Economic challenges spark rewarding journey

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Introduction

Admit it. When you think of retirement, you think of a sunny beach somewhere warm. Or, perhaps you think of a cruise around the world. Or, how about a cross country road trip; or 36 holes a day on an endless series of lush green fairways? Maybe you plan to check off the next 50 or so items on your bucket list.

Ah, now we're talking retirement.

Whatever your vision of retirement, whether it's following one of the dreams above, or simply spending as much time as possible with family or giving back to your community, retirement is intended to be that time in life when we get to enjoy the fruits of our labor and the arrival of a long-planned goal. For many, sadly, these current economic times have meant either a delay in their retirement dream, or reaching a retirement that is far from the way it was supposed to be.

At the Department of Retirement Systems (DRS), we're the folks who administer the state of Washington's public pension plans, and regardless of the financial climate, it's our goal to provide our customers with all the information they need to make informed decisions regarding their retirement. The last eight years have presented many challenges, but they've also seen a few of our biggest accomplishments.

The Great Depression redux

In October 1929, the U.S. Stock Market crash brought the “roaring ’20s” to an end and signaled the start of the Great Depression – the greatest sustained economic slump in American history.

Nearly 80 years later, a similar stock market crash in 2008 signaled the beginning of our recent economic downturn. The pension plans administered by the state of Washington took the biggest financial hit since their inception. The challenge of this modern day “depression” has forced state governments to re-evaluate the services they offer – and indeed the entire way they conduct business.

At DRS this has meant a sharpened focus on the long term health of the pension plans, and a shift from an organization that emphasizes customer service, to an agency with a goal of 100 percent customer satisfaction. It’s also brought about a change in philosophy. An organization once known for its neutral stance on policy issues is now recognized for the key role it’s played in recent pension system changes.

Back to the beginning

But that’s getting ahead of the story. To tell it from the beginning, we have to go back to April 2005. That month, Sandy Matheson began a four-year stint as director of DRS. Pension issues had already begun to surface in the private sector much like they have in the public sector over the last few years.

“It’s difficult if not impossible to manage long-term commitments with short-term actions. And pensions are very much a long-term commitment.”
Former DRS Director Sandy Matheson

“We had started to see in the private sector (by 2005) the growing recognition that there were challenges ahead for pensions,” Matheson said recently in a telephone interview from Maine where she is now the Executive Director of Maine’s Public Employees Retirement System. “So when I came in I gave a heads-up that we needed to take steps to protect the long-term health of the plans, and that this meant higher long-term costs.

“It’s difficult if not impossible to manage long-term commitments with short-term actions. And pensions are very much a long-term commitment.”

Unfortunately, the financial recession was still years away and there was little energy to take up Matheson's pleas for a close examination of the long-term health of the pension plans.

"The challenge was trying to bring the nature of a long-term commitment in line with a short term budget cycle," she says.

DRS Deputy Director Marcie Frost credits Matheson for bringing an early voice to the need for pension changes.

"Sandy got their attention," Frost says. "She started asking the difficult questions. She was out there talking about pension system challenges and there would not have been traction on these issues later on without her early voice."

What's in a survey, you say?

Sounding the long-term pension health warning bell was only one of the challenges Matheson faced during the early days of her time at DRS. The Statewide Employee Survey reflected another cause for concern.

"Our employee survey results went from the bottom to close to the top," she says. "On four or five of the 10 standards we got the highest grade. We transformed the workplace at DRS. That was a big accomplishment."

Matheson says it's important for a director to approach the workforce the same way you look at pensions – with a long-term view.

"It's a good idea to manage your team as a long-term workforce, even though you are a short-term leader," she says. "We tried to leave a legacy of long-term effective hiring, and quality assessment practices."

