

## REQUEST FOR PROPOSAL:

### ACTUARIAL AUDIT OF THE PUBLIC EMPLOYEES RETIREMENT SYSTEM OF OHIO JUNE 12, 2014

#### I. *Summary*

##### 1.1 PURPOSE

Pursuant to Ohio Revised Code (R.C.)171.04(E), the Ohio Retirement Study Council (ORSC) requests proposals from qualified consulting firms interested in performing an actuarial audit of the Public Employees Retirement System (PERS). The services being sought are specified in more detail in section II of this RFP (*Scope of investment performance evaluation*).

##### 1.2 CLOSING DATE FOR RECEIPT OF PROPOSALS

Four copies of the proposal, including one unbound copy, must be submitted to Bethany Rhodes, Director, Ohio Retirement Study Council, 88 East Broad Street, Suite 1175, Columbus, Ohio 43215 no later than 5:00 p.m., EST, on July 15, 2014. Proposals received after the deadline will not be considered by the ORSC and will be returned to the proposer.

##### 1.3 ADDITIONAL RFP INFORMATION

If your firm is interested in responding to this RFP and needs additional information to complete it, please write to Bethany Rhodes, Director, Ohio Retirement Study Council, 88 East Broad Street, Suite 1175, Columbus, Ohio 43215; facsimile (614) 228-0118; e-mail [Bethany.Rhodes@orsc.org](mailto:Bethany.Rhodes@orsc.org). All questions and written answers will be shared with all other known interested parties.

##### 1.4 BACKGROUND

The ORSC was created by the Ohio General Assembly in 1968 and is one of the oldest permanent pension oversight commissions in the nation. It is composed of three members each of the Ohio House and Ohio Senate, three members appointed by the Governor, and, as non-voting members, the directors of each of the five state retirement systems. Its purpose is to advise and inform the state legislature on all matters relating to the benefits, funding, investment, and operation of Ohio's five state retirement systems: the Public Employees Retirement System (PERS), the Ohio

Police and Fire Pension Fund (OP&F), the State Teachers Retirement System (STRS), the School Employees Retirement System (SERS), and the Highway Patrol Retirement System (HPRS). As of January 1, 2014, Ohio's five state retirement systems have assets totaling approximately \$187.87 billion. The systems provide retirement, disability, and survivor coverage to approximately 1.8 million members, retirees, and their beneficiaries. The statutes governing the ORSC are found in Chapter 171 of the Ohio Revised Code.

The ORSC is charged with the following statutory duties:

(1) Makes an impartial review from time to time of all laws governing the administration and financing of the retirement systems and makes recommendations to the legislature on any changes it finds desirable with respect to benefits, sound financing of benefit costs, and prudent investment of funds (R.C. 171.04(A));

(2) Reports annually to the governor and legislature on its evaluation and recommendations with respect to the operations of the retirement systems and their funds (R.C. 171.04(B));

(3) Studies all proposed changes to the retirement laws and reports to the legislature on their probable costs, actuarial implications, and desirability as a matter of public policy (R.C. 171.04(C));

(4) Reviews semiannually the investment programs of the retirement systems (R.C. 171.04(D));

(5) Has prepared, at least once every ten years, an independent actuarial audit of the annual actuarial valuations and quinquennial actuarial experience studies of each retirement system (R.C. 171.04(E));

(6) Has conducted a fiduciary performance audit of each system at least once every ten years (R.C. 171.04(F));

(7) Provides each Council member with copies of all proposed rules submitted by the retirement systems and submit any recommendations to the Joint Committee on Agency Rule Review (R.C. 171.04(G));

(8) Reviews the adequacy of the police and fire contribution rates and makes recommendations to the legislature that it finds necessary for the proper financing of OP&F benefits (R.C. 742.311); and

(9) Prepares an independent actuarial study every three years on the required employer supplemental contributions to be made on behalf of eligible employees of public institutions of higher education electing an alternative retirement plan in lieu of the retirement systems (R.C. 171.07).

Additionally, all five retirement systems have discretionary authority to offer comprehensive hospital, medical, and prescription drug coverage to retirees and

their dependents. Participants in the retirement systems are not covered under Social Security with respect to their public employment.

