



## Agenda Item 5a

September 16, 2014

**ITEM NAME:** Request for Proposal (RFP): Parallel Actuarial Valuation Services

**PROGRAM:** Audit Services

**ITEM TYPE:** Action

### **RECOMMENDATION**

Approve the release of a RFP seeking an external firm to provide parallel actuarial valuation and certification services to the Board of Administration. Approve the draft Services to be Provided, Minimum Qualifications, Proposal Evaluation Process, and Proposal Evaluation Sheet.

### **EXECUTIVE SUMMARY**

The CalPERS Board of Administration (Board) has delegated to the Risk and Audit Committee the authority to approve and oversee actuarial audits and reinsurance and conduct the selection of the Board's independent actuary for performing parallel valuations (Attachment 1).

The purpose of this agenda item is to request approval to seek an external firm through a competitive bidding process to provide parallel actuarial valuation and certification services to the Board of Administration. The selected firm will provide parallel valuation and certification for annual valuations of contracting public agency pension plans, the state and schools pension plans, Judges' Retirement System (JRS), Judges' Retirement System II (JRSII), Legislators' Retirement System (LRS) and 1959 Survivors Benefit Program (SBP).

If the Risk and Audit Committee approves the request to seek an external firm to perform the parallel valuations, staff requests approval of the draft Services to be Provided (Attachment 2), Minimum Qualifications (Attachment 3), Proposal Evaluation Process (Attachment 4), and Proposal Evaluation Sheet (Attachment 5).

### **STRATEGIC PLAN**

This agenda item supports Strategic Plan Goal A - improve long-term pension and health benefit sustainability. The selected firm will provide reassurance that the liabilities and costs computed by the Board's professional actuarial staff are reasonably accurate and are computed in accordance with generally accepted actuarial principles.

## **BACKGROUND**

Under the California Constitution, the Board has plenary authority and fiduciary responsibility to provide for actuarial services. The CalPERS Chief Actuary advises the Board and directs the activities of the CalPERS professional actuarial staff. The Board also retains the services of an outside actuarial firm to review the work of the CalPERS actuarial staff and to certify that such work satisfies actuarial professional standards. The current contract with Cheiron, Inc. (2009-5377) will expire on November 30, 2014. This agenda item is to request approval to initiate an RFP for a new contract for continuation of these services scheduled to begin on November 1, 2015 and end on October 31, 2020. The planned RFP release date is December 1, 2014. Attachment 2 provides description of services to be provided and frequency of reviews.

## **ANALYSIS**

We examined the following three alternatives:

- Alternative 1 - Do not continue to seek parallel valuation services.
- Alternative 2 - Assign internal audit staff to perform the reviews.
- Alternative 3 - Hire an external firm to perform the reviews.

Alternative 1: We do not recommend alternative 1 because the existing contract will expire on November 30, 2014, and the Board will not have the reassurance needed to fulfill its fiduciary responsibilities to ensure accuracy of the complex and crucial actuarial valuation calculations.

Alternative 2: We do not recommend alternative 2 because Government Code Section 13886.5(a) requires state agencies that have their own internal auditors to conduct internal audit activity in accordance with standards prescribed by the Institute of Internal Auditors. *International Standards for the Professional Practice of Internal Auditing* (Standards) prescribed by the Institute of Internal Auditors require internal auditors to possess the knowledge and skills needed to perform their individual responsibilities. The Standards also require the Chief Auditor to obtain competent advice and assistance if the internal auditors lack the knowledge and skills needed to perform all or part of the engagement. Currently, Office of Audit Services does not have staff with pension or health actuarial valuation experience. Therefore, alternative 2 will cause non-compliance with the Government Code Section 13886.5(a) and the Standards.

Alternative 3: Staff recommends the Board hire an external firm with appropriate expertise to provide the parallel valuation and certification services. This alternative enables the Board to receive appropriate reassurance needed to fulfill its fiduciary responsibilities and complies with the Government Code Section 13886.5(a) and the Standards.

Upon approval, staff will release the RFP through a competitive bidding process on December 1, 2014. Upon receipt of the proposals, firms will be assessed against a

robust Minimum Qualifications review. Firms that have satisfied the Minimum Qualifications (Attachment 3) will follow the process described in the Proposal Evaluation Process (Attachment 4) and advance to the Technical Proposal Evaluation phase, where staff will evaluate and score the proposals utilizing the consensus scoring methodology. The evaluation team may receive guidance and oversight from two members of the Risk and Audit Committee. Proposals(s) must meet a 140 point minimum in the Technical Proposal Evaluation to advance to the Fee Proposal Evaluation phase. Once staff scores the Fee Proposals, the evaluation team will rank the proposers in order of their combined Technical and Fee Proposal scores and determine the finalists who will be interviewed by the Risk and Audit Committee.

The Risk and Audit Committee will conduct oral interviews of the finalists and score proposals utilizing the trimmed average scoring methodology as detailed in the Proposal Evaluation Process. Either immediately following the oral interviews or at a subsequent Risk and Audit Committee meeting, the Board will award the contract to the candidate receiving the highest overall score, and the Notice of Award will be issued. Attachment 5 contains the draft Proposal Evaluation Sheet for review and approval.

#### **BUDGET AND FISCAL IMPACTS**

Total costs for the existing five-year contract ending on November 30, 2014 are \$383,117. Total costs for the new contract, covering another five-year term from November 1, 2015 to October 31, 2020, are to be negotiated.

#### **BENEFITS/RISKS**

Benefits of Alternative 3 include the following:

- Provide the Board with independent reassurance that the liabilities and costs computed by CalPERS professional actuarial staff are reasonably accurate and are computed in accordance with generally accepted actuarial principles.
- Ensure compliance with the Government Code Section 13886.5(a) and Standards.

Risks of Alternative 3 include the following:

- CalPERS continues to rely on external firms to perform actuarial reassurance activities and does not promote knowledge transfer to internal staff. However, because actuarial knowledge, skills, and credentials are highly specialized, and these specialized professional skills are only needed for intermittent, limited durations throughout the contract period, it is advisable to engage an outside specialist, rather than hire full time actuarial auditors on state staff.

**ATTACHMENTS**

- Attachment 1 – Delegation Resolution No. RA-14-01
- Attachment 2 – Draft Services to be Provided
- Attachment 3 – Draft Minimum Qualifications
- Attachment 4 – Draft Proposal Evaluation Process
- Attachment 5 – Draft Proposal Evaluation Sheet

---

PHYLLIS MILLER, Acting Chief  
Office of Audit Services

---

MATTHEW G. JACOBS  
General Counsel

---

ALAN MILLIGAN  
Chief Actuary  
Actuarial Office