Tough decisions today; pension plan health tomorrow

Those pension issues that Matheson sounded the early warning for in 2005 moved to the top of the priority list following the 2008 financial crisis. Steps taken in the wake of the economic downturn have included eliminating the Plan 1 Cost-of-Living Adjustment (COLA) and the Plan 3 gain sharing payment. Retirement Strategy

Funds, a completely new lineup of funds tied to a member's expected retirement date, were introduced to the Plan 3 systems and the Deferred Compensation Program (DCP) fund lineup in 2008. A new set of early retirement benefit reduction factors (ERFs) have also been adopted, along with changes in the retiree return to work rules. All of these actions have improved the long-term status of the pension plans.

"None of these decisions were made lightly," says Steve Hill, who became director of DRS in 2009. "They impact many members and retirees across the state of Washington. But they represent the kinds of tough decisions required following the 2008 financial crisis."

Again in 2011, significant changes were made to the Plan 3 and DCP fund lineup. The communication efforts behind that fund lineup transition were recognized with a national Communicators Award as more than 30 percent of members (compared to an industry average of five to seven percent) took some type of action with their Plan 3 or DCP account as a result of the fund changes.

"All of these changes have been made to support and maintain the long-term health of the plans," says DRS Legal and Legislative Services Manager Dave Nelsen.

"These were tough calls, but this was an unprecedented challenge in terms of funding," Hill says. "The scale of this market loss has not been seen since the Great Depression.

DRS Director Steve Hill

Another key decision was switching the default Plan 3 fund (the fund your contributions are directed to if you join Plan 3, but do not choose a fund) from the Total Allocation Portfolio (TAP) fund, to one of the newly created Retirement Strategy, or "Target Date," Funds.

"We changed the Plan 3 default fund to a target date fund, not to be paternalistic," Hill says, "but because as administrators we want to guide our customers to what they need for a successful retirement."

Hill compares the recent changes to the decisions made in 1977 that resulted in the closing of the Plan 1 systems and the birth of Plan 2.

"These were tough calls, but this was an unprecedented challenge in terms of funding," Hill says. "The scale of this market loss has not been seen since the

Great Depression. This was the biggest financial hit for these plans – ever. The Plan 1 COLA, the new ERFs, gain sharing and the new rules around returning to work after retirement, will save billions in long-term costs. We've put into place all these changes and we've still maintained our standing as one of the most affordable pension systems in the nation."

"We've positioned our systems in a much more sustainable way," adds Nelsen.

For sure, these were difficult decisions born from difficult economic times, but Nelsen says that it's often the trying times that lead to positive long-term changes. And it's equally important that changes be for the long-haul and not an overreaction.

"It's important during tough times that you use those circumstances to effect long-lasting changes," he says, "and it's important not to overreact, which would have been easy to do. What we did was react wisely. We understood these were tough choices, but they were necessary to maintain the health of the plans."

Hill echoes this idea that the economic downturn can lead to positive changes. He says that it allowed DRS to take other steps in the way the agency does business.

"It gave us the leverage to get beyond the old 'this is the way we've always done it' line," he says referring to the changes. "For example, we've shifted away from printed materials to a focus on online and other electronic delivery options."

DRS launched a new online retirement application in the spring of 2012, and so far it's been an overwhelming success. More than 23 percent of retirement applications are now being submitted online and that number is growing. And it's just one part of where the agency wants to go with its online services.

"We're building our online presence and making it easy to get information," Frost says. "We're trying to encourage online behavior."

As a whole, the retirement plans administered by DRS are among the healthiest in the nation. Except for the Public Employees' Retirement System (PERS) Plan 1 and the Teachers' Retirement System (TRS) Plan 1 (both of which were close to new members in 1977), the plans are fully funded. Decisions made in the past by DRS, the Legislature and the Washington State Investment Board (WSIB) have all contributed to the fine funding status of the plans. During the current economic downturn, DRS has placed a high degree of emphasis on maintaining the long-term health of the plans.

"We administer one of the most complex retirement systems in the nation," says DRS Budget and Benchmarking Director Mark Feldhausen, "and despite the economy and the challenges it's brought the last few years, we've maintained our cost effectiveness and continue to provide a solid level of service to members at a very low cost."

