



Request for Proposal for Actuarial Audit Services

March 20, 2017

Proposal Submission Deadline
Friday, April 21, 2017

I. INTRODUCTION

Sacramento County Employees' Retirement System (SCERS) is a public retirement system organized under and governed by the County Employees Retirement Law of 1937 (1937 Act), codified as California Government Code §31450 et seq. Under provisions of the 1937 Act, management of SCERS, including general administration, disability matters and control of investment assets, is vested in the Board of Retirement (Board). The Board is composed of nine members and two alternates. SCERS' funding is generated from three sources: earnings on investments, employer contributions, and employee contributions.

Members of SCERS are retired and active employees of the County of Sacramento, Superior Court of California, County of Sacramento, and special districts situated in the county and are classified as either Miscellaneous or Safety. The 1937 Act provides for a defined benefit retirement system; benefits are set by statute. The types of benefits provided to members are service retirement, disability retirement (both service and non-service connected), death benefits, and survivor's benefits.

As of June 30, 2016 there were 12,393 active members, 3,301 inactive members, and 10,960 retired members and beneficiaries. SCERS administered 9 retirement tiers, each with slightly different benefit factors. As of June 30, 2016, market value of SCERS's net assets was \$7.7 billion. Further information is available the SCERS web site, www.scers.org, including Comprehensive Annual Financial Reports (CAFR) for the fiscal years ended June 30, 2016 and 2015.

II. PROJECT BACKGROUND

SCERS invites proposals from interested actuarial firms familiar with public employee retirement systems to perform an audit of SCERS' current consulting actuary – Segal Consulting (Segal).

The actuarial audit is a component of SCERS' overall plan with respect to actuarial services. The June 30, 2016 valuation was presented and finalized in November 2016, and the triennial study for the three years ended June 30, 2016 is currently underway.

Segal has acted as SCERS' consulting actuary since July 2004. The most recent audit was completed in 2012.

Schedule of Events

SCERS reserves the right to modify this schedule at any time.

Deliverables	Date
Release of RFP	March 20, 2017
Questions from Vendor Due	March 31, 2017
Answer to Vendor Questions Posted	April 10, 2017
RFP Submission Deadline	April 21, 2017
Interview (if needed)	May 2017
Vendor Selection	May 2017

III. SCOPE OF SERVICES

A. Audit of Triennial Experience Study

The audit will assess the actuarial assumptions and funding methodology. The purpose of the audit is to provide an opinion regarding the reasonableness and accuracy of the actuarial assumptions and methodologies. The audit will not include a parallel experience analysis. Rather, the audit will focus on comparing SCERS' assumptions to industry norms as well as reviewing the structure and application of the assumptions upon the test lives. The review of actuarial methods should be based in industry standards as well as auditing firm's experience with similar retirement system.

Auditing Actuary will consult with SCERS' consulting actuary and staff in the course of the engagement. SCERS and SCERS' actuary will supply data to the Auditing Actuary for the valuation period.

B. Audit of Annual Actuarial Valuation

Auditing Actuary will conduct a valuation audit for the years ended June 30, 2016. The audit will be a full replication valuation audit of the June 30, 2016 actuarial valuations and a review of detailed output on certain select test lives from the valuation group.

Actuary will consult with SCERS' consulting actuary and staff in the course of the engagement. SCERS and SCERS' actuary will supply data to the Auditing Actuary for the valuation periods.

Such audit shall include but not be limited to:

- a) Evaluation of the available data for the performance of the experience study and valuation, the degree to which such data is sufficient to support the conclusion of the investigation, and the use and appropriateness of any assumptions made regarding such data.
- b) Evaluations of the results and reconciliation of any discrepancies between the findings, assumptions, methodology, rates, and/or adjustments of the Auditing Actuary and SCERS' consulting actuary.
- c) Valuation to be performed using assumptions, methodologies and funding methods used by SCERS' consulting actuary in its performance of the valuation. Auditing Actuary shall reproduce all work and not rely on the work of SCERS' consulting actuary.
- d) It is the intent that the audit of the experience study will be completed prior to the adoption of the changes in assumptions as a result of the experience study for the three years ended June 30, 2016 (September 2017). It is also the intent that the audit of June 30, 2016 valuation will be completed prior to the beginning of the June 30, 2017 valuation (August/September 2017). This would enable the reconciliation of any discrepancies between the findings, assumptions, methodology, rates and/or adjustments be communicated to the consulting actuary so that the consulting actuary may consider such adjustments and recommendations so that any significant findings may be incorporated in the final experience study and the next annual actuarial valuation (i.e., the valuation as of June 30, 2017).

