



Agenda Item 5b

November 17, 2015

ITEM NAME: Finalist Interviews for Actuarial Parallel Valuation and Certification Services

PROGRAM: Audit Services

ITEM TYPE: Action

RECOMMENDATION

Staff recommends the Risk and Audit Committee interview the Finalists and award the contract under Request for Proposal (RFP) No. 2015-7649 to the Finalist having the highest Total Score, subject to final negotiations and satisfaction of all requirements. In the event negotiations are unsuccessful, award the contract to the Finalist having the second highest Total Score, subject to final negotiations and satisfaction of all requirements.

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. On March 18, 2015, the Board approved the release of a RFP seeking an external firm to provide actuarial parallel valuation and certification services to independently validate 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).

CalPERS released the RFP on May 19, 2015 and received a total of four proposals. Staff completed technical and fee proposal evaluations. All four proposals passed the technical proposal evaluation. On September 17, 2015, the Board approved the selection of three Finalists for an oral interview by the Risk and Audit Committee.

The purpose of this agenda item is to present the three Finalists for the oral interviews and seek approval for awarding the contract. CalPERS intends to enter into a five-year contract beginning on November 30, 2015.

STRATEGIC PLAN

This agenda item supports Strategic Plan Goal A - Improve long-term pension and health benefit sustainability. The selected firm will provide reinsurance 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 prior contract with Cheiron, Inc. (2009-5377, Amendment No. 3) expired on February 28, 2015.

On March 18, 2015, the Board approved the release of a RFP to solicit proposals from qualified firms to provide the actuarial parallel valuation and certification services to the Board. CalPERS released the RFP on May 19, 2015 and received a total of four proposals. Staff completed technical and fee proposal evaluations. All four proposals passed the technical proposal evaluation. On September 17, 2015, the Board approved the selection of three Finalists for oral interviews by the Risk and Audit Committee.

ANALYSIS

The following chart summarizes current ranking and preliminary total scores of the three Finalists, including the Fee Proposal Scores and DVBE Incentive Points.

Current Rank	Proposer	Total Proposed Fees for Five Years	Fee Proposal Score	DVBE Incentive Point	Preliminary Total Score
1	Buck Consultants, LLC	\$449,000	292	50	342
2	Segal Consulting	\$437,000	300	-	300
3	Cheiron, Inc.	\$456,950	287	-	287

Interviews provide the Risk and Audit Committee the opportunity to further consider each of the Finalist’s proposal, including fees and any other specific areas of the proposal for which clarification is necessary.

Under separate cover, the Finalist interview packet is provided to assist the Board with its interviews and interview evaluations. Each firm will have 25 minutes before the Risk and Audit Committee, which consist of a 5-minute presentation and a 20-minute question and answer session. Following each firm’s interview, the Risk and

Audit Committee will determine a score as a group for each Finalist and motion the Interview Score, with a maximum of 700 points.

Each Finalist's Interview Score will be combined with the Fee Proposal Score and any applicable Preference and/or Incentive Points for a Total Score. The Finalists will be ranked according to their Total Scores from highest to lowest.

The contract award will be made to the Finalist receiving the highest Total Score, subject to final negotiations and satisfaction of all requirements. If negotiations are not successful, the contract award will be made to the Finalist receiving the next highest Total Score, subject to final negotiations and satisfaction of all requirements. Notice of CalPERS intent to award to the selected Finalist will be posted at CalPERS website www.calpers.ca.gov for five State business days before the award is made.

BUDGET AND FISCAL IMPACTS

The anticipated term of the contract, as a result of this RFP, will be for a five-year term with annual costs to be negotiated.

BENEFIT/RISK

Interviewing the Finalists supports the Board and Risk and Audit Committee in meeting their objectives to prudently manage the System and discharge their fiduciary duties solely in the interest of the participants and beneficiaries for the exclusive purpose of providing benefits to members and their beneficiaries.

Failure to interview the firms may result in the Risk and Audit Committee's lack of access to an independent reassurance that the liabilities and costs computed by CalPERS professional actuarial staff are reasonable and computed in accordance with generally accepted actuarial principles and practices.

BELIZ CHAPPUIE, Chief
Office of Audit Services

MATTHEW G. JACOBS
General Counsel

ALAN MILLIGAN
Chief Actuary