The Ohio General Assembly has ultimate responsibility for the stability of the systems. It has a fiduciary responsibility not only to the plan participants but also to the taxpayers who support these systems to review periodically its policies to ensure that the level of benefits is equitable, the level of funding is adequate, and the investment of funds is prudent. The Ohio General Assembly has relied on the ORSC for nearly 50 years to provide the necessary advice and information that enables it to make informed decisions based on sound public policy. Therefore, it is imperative that the ORSC has the necessary tools and information to perform these functions.

For additional information about the ORSC, please refer to our web site ([www.orsc.org](http://www.orsc.org)).

PERS is a statewide retirement system that was created in 1935 and covers all state and local government employees. PERS operates under the guidelines of Ohio Revised Code Chapter 145. PERS is governed by a Retirement Board consisting of the director of administrative services, two members elected by retiree members, one member elected by state employee members, one member elected by county employee members, one member elected by municipal employee members, one member elected by university or college employee members, one member elected by other state or local members, an investment expert appointed by the Governor, an investment expert appointed jointly by the Speaker of the Ohio House of Representatives and the Ohio Senate President, and an investment expert designated by the Treasurer of State. Board members serve without compensation other than actual, necessary expenses. Internally, PERS is managed by an executive director, a chief operating officer, and nine senior staff members and employs about 594 associates.

PERS is funded through investments and contributions made by member employees and their employers. Employees contribute 10% of their salary, while employers contribute an amount equal to 14% of salary.

Based on employee and employer data as of September 2013, PERS has 348,235 active members, 467,298 inactive members, and 195,832 benefit recipients. As of December 31, 2013, PERS had assets totaling approximately \$88.6 billion, 60% of which are managed externally and 40% internally.

## **II. *Scope of Audit***

The contract will be for the performance of an actuarial audit for the primary purpose of independent verification and analysis of the assumptions, procedures, and methods used by the consulting actuaries (Gabriel Roeder Smith & Company) of PERS for:

- PERS' annual pension actuarial valuation as of January 1, 2014.
- The five-year experience review for the period January 1, 2006 to December 31, 2010.
- PERS' annual retiree health care actuarial valuation as of January 1, 2014, including GASB Statement 43 disclosures.

A secondary purpose of the audit will be to determine whether retiree contributions to health care benefits and prescription drug costs (premiums) are being determined appropriately and consistently for all benefit groups.

As part of the independent verification analysis the actuarial audit shall include the following elements and activities:

### **1. Data Validity**

Assessment of the validity, completeness, and appropriateness for PERS' structure and funding objectives of the demographic and financial information used by the consulting actuary in the valuation of PERS.

### **2. Actuarial Valuation Method and Procedures**

Assessment of whether the consulting actuary's valuation method and procedures are reasonable and consistent with generally accepted actuarial standards and practices appropriate for PERS' structure and funding objectives; and are applied as stated by the actuary. If deviations from accepted standards are found during the audit, the Contractor should obtain the rationale for the deviations and determine their effects, including their monetary impact.

### **3. Actuarial Valuation Assumptions**

Assessment of whether the actuarial valuation assumptions are reasonable and consistent with generally accepted actuarial standards and practices; are reasonable based on PERS' experience; and are appropriate for PERS' structure and funding objectives. The assumptions evaluated should include both demographic and economic assumptions, such as mortality, retirement, separation rates, levels of pay adjustments, rates of investment return, and disability factors.

As part of this assessment, you should consider and specifically address whether actual experience is appropriately evaluated in experience studies conducted by the consulting actuary at least every five years and whether recent changes in assumptions are appropriate, reasonable, and supported by the experience studies. Also, you should review the gain/loss analyses from the last four actuarial valuation reports.

### **4. Parallel Valuation**

Perform parallel valuations of pension benefits as of December 31, 2013, and of retiree health care benefits as of December 31, 2013, using the validated member census data and the same actuarial assumptions.

If you recommend assumption adjustments to more accurately reflect present and future assets, liabilities, and costs of PERS, you should provide detailed rationale for your recommendations, and describe the general effect on PERS' condition resulting from the proposed changes in assumptions.

## **5. Review of Health Care**

Assessment of whether the system appropriately, consistently, and evenly determines retiree contributions to health care and whether the implementation of the system's health care policies differ from those determinations.

