



Risk & Audit Committee

Agenda Item 6d

November 17, 2020

Item Name: RFP for Parallel Valuation and Certification Services

Program: Actuarial Office

Item Type: Action

Recommendation

Approve the release of an RFP seeking an external firm to provide parallel actuarial valuation and certification services to the Board of Administration on a quadrennial schedule. 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.

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).

This item gives the Risk and Audit Committee two options for the parallel valuation and certification schedule.

Option 1

Create a three-year contract which continues with the current triennial schedule of Public Agency, State and School, and Judges and Legislature/1959 survivor annual parallel valuations. At the end of the contract, a final actuarial review report will also be provided.

Option 2

Create a three-year contract which continues with the current schedule of Public Agency, State and School, and Judges and Legislature/1959 survivor annual parallel valuations. At the end of the contract, a final actuarial review report will also be provided. No parallel valuation will be conducted the following year with the ALM review. Under this option, plans are reviewed on a quadrennial schedule.

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 (Attachments 1), Minimum Qualifications (Attachment 2), Proposal Evaluation Process (Attachment 3), and Proposal Evaluation Sheet (Attachment 4).

Strategic Plan

This agenda item supports the CalPERS 2017-2022 Strategic Goal: “Strengthen the long-term sustainability of the pension fund.”

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 Buck Consultants, LLC (#2015-8123) will expire in March of 2021. This agenda item is to request approval to initiate an RFP for a new contract for continuation of these services. The start and end of the contract depends on the option chosen by the board. The planned RFP release date is February 1, 2021. Attachment 1 provides a description of services to be provided and frequency of reviews.

External audits/parallel valuations are performed in accordance with industry best practices and ensure the quality of the work the Actuarial Office produces. The Government Finance Officers Association recommends a parallel valuation be performed at least every 5 years. The California Actuarial Advisory Panel suggests every 3 to 7 years.

These audits/parallel valuations are performed for a number of reasons:

1. Ensure that the results produced from the Actuarial Office are credible
2. Increase trust from the public that an independent professional agrees with the results produced by the Actuarial Office
3. Help plan fiduciaries assess the funding progress of the system
4. Help to catch potential errors or oversights in the system’s program
5. Offer recommendations for improving the valuation process

The Actuarial Office currently conducts these parallel valuations on a triennial schedule. Each of the three years in the schedule focuses on one of the three groups of reports 1) public agency valuations, 2) state and school’s valuations and 3) judges and legislature/1959 survivor valuations.

In addition, every four years the Actuarial Office performs an experience study in which all actuarial assumptions are reviewed. This experience study is audited by an external actuarial firm to ensure that our assumption setting process is reasonable and in compliance with current industry standards. This audit would occur during the fourth year of the proposed parallel valuation schedule.

Analysis

We examined the following options:

- Option 1 – Continue services for a parallel audit triennially
- Option 2 – Continue services for a parallel audit quadrennially

Option 1: This is an acceptable option where the Actuarial Office work product is in line with industry best practices.

Option 2: This option allows CalPERS to save up to \$100,000 over the course of 4 years while keeping our work product in line with industry best practices. For this reason, the Actuarial Office recommends option 2.

Upon approval, staff will release the RFP through a competitive bidding process on February 1, 2021. Upon receipt of the proposals, firms will be assessed against a Minimum Qualifications review. Firms that have satisfied the Minimum Qualifications (Attachment 2) will follow the process described in the Proposal Evaluation Process (Attachment 3) 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 4 contains the draft Proposal Evaluation Sheet for review and approval.

Budget and Fiscal Impacts

Total costs for the existing five-year contract ending on March, 2021 are \$449,000. Total costs for the new contract would depend on the option selected by the Board. The contract dates for the two options would be July 2021 through June 30, 2024. Under option 2, the Actuarial Office would wait an entire year before soliciting another contract to begin beyond 2024.

Benefits and Risks

Option 1

- The Actuarial Office would be in compliance with best practices as parallel valuations will still be conducted within an acceptable time frame of the recommended three to seven years.

Option 2

- CalPERS will save up to \$100,000 by foregoing one year out of every four of parallel audits.
- The Actuarial Office would be in compliance with best practices as parallel valuations will still be conducted within an acceptable time frame of the recommended three to seven years.

Attachments

Attachment 1 – Draft Services to be Provided
Attachment 2 – Draft Minimum Qualifications
Attachment 3 – Draft Proposal Evaluation Process
Attachment 4 – Draft Proposal Evaluation Sheet

Fritzie Archuleta
Deputy Chief Actuary
Actuarial Office

Scott Terando
Chief Actuary
Actuarial Office