to direct calls to responsible staff, and establishing a dedicated phone line to address select projects (e.g. a new payroll reporting application, Correctional Officer Retirement System transfer program); and management's on-going and continued focus on meeting our Call Center performance goals.

The Agency believes it will be able to sustain this performance through continuation of the above noted actions, but recognizes that staff turnover is outside of our control. Unfortunately, when vacancies occur, it may take up to 9 - 12 months to recruit and train staff to reach sufficient competency levels to man the telephones. In FY 2018, through on-going utilization of technology, the Agency made improvements to our Interactive Voice Response (IVR) system to streamline and reorganize our menu selection options, making it easier for participants to obtain information and reducing the need to speak to an individual. We also made changes to allow an individual to opt out of the IVR system and speak to a counselor, recognizing that although this could potentially increase call volumes, it is an improvement to overall member service.

The Agency's Call Center performance goals for FY 2018 were increased from our FY 2017 measures as follows:

Performance Measure	FY 2017 Standard	FY 2018 Standard
Call Abandonment	Not to exceed 6.0 %	Not to exceed 7.5 %
Average Call Wait Time	Not to exceed 105 seconds	Not to exceed 135 seconds

In FY 2016, the Agency participated in a benchmarking study with Cost Effective Measures (CEM), an organization focused on measuring performance for over 70 global pension systems. The average abandonment rate for our peers was 10%, and the average wait time was 127 seconds. In FY 2008, when the Agency previously participated in the CEM benchmarking study, the average peer abandonment rate was 11.9%, and the average call wait time was 198 seconds.

The Agency's improved Call Center performance would have also met the more stringent FY 2017 standards. However, in recognition of the latest CEM standards in FY 2015, the Agency is considering whether to decrease the Average Call Wait Time standard to 125 seconds, while retaining the current Call Abandonment standard to be consistent with our peers. However, the greatest factor to the Agency's success is having fully trained staff. Lastly, irrespective of any changes to our performance measures, we're meeting our membership expectations as gleaned from our positive survey results.