### **III. *Anticipated Work Product***

#### **3.1 WRITTEN REPORT**

The Contractor shall submit 25 copies of the final written report to PERS, and 25 copies to the ORSC. The Contractor shall also submit the final written report as a PDF document. ORSC reserves the right to use and reproduce all reports and data produced and delivered pursuant to this contract and reserve the right to authorize others to use or reproduce such materials. The final written report shall include:

- An overall opinion as to the validity, completeness, and appropriateness of the demographic and financial information used by the consulting actuary to meet PERS' funding objectives.
- An overall opinion as to the reasonableness of the consulting actuary's conclusions and the conformance of the consulting actuary's work with generally accepted actuarial standards and practices.
- A detailed description of each audit exception and the estimated effects of each exception on PERS.
- Detailed recommendations for improvement. The recommendations should be easily identified within the report by use of bold or underlined text, italics, bullets, or other similar techniques.

PowerPoint is **not** an acceptable format for this report. The report must be in language clearly understood by lay readers. Terms essential to an understanding of retirement system funding and actuarial valuation, such as unfunded accrued liability, funding method, actuarial cost method, normal cost, etc., should be explained in lay terms.

More detailed and technical information that the consulting actuary would need to understand and respond to the Contractor's findings and analysis should be incorporated into a separate appendix document. Upon request by the consulting actuary, the Contractor shall make available data or other information in such form as specified by the consulting actuary.

### **3.2 BRIEFINGS**

The Contractor should be prepared to make the following briefings:

- Audit progress reports to the executive directors of PERS and ORSC as requested by the directors (this is expected to be primarily conference calls on a biweekly basis.)
- Presentation of the content of the preliminary draft of the report jointly to the executive directors prior to its release.
- An explanation of the report at the conclusion of the engagement at separate meetings of the Board of Trustees of PERS and the ORSC.

### **3.3 EXIT CONFERENCE**

In addition to the briefings of the preliminary report, an exit conference shall be held to provide an opportunity for the consulting actuary and staff from PERS to discuss the preliminary report with the Contractor.

### **3.4 WORKING PAPERS**

The Contractor's working papers shall be available for review and duplication by ORSC and its designees during the period of the contract and for a period of not less than four years after the last payment date. The Contractor also shall be available to answer reasonable questions by authorized representatives of ORSC at no additional cost beyond the contract price.

### **3.5 PROJECT EXECUTION AND ADMINISTRATION**

The Contractor will be responsible for arranging needed meetings with the consulting actuary and PERS staff. PERS will designate a liaison to assist in scheduling these meetings. The Contractor will be responsible for all of Contractor's travel arrangements and expenses and clerical support.

### **3.6 ADDITIONAL SERVICES**

During the review process, the Contractor may make suggestions that consultants should be hired to assist PERS. In order to increase the credibility of the audit, the Contractor should understand that, if they are chosen to perform this audit, they **will be disqualified** from consideration as a contractor for activities relating to the area of their review for a period of one year.

#### **IV. *Organization, Format, and Consent of Proposal***

##### **4.1 PROPOSAL SUMMARY**

Provide a narrative summary of the proposal being submitted. This summary should identify all the services and work products that are being offered in the proposal and should demonstrate your firm's understanding of the project.

##### **4.2 CAPABILITIES AND EXPERIENCE**

Describe your firm's capabilities and recent experience (at least during the last five years) in performing actuarial valuations, audits, or studies of public employee retirement systems. You should include information on the types and sizes of public employee retirement systems for which past work has been performed, including whether the systems were defined benefit or defined contribution plans, the types and number of participating employers, number of participants, and other relevant indicators of plan type, size, and comparability to PERS. You should include other information you believe may be relevant in demonstrating your capabilities in performing the actuarial audit, including other professional experience and data processing capabilities.

##### **4.3 REFERENCES**

You must include a list of organizations that may be used as references for your work on actuarial valuations, audits, or studies. Selected organizations may be contacted to determine the quality of the work performed, personnel assigned to the project, and contract adherence. The following should be included for the references listed:

- Date of the actuarial audit work or valuation;
- Name and address of client;
- Name and telephone number of individual in the client organization who is familiar with the actuarial work; and
- Description of the work performed.