IV. TIMELINE

The proposed timeline for the actuarial audit is as follows:

- March 2017 - Publish Request for Proposals
- April 2017 - Responses Submitted by Interested Actuaries
- May 2017 - Actuary Selected
- May/June 2017 – Segal and SCERS Staff provide data and exchange information with Auditing Actuary
- July/August 2017 – Auditing Actuary provides comments on the Triennial Experience Study; Segal provided an opportunity to respond. Auditing Actuary to provide comments on June 30, 2016 Actuarial Valuation.
- September 2017 – Auditing Actuary makes presentation to your Board with the final audit report of the experience study and the June 30, 2016 valuation; Assumptions Adopted.

V. ACTUARIAL FIRM QUALIFICATIONS

The actuarial auditing firm should meet all of the qualifications listed below. The term “Senior Auditor” refers to the lead and most senior actuary to provide direct services to SCERS. The term “Supporting Auditors” refers to less senior actuaries that will support the Senior Auditor in providing direct services to SCERS. The term “Auditing Actuaries” refers to the Senior Auditor and all Supporting Auditors to be assigned to and provide direct services to SCERS.

1. The firm must be a professional organization that provides actuarial valuations, experience studies, actuarial audits and public pension consulting services.
2. The firm must have performed actuarial services for a minimum of 10 years.
3. Liability, professional errors and omissions insurance in the amount of \$10,000,000 must be in effect at the time the proposal is submitted and throughout the term of the engagement.
4. Within the past three years, the firm must have had at least three public pension clients (preferably 1937 Act agencies), serving at least 5,000 active members and 5,000 retired and/or survivor members, who used the firm as primary actuarial consultant for valuations, experience studies and/or actuarial audit tasks.
5. The Senior Auditor performing the work must be a Fellow of the Society of Actuaries and an enrolled actuary. Any Supporting Auditor must be either a Fellow, enrolled, or have five years of public pension consulting experience.
6. The Senior Auditor performing the services must have a minimum of ten years of experience as an actuary providing public pension consulting services, experience analysis, valuations, and actuarial audit assignments for multi-employer public retirement systems with memberships of at least 7,500 members and annuitants.
7. Any Supporting Auditor performing services must have five years of experience as an actuary providing public pension consulting services, experience analysis, valuations, and actuarial audit assignments for multi-employer public retirement systems with memberships of at least 7,500 members and annuitants.

8. The firm must provide its own work facilities, equipment, supplies and support staff to perform the required services.

VI. GENERAL CONDITIONS OF PROPOSAL SUBMISSION

- A. All proposals submitted become the property of SCERS. Should a Proposer wish to withdraw its proposal, a written letter must be received by SCERS.
- B. There is no expressed or implied obligation for SCERS to reimburse responding firms for any expenses incurred in preparing proposals in response to this request. Costs for developing proposals are entirely the responsibility of the Proposer and will not be chargeable to or reimbursable by SCERS.
- C. All proposals submitted in response to this RFP shall become the exclusive property of SCERS and shall be subject to public disclosure pursuant to the California Public Records Act (Cal. Govt. Code Section 6250 et. seq.). The Act provides that access to information concerning the conduct of the public's business is a fundamental and necessary right of every person in the state. Public records are defined as any writing related to the conduct of the public's business. Public records are open to inspection during normal business hours.
- D. There are specific exceptions to the Public Records Act. In the event SCERS receives a request for inspection of any proposal submitted pursuant to this RFP, it is the responsibility of the organization whose proposal has been requested to assert any right of confidentiality that may exist. SCERS will not make that assertion on behalf of the Proposer. Absent a judicial determination that the documents are exempt from disclosure, they will be subject to inspection.
- E. Submission of a proposal constitutes a complete waiver of any claims whatsoever against SCERS and its agents, officers or employees, that SCERS has violated a Proposer's right to privacy, disclosed trade secrets or caused any damage by allowing the proposal to be inspected.
- F. All proposals must remain valid for a period of not less than 90 days from the submission. This includes pricing as well as nominated engagement staff.
- G. SCERS reserves the right to retain all proposals submitted and to use any ideas in a proposal regardless of whether that proposal is selected.
- H. SCERS may, in its sole discretion, enter into contracts with multiple providers.
- I. SCERS reserves the right to contact current and former clients of the Proposer for information at any time during the proposal process.
- J. SCERS reserves the right to accept or reject any or all proposals and may waive any requirements of this Request for Proposal if it deems it in the best interests of SCERS.
- K. SCERS reserves the right to contact individual Proposers for clarifying information at any time during the proposal process.
- L. SCERS may modify the RFP prior to the fixed date for submission of proposals by issuance of an addendum.