The "Switzerland" of Washington? No more

Let's say you're getting together with friends on Saturday afternoon for a friendly baseball game, and my oh my, Edgar Martinez just happens to show up. Would you want Edgar to simply sit in the stands and keep track of every time you either hit the ball or swung and missed? No. You'd first want Edgar to bat for your team! But, alas, since he's retired, at the very least wouldn't it be great if Edgar, perhaps the greatest hitter in Mariners' history, could give you a pointer or two? Keep your elbow up, eyes on the ball, something like that?

Well, before 2004, DRS's approach was to administer the state's retirement plans, but not get involved in policy decisions. That role has changed in the last eight years. After years of playing the state agency role of "Switzerland" DRS now offers expert advice to the governor and the legislature on pension issues.

"Policymakers in effect said, 'DRS, you're the retirement experts, if you're not going to weigh in on pension issues – who is?'"
DRS Budget and Benchmarking Director Mark Feldhausen

"Policymakers in effect said, 'DRS, you're the retirement experts,'" says Feldhausen, "'if you're not going to weigh in on pension issues – who is?'"

My oh my –

"We now take an active role in advising the governor," Nelsen adds. "The governor has looked to us to provide advice and frankly, to persuade the Legislature to put in place the policies that have brought about the changes we've seen in the last few years. And there have been significant changes in the long-term structure of the plans."

Goodbye Switzerland, hello Edgar: "Keep your elbow up, eye on the ball."

I CAN get some satisfaction

Suppose you're in the checkout line at a local market and the clerk says, "Did you know you only have one of these and they're buy one get one free?" Wouldn't that give you a good feeling about the clerk, and about shopping at that market again? Is that not going beyond customer service? It's going further than simply moving people through a line and calculating their purchases correctly.

Along with changes to policy and business practices, DRS has also undergone a major shift in its customer focus. Over the last few years, the agency has taken steps to move from simply delivering customer service toward the goal of 100 percent customer satisfaction. We want to be just like that clerk who has the best interest of our customers in mind even, no make that especially, when the customer doesn't realize the benefits they may be entitled to.

100 percent. It's quite a goal. Not even Michael Jordan, Wayne Gretzky or Michael Phelps won 100 percent of the time. For many years, DRS has been recognized for outstanding customer service. Customers routinely say they appreciate the service they receive from DRS. But is resting on a long-standing reputation for excellent customer service enough in this economy? In 2009, DRS decided to aim even higher: 100 percent customer satisfaction. It's one thing to feel that the service delivered is adequate; it's a huge leap from there to a completely satisfied customer, 100 percent of the time.

"We made the decision that the customer's needs come first. Everything else falls in line behind that."
DRS Deputy Director Marcie Frost

But it's a challenge worth taking up.

And like the impetus for changes to the plans, a driving factor behind this shift in philosophy was the downward economic environment that began in 2008.

"When state and local governments are affected, we (DRS) are impacted," Frost says. "And during those times, the member communications piece becomes more important than ever. We were receiving calls from people who had lost their jobs, or much of their savings, and they were looking to us for expertise and they wanted us to be available when they needed us."

For many, retirement was no longer a happy time. People were retiring because they had lost their jobs, while others had to delay retirement because of lost savings.

“We made the decision that the customer’s needs come first,” Frost says. “Everything else falls in line behind that. We knew we couldn’t be everything to everyone, so the number one goal became customer satisfaction.”

To reach this goal, team members have been asked to take as much time as needed to take care of customers. An environment has been created that encourages customer consultations; going beyond simply replying to a customer’s questions. In many cases, a customer may not know what question to ask, so it’s important to provide them with all the information they need to know – even if the customer doesn’t specifically ask the right question.

“Despite the increased workload, and the highly stressed nature of many calls, our team did a wonderful job,” Frost says. “They got so many nice comments from customers.”

This shift in philosophy from customer service to customer satisfaction may have been nudged along by the economic times, but Frost says that whether that’s the case or not, it’s a vital part of how she believes an agency should function.

“It’s fundamental to my belief about how an organization should be run. Our team members serve our customers, and our leaders are there to give team members what they need to be successful.”