#### 4.4 STAFF QUALIFICATIONS

Describe the qualifications of all management and lead professional personnel who will participate in the audit. Include: (1) a resume; (2) a summary of experience each has had in performing actuarial valuations, audits, or studies of public employee retirement systems; and (3) a management plan identifying the responsibilities each will have on the audit.

The resume should include information on the current and past positions held with your firm, educational background, actuarial and other relevant credentials, and other relevant information to demonstrate the personnel's qualifications.

The experience summaries should include information on the types and sizes of public employee retirement systems for which the designated staff have completed actuarial work, including whether the systems were defined benefit or defined contribution plans, the types and number of participating employers, number of participants, and other relevant indicators of plan type, size, and comparability to PERS. You may reference, rather than repeat, duplicative information provided in the *Vendor Capabilities and Experience* section. The experience summaries also should describe the work performed and detail the roles and responsibilities that the individual staff had on the projects.

The management plan should specify the roles and responsibilities each of the management and professional staff will have on the actuarial audit and include an estimated portion of the audit's time that will be spent by each on the audit.

Actuaries included on the project team should meet the following criteria:

- Be members of the American Academy of Actuaries;
- Be enrolled actuaries with experience in Governmental plans;
- Be, at a minimum, associates with at least five years of experience in public practice, although we prefer that actuaries are Fellows of the Society of Actuaries; and
- Have performed an actuarial valuation, audit, or study of a public employee retirement system within the last two years.

#### 4.5 METHODOLOGY, WORK PRODUCT, AND TIMELINE

Describe the proposed methodology for each element of the components listed in the *Scope of Audit* section of the Proposal Specifications. The description should include specific techniques that will be used, including anticipated sampling techniques and sizes, and proposed sources of data and information. You may propose alternative ways of addressing the elements of the audit scope.



In describing your proposed methodology, also identify the type and level of assistance that you anticipate will be needed from the staff of PERS and Gabriel Roeder Smith & Company, including assistance to understand the operations and records of PERS; to understand the actuarial assumptions, method, and procedures; and to access, obtain, and analyze information needed for the audit. Identify meetings, interviews, programming support, space needs, etc., that you anticipate needing from PERS and Gabriel Roeder Smith & Company.

Describe the final work product, including written reports, briefings, and availability of working papers. Include one or more examples of work products for actuarial valuations or audits that may help to illustrate the proposed methodology and final work product.

Provide an estimated date that the final report will be submitted and the projected timeline or the anticipated work requirements and milestone dates to reach that date.

#### **4.6 ADDITIONAL INFORMATION**

Include additional information that will be helpful to gain an understanding of the proposal. This may include diagrams, excerpts from reports, or other explanatory documentation that would clarify and/or substantiate the proposal. Any material included here should be specifically referenced elsewhere in the proposal.

#### **4.7 GLOSSARY**

Provide a glossary of all abbreviations, acronyms, and technical terms used to describe the services or products proposed. This glossary should be provided even if the terms are described or defined when first used in the proposal response.

#### **4.8 COST INFORMATION**

The cost estimates in the pricing summary must include all necessary charges to conduct the audit and must be a "not to exceed" figure. The pricing summary should include per element: personnel costs (including hourly rates and estimated hours for professional and clerical staff assigned to the audit), travel and lodging, data processing costs, materials, and any other potential costs.

### **V. EVALUATION OF PROPOSAL**

Proposals will be evaluated across the categories listed in Section III of this RFP using a scoring system that will total 100 points. Incomplete or insufficient answers to proposal requirements may cause a reduction in points awarded. An

ORSC Subcommittee and ORSC staff will preliminarily evaluate and score the responses, and provide a recommendation to the ORSC. The ORSC will award the project through its evaluation of the responses, in conjunction with the Subcommittee's recommendation and subsequent interviews by the Council as a whole.

The following table provides a listing of the major categories of evaluation, and the relative importance of each category:

Proposal Summary	20 points
Capabilities and Experience	20 points
Staff Qualifications	25 points
References	10 points
Methodology, Work Product, and Timeline	15 points
Cost <sup>1</sup>	10 points
<b>Total Possible Score</b>	<b>100 points</b>

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<sup>1</sup> A firm shall receive points based on cost by dividing the lowest bid by that firm's bid, and multiplying the quotient by the maximum number of points available. Points will be deducted if the cost does not follow the requirements imposed by section 4.8 of the RFP.