



ITEM 14

Executive Staff

Richard Stensrud
Chief Executive Officer

Steve Davis
Chief Investment Officer

Robert L. Gaumer
General Counsel

Kathryn T. Regalia
Chief Operations Officer

John W. Gobel, Sr.
Chief Benefits Officer

For Agenda of:
February 15, 2017

February 8, 2017

TO: President and Members
Board of Retirement

FROM: Kathryn T. Regalia
Chief Operations Officer

SUBJECT: Recommendation of a Three-Year Extension to the Actuarial Services
Agreement with Segal Consulting

Recommendation:

Staff recommends that your Board extend the agreement for actuarial services with Segal Consulting for another three years and that an actuarial audit be conducted as a companion to the extension of the engagement.

Background:

SCERS selected The Segal Company (now known as Segal Consulting or Segal) from the competitive bids received to perform actuarial services effective July 1, 2004. These actuarial services include an annual valuation and review, experience studies, ongoing consulting services, and special projects from time-to-time. The initial three-year contract ended June 30, 2007, and your Board chose to extend the contract for the subsequent three-year period, which was followed by two consecutive two-year periods. Another three year contract extension was signed in 2014, which includes a triennial experience study as of June 30, 2016, which is currently in progress. The current contract is due to expire June 30, 2017.

In August 2012, an actuarial audit was completed by an independent actuarial firm, EFI Actuaries. The audit report confirmed that the assumptions, approach, and calculations

made by Segal were reasonable and that the valuation report accurately reflected the assets and liabilities of SCERS.

Discussion:

With your Board's approval of the contract extension, Segal will perform the usual actuarial valuations and reviews, which are expected to be presented to your Board for approval in November of each year, as well as the triennial experience study, which is expected to be conducted for the next time on the June 30, 2019 actuarial valuation review during the 2019-2020 fiscal year.

Segal has provided excellent service to SCERS. They are knowledgeable regarding California pension funds and with 1937 Act pension funds in particular. Principal Actuary Paul Angelo is a leader in the California pension fund community. Andy Yeung has a long-standing record of providing superior customer service to SCERS, and his institutional knowledge is irreplaceable.

A proposed Fifth Amendment to Agreement for Actuarial Services, including the proposed fee schedule for the three-year contract extension is attached for your review and consideration.

Staff finds the proposed fee schedule to be fair and reasonable and recommends your Board's approval of a three-year extension of the agreement.

It is further recommended that an independent actuarial audit be conducted in 2017. The last actuarial audit was in August 2012. A request for proposals will be presented for approval at the March 2017 SCERS Board Meeting.

If you have any questions, please let me know.

Respectfully submitted,

Concur:

Kathryn T. Regalia
Chief Operations Officer

Richard Stensrud
Chief Executive Officer

Attachments



100 Montgomery Street Suite 500 San Francisco, CA 94104-4308
T 415.263.8200 www.segalco.com

VIA E-MAIL AND USPS

February 9, 2017

Mr. Richard Stensrud
Sacramento County Employees' Retirement System
980 9th Street, Suite 1900
Sacramento, CA 95814-2738

Re: Actuarial Fee Proposal for a Three-Year Contract Renewal

Dear Richard:

We are very pleased to provide the System our proposed fee schedule for a three-year contract renewal by the Board of Retirement.

FIXED FEE VALUATION SERVICES

Our fee for the last valuation as of June 30, 2016 was \$68,000. Our proposed fees for the next three valuations are as follows:

| | |
|-------------------------|----------|
| June 30, 2017 Valuation | \$69,000 |
| June 30, 2018 Valuation | \$70,000 |
| June 30, 2019 Valuation | \$71,000 |

Our fee for the triennial experience study as of June 30, 2016 covered by our current contract (which we use to recommend assumptions for the upcoming 2017 valuation and is currently in progress) was \$34,000. Our proposed fee for the June 30, 2019 triennial experience study is \$36,000. The new assumptions adopted by the Board for that study would be used in setting the contribution rates for the June 30, 2020 valuation.

QUARTERLY RETAINER

Our proposed quarterly retainer for the entire duration of the three-year contract will remain unchanged at the current rate of \$4,000. This has remained unchanged since July 1, 2007.

HOURLY RATES

Our current hourly rates for 2016/2017 and our proposed hourly rates are as follows:

| | <u>2016/2017</u> | <u>2017/2018</u> | <u>2018/2019</u> | <u>2019/2020</u> |
|-----------------------------|------------------|------------------|------------------|------------------|
| Principal Actuary (Angelo) | \$500 | \$510 | \$520 | \$530 |
| Supervising Actuary (Yeung) | \$460 | \$470 | \$480 | \$490 |
| Senior Actuarial Analyst | \$290-\$450 | \$300-\$460 | \$310-\$470 | \$320-\$480 |
| Actuarial Analyst | \$190-\$280 | \$200-\$290 | \$210-\$300 | \$220-\$310 |
| Compliance Consultant | \$460 | \$470 | \$480 | \$490 |
| Clerical | No Charge | No Charge | No Charge | No Charge |

ADDITIONAL SERVICES DUE TO GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS 67 AND 68

The financial reporting requirements under GASBS 67 for the System's reporting became effective with the 2013/2014 plan year while the financial reporting requirements under GASBS 68 for the employer's reporting became effective with the 2014/2015 fiscal year. In our last fee proposal, we provided a budget in the range of \$20,000 to \$40,000 to prepare the two reports to satisfy the GASB requirements rather than a fixed fee as the scope of our services was still in the process of being developed.

Now that we have prepared those reports for the past several years, we would be comfortable in proposing a fixed annual fee of \$10,000 and \$15,000 in preparing the GASBS 67 and 68 reports, respectively. Furthermore, we would propose no change in those fixed fees during the next 3 years.

We look forward to working with you and the Board of Retirement for the next three years.

Sincerely,



Paul Angelo, FSA, MAAA, FCA, EA
Senior Vice President and Actuary



Andy Yeung, ASA, MAAA, FCA, EA
Vice President and Actuary

MYM/dar

FIFTH AMENDMENT TO AGREEMENT FOR ACTUARIAL SERVICES

This Fifth Amendment (Fifth Amended Agreement) is entered into by and between the Sacramento County Employees' Retirement System (SCERS) and The Segal Company (Contractor), as of July 1, 2017.

WHEREAS, SCERS and Contractor entered into an Agreement for Actuarial Services as of July 1, 2004 (Agreement); and,

WHEREAS, the Agreement was subsequently amended to extend the term of the Agreement until June 30, 2010 (First Amended Agreement); and,

WHEREAS, the First Amended Agreement was subsequently amended to extend the term of the Agreement until June 30, 2012 (Second Amended Agreement); and,

WHEREAS, the Second Amended Agreement was subsequently amended to extend the term of the Agreement until June 30, 2014 (Third Amended Agreement); and,

WHEREAS, the Third Amended Agreement was subsequently amended to extend the term of the Agreement until June 30, 2017 (Fourth Amended Agreement); and,

WHEREAS, SCERS and Contractor desire and intend to extend the term of the Agreement until June 30, 2020 and amend certain provisions of the Agreement on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the covenants and conditions set forth herein, SCERS and Contractor hereby amend the Agreement, as follows:

1. Section 6 of the Agreement is amended to continue the term of the Agreement until June 30, 2020.
2. Section 3 of the Agreement is amended to provide for payment of fees for the Contract Years, July 1, 2017 – June 30, 2020, as follows:

In consideration for the services provided under Section 1A, SCERS shall pay the Contractor the sum of \$4,000 at the end of each calendar quarter.

In consideration for the services provided under Section 1B, SCERS shall pay to the Contractor the sum of \$36,000 for the Triennial Experience Analysis report as of June 30, 2016.

In consideration for the services provided under Section 1C, SCERS shall pay to the Contractor the sum of \$69,000 for the Actuarial Valuation as of June 30, 2018.

In consideration for the services provided under Section 1C, SCERS shall pay to the Contractor the sum of \$70,000 for the Actuarial Valuation as of June 30, 2019.

In consideration for the services provided under Section 1C, SCERS shall pay to the Contractor the sum of \$71,000 for the Actuarial Valuation as of June 30, 2020.