The customer satisfaction focus also led to the initiation of Lean business practices at DRS. As a result, the agency has completely re-evaluated the services it offers and the way those services are delivered. The idea behind the concept of Lean is to take a close look at your business and eliminate those things that are not part of the organization’s mission and values, and those things that do not bring value to the customer. This is a critical concept for any agency when budgets are extremely tight.

And now a few words to the wise

Sophocles once famously opined, “Alas, how terrible is wisdom when it brings no profit to the wise.” Well, with all due respect to the great Greek playwright, you might say making wise, and profitable, pension-related decisions at critical moments is in the DNA of DRS and the state of Washington.

Thanks to the wise investment policies of the WSIB, the pension plans have earned an eight percent return over the last 20 years – placing Washington among the top 10 percent of public pension plans during this time period.

As mentioned above, the state took on the tough challenges of the 1970s economy by closing the generous PERS and TRS Plan 1 systems in 1977. Again in the mid-1990s, the state was one of the first to implement the “hybrid” Plan 3 systems that feature a guaranteed defined benefit component, as well as a defined contribution account, that is tied to the performance of the member’s invested contributions.

“We’re looked at as leaders in pensions not only around the nation, but around the world,” says Feldhausen. “We were one of the first to reign in pension costs back in the ’70s; something that other states were only beginning to look at in the ’90s, or in some cases the 2000s.”

True that. DRS is nationally recognized as a leader in innovation and management techniques (think Lean, as noted above), and the agency is often invited to participate at state and national venues on how to engage team members and align an organization’s resources toward that goal of 100 percent customer satisfaction.

Feldhausen adds that our plans, with the exceptions of the PERS and TRS Plans 1, are well funded, and that we already are in a position that many of our peer organizations look up to.

This is the type of success in trying times that has DRS positioned for what are sure to be dramatic changes to pensions, and retirement, in the future as the “baby boom” generation continues to reach their retirement years.

Where do we go from here?

It's been a challenging and rewarding last eight years. Sure, no one ever says, "I'd like to be confronted with an overwhelming challenge today; maybe two." Or, "I hope the economy goes south." But it's often during such times that the greatest goals become reachable. And for DRS, the last eight years has brought about a few major accomplishments:

- Changes to maintain the long-term health of the pension plans
    - Elimination of the Plan 1 COLA
    - Elimination of the Plan 3 gain sharing payment
    - New early retirement reduction factors
    - Changes to rules surrounding returning to a DRS-covered position after retirement
    - Two major changes to the Plan 3 and DCP fund lineups
- Shift in agency philosophy from a neutral administrator to an active advisor role on pension issues

- A focus on customer satisfaction instead of simply customer service

We continue to move forward with our 100 percent customer satisfaction goal. Over the past few months, DRS team members have spoken with hundreds of active members and retirees. We've asked them all one simple question: what would it take for you to be a completely 100 percent satisfied customer of DRS? We've heard many replies, and as we head into the future and a new administration, we've already begun addressing many of the responses we heard.

As mentioned above, we recently launched an Online Retirement Application (ORA) that has been a huge success so far. The new ORA is the culmination of years of research, planning and asking our customers what they want.

"It's been an exciting and challenging two and a half years," says ORA project manager Gayle McGee. "The entire team worked incredibly hard to make retiring online a reality for our customers."

Next up, our customers have asked for a single sign-on portal: one location where members can access their retirement account; the Plan 3 defined contribution portion of their retirement (for Plan 3 members), and their DCP account (for those members who participate in that program). The new portal is coming in the very near future, and it will greatly simplify access to retirement-related accounts.

As the Great Depression ended the “roaring ’20s,” and forced governments to confront difficult issues, so the recent economic slump, the worst ever faced by Washington’s public pension plans, was the impetus for many tough present-day decisions. But the decisions made as a result of these harsh economic times will have lasting impact on pensions in our state and provide billions of dollars in cost savings for decades to come.

“Washington has been a national leader in designing and maintaining sustainable public pension plans,” says Hill. “Through innovation and good stewardship, we continue to hold down costs while providing reasonable benefits to both members and retirees.”