VII. PROPOSAL CONTENTS

A. Background and Financial Information

1. Describe the proposing organization's structure. Include the following:
 - a. Ownership information of the firm. Describe any material changes in organizational structure, or ownership that have occurred in the past 5 years. Provide names of all entities with ownership stakes. Detail affiliated companies and/or joint ventures.
 - b. Background information. How long has the firm been providing actuarial consulting services to public pension clients?
 - c. What is the importance (percentage) of actuarial services within the firm? What percentage of revenue comes from actuarial services?
2. List the locations of each office that provide actuarial services within the firm. Which office would be responsible for work performed for SCERS? What is the staffing for that office?
3. Provide the latest two years' audited financial reports for the firm. Provide additional information necessary to demonstrate financial stability, including total revenue, net income / (loss), assets, liabilities, and net worth for each year.
4. Discuss the firm's competitive advantage over other firms in the actuarial audit service area. Why should SCERS hire your firm?
5. Over the past five years, has your organization or any officer or principal been involved in any litigation or other legal proceedings related to any actuarial consulting activities or actuarial auditing services? If so, provide a brief explanation and indicate the current status.
6. Has your firm, within the last ten years, been censured or fined by any regulatory body? If so, please indicate the dates and describe the situation.
7. Has any litigation been brought against the firm by any entity for fraud, malpractice, misrepresentation, negligence, or similar cause of action? If so, please document this information.
8. Is the firm affiliated with any other firm(s) offering non-actuarial services to SCERS or Segal that could represent conflicts of interest? If yes, briefly describe your firm's policies and procedures for doing business with these affiliates while safeguarding against conflicts of interest. .
9. Do you, your parent company, or any affiliated company have any business relationships with Segal? If so, describe that relationship.
10. List and describe any professional relationship your firm or any of your actuarial consulting group staff have with any member of the SCERS Board of Retirement, staff or plan sponsors.

11. Has anyone in your firm provided any gifts, travel expenses, entertainment, or meals to any member of the SCERS Board of Retirement, or SCERS staff in the last twelve months? If yes, describe the expense and the purpose.
12. Have any of the personnel that will be assigned to this audit previously performed an audit of Segal?

B. Personnel Information

1. How many actuaries does your firm employ?
2. Describe the background of the professionals in the firm's actuarial consulting services group:
 - What percentage are currently Fellows of the Society of Actuaries? Enrolled actuaries?
 - What ongoing educational programs are supported and/or required?
3. For the key executives and professionals in the actuarial auditing consulting group assigned to SCERS, including the Senior Auditor and Secondary Auditor(s), please provide resumes (or biographies) that include the following information:
 - Name
 - Title
 - Responsibilities within the firm. If a person has multiple responsibilities, indicate the percentage of time spent on each function in a footnote to the table.
 - Years of relevant experience.
 - Years with the firm.
 - Degrees and professional designations.
 - Institution awarding each degree and designation.
 - Publications authored and/or presentation summary.
4. How long has your actuarial consulting group worked as a team?
5. For the Senior Auditor and all Secondary Auditors, list their public fund actuarial audit assignments for the past five years. Include for each assignment the date of the final audit report, whether the auditor served as the Senior or Secondary Auditor, and the client's name and size (number of pension plan members and annuitants). Include reference clients' contact information.
6. For the Senior Auditor and all Secondary Auditors who may provide services to SCERS, state the role each would play in accomplishing the required services.

7. For the Senior Auditor and each Secondary Auditor, please state the total number of clients currently assigned to these individuals; are the assignments for general actuarial services or actuarial audit services? What is the accessibility to the actuaries assigned to SCERS?
8. Are there any potential conflicts of interest with the proposed Senior and/or Supporting Actuaries within the SCERS assignment? Are there any potential conflicts of interest related to other client relationships? If so, provide details on the entity or activity.
9. Does the firm have a transition plan to deal with the possible sudden departure of key professionals assigned to SCERS's actuarial auditing project? Describe the plan.

In the event an actuary must be replaced, the replacement must meet the same standards as outlined in this proposal and be acceptable to SCERS. Failure to provide a new replacement acceptable to SCERS will constitute a breach of the firm's agreement.

C. Proposed Actuarial Auditing Methods

1. Describe the specific methodology to be used for the required scope of services identified in Section III. Scope of Services.
2. Provide a timeline for completion of the work identified Section III. Scope of Services.
3. Describe your firm's theory and methodology used in recommending an appropriate actuarial cost method for a public pension fund.
4. Describe your firm's theory and methodology for actuarial assumptions development (except for the interest rate assumption, which is addressed separately).
5. Describe the methodology used to formulate a pension fund's actuarial interest rate assumption. How may this methodology differ from client to client? Under what circumstances would you recommend SCERS change its interest rate assumption?
6. Describe your firm's approach to recommendations regarding the amortization of unfunded liabilities.
7. Describe your approach to measuring funded status and funding progress in order to facilitate the assessment of trends over several valuations of a client.
8. Describe the capabilities of your valuation system(s) and your computer system support.
9. Describe your quality control processes for actuarial audit reports and recommendations. How are these services monitored and reviewed?
10. Provide an example of one recent actuarial audit report for an existing client.