In consideration for the services provided under Section 1D, SCERS shall pay to the Contractor an agreed upon all inclusive fee based upon the following hourly rates:

| Class of Personnel | Hourly Rate | | |
|---------------------------------------|------------------|------------------|------------------|
| | 7/1/17 – 6/30/18 | 7/1/18 – 6/30/19 | 7/1/19 – 6/30/20 |
| Principal Actuary (Supervising) | \$510 | \$520 | \$530 |
| Supervising Actuary (Primary Support) | \$470 | \$480 | \$490 |
| Senior Actuarial Analyst | \$300-\$460 | \$310-\$470 | \$320-\$480 |
| Actuarial Analyst | \$200-290 | \$210-300 | \$220-\$310 |
| Compliance Consultant | \$470 | \$480 | \$490 |
| | | | |

The Contractor shall obtain the approval of SCERS' Chief Executive Officer prior to proceeding with services it considers to be "non-routine" services under Section 1D.

The Contractor shall submit an in-progress invoice within 45 days of the end of each calendar quarter for any services provided under Section 1D.

SERVICES PROVIDED TO COMPLY WITH GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS 67 AND 68

The financial reporting requirements under GASBS 67 for the System's reporting became effective with the 2013/2014 plan year while the financial reporting requirements under GASBS 68 for the employer's reporting became effective with the 2014/2015 fiscal year. The Contractor estimates a cost between \$10,000-\$15,000 to assist the SCERS with compliance and preparation of new Statements required under GASB 67 and 68. There will be no change in that price range for the duration of the Fifth Amended Agreement.

3. Except as so amended, the terms and conditions of the Agreement, previously amended, shall remain in full force and effect.

IN WITNESS WHEREOF, SCERS and the Contractor have caused this Amendment to be duly executed by their respective authorized representatives.

Sacramento County Employees'
Retirement System

Dated: _____

By: _____
Richard Fowler II, President

The Segal Company

Dated: _____

By: _____

RESOLUTION NO. SCERS 2017-01

**RESOLUTION OF THE BOARD OF RETIREMENT
OF THE SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM
TO AMEND AGREEMENT FOR ACTUARIAL SERVICES
AND CONDUCT AN ACTUARIAL AUDIT**

WHEREAS, the Sacramento County Employees' Retirement System ("SCERS") and The Segal Company ("Contractor") entered into an Agreement for Actuarial Services as of July 1, 2004 ("Agreement"); and,

WHEREAS, the Agreement was subsequently amended to extend the term of the Agreement until June 30, 2010 (First Amended Agreement); and

WHEREAS, the Agreement was subsequently amended to extend the term of the Agreement until June 30, 2012 (Second Amended Agreement); and

WHEREAS, the Agreement was subsequently amended to extend the term of the Agreement until June 30, 2014 (Third Amended Agreement); and

WHEREAS, the Agreement was subsequently amended to extend the term of the Agreement until June 30, 2017 (Fourth Amended Agreement); and

WHEREAS, the Board has determined that it will be in the best interest of SCERS to further extend the Agreement until June 30, 2020 on the terms and conditions provided in the proposed Fifth Amendment to Agreement for Actuarial Services ("Amendment"); and

WHEREAS, the Board of Retirement has also concluded that it is in the best interest of SCERS to retain an actuarial firm to conduct an independent review of the Actuarial Valuation as of June 30, 2016.

THEREFORE, BE IT RESOLVED AND ORDERED that this Board:

(1) Authorize and direct the President or the Chief Executive Officer to execute the Amendment to further extend the Agreement until June 30, 2020.

(2) Take such further steps as may be necessary to accomplish the same.

(3) Authorize and direct Staff to prepare a Request for Proposal and assist the Board of Retirement in selecting an actuarial firm to conduct an independent review of the Actuarial Valuation as of June 30, 2016.

(4) Take such further steps as may be necessary to accomplish the same.

On motion made by Member _____, Seconded by Member _____, the foregoing Resolution was passed and adopted by the Board of the Sacramento County Employees' Retirement System this ____ day of _____, 2017, by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

President of the Board of the
Sacramento County Employees'
Retirement System

ATTEST:

Secretary of the Board of the
Sacramento County Employees'
Retirement System