D. Actuarial Auditing Experience and References

1. Please list client relationships where **only** actuarial auditing services similar to this RFP have been or are being provided.
2. For all **current** public pension plan full-service actuarial clients, state the client's name, and their asset and membership size. Designate by asterisk which of these clients are multi-employer plans. In addition, describe the nature of the consulting relationship with:
 - A full-service actuarial consulting client that has been assigned for at least two years to the Senior Auditor proposed for the SCERS account.
 - The client with the longest full-service actuarial consulting relationship with your firm.
 - The former client who most recently terminated your firm's full-service actuarial consulting contract.
 - A multi-employer public pension plan client for whom your firm has provided full service actuarial consulting for at least three years.
3. Please provide the name, title, address, and telephone number for at least three client references for whom your firm has provided actuarial audit services similar to this Request for Proposal. Include the following detail:
 - The client for whom the firm most recently completed an actuarial audit.
 - The scope of the actuarial auditing services required for these referenced clients.
 - The client for whom the Senior Auditor most recently completed an actuarial audit.
4. List all pension plan clients that have terminated their actuarial service contracts with your firm in the last five years. Include the client firm's name, size (number of pension plan members and annuitants), date of contract termination, and reason(s) for contract termination.
5. Within the last five years, has your firm been notified by any actuarial consulting services client that your firm is in default of its contract, or that conditions exist jeopardizing continuation of that contract? If so, state the client firm's name, year the notice was received, reasons for the notice, and resolution or current status of the relationship.
6. Have your firm's actuarial consulting service products been audited by another actuarial firm within the last five years? If so, state the number of such audits and whether any resulted in revisions to your clients' annual valuation results, actuarial assumptions, or actuarial cost methods. Which firm(s) audited your actuarial product?

E. Additional Required Information

1. Will subcontractors be used in providing the required SCERS services? If so, describe the specific services that would be subcontracted, the name of the subcontractor, the cost to your firm of these services, and how you would control the quality of services provided.
2. Please describe your firm's legal resources, both in-house and external consultants, if retained.
3. Do you have plans/arrangements for business continuity? Briefly describe your business recovery plans. Include plans related to client data files in your description.
4. Please describe the coverage levels for errors and omissions insurance and any fiduciary or professional liability insurance your firm carries. Is the coverage on a per-client basis, or is the dollar figure applied to the firm as a whole? List the insurance carriers.
5. How does the firm monitor and measure actuarial client satisfaction and actuarial audit satisfaction?
6. Describe the resources your firm has that specifically address the needs of public fund clients.
7. Provide one recent valuation audit report and one recent triennial experience study audit report as provided to an existing or former client.

F. Actuarial Audit Cost Structure

1. Describe the cost structure you propose for SCERS' actuarial audit engagement. Include any performance benchmarks proposed for each fee tier.
2. Describe how fees are determined for your firm's actuarial auditing services.
3. How are fees billed (billing periods and prospective versus arrears)?
4. The proposed fee schedule should include administrative, third-party, travel, and all other costs associated with the proposed engagement. These costs should be presented in detail.

VIII. PROPOSAL SUBMISSION AND EVALUATION PROCESS

A. Contact

Kathryn T. Regalia, Chief Operations Officer
Sacramento County Employees' Retirement System
980 9th Street, Suite 1900
Sacramento, CA 95814
regaliak@saccounty.net

B. **Need to Modify RFP.** If any ambiguity, conflict, discrepancy, omission or other error is discovered in this RFP, notify SCERS, attention Kathryn Regalia, in writing. If SCERS deems it necessary, modifications will be made by addenda issued to all participating respondents and posted on SCERS' website.

C. **Proposal Submission.** Proposals must be received by:

5 p.m., Pacific Time on April 21, 2017

Late proposals will not be accepted.

On the outside of the sealed response package, clearly mark:

Response to RFP for Actuarial Auditing Services

Please submit 7 sets of the proposal and related information to:

Kathryn T. Regalia, Chief Operations Officer
Sacramento County Employees' Retirement System
980 9th Street, Suite 1900
Sacramento, CA 95814

E-mail an electronic version of the proposal to kregalia@saccounty.net.

D. **Proposal Organization.** Proposals should be organized in the following manner:

1. Cover Letter stating that the proposal is complete as submitted. All prices, cost schedules, and/or other factors contained in the proposal are valid for 90 days from the proposal closing date and must include the signature of the representative(s) who are authorized to legally bind the proposer.
2. Table of Contents
3. Executive Summary
4. Firm and Personnel Background Information and Qualifications
5. Complete Replication Audit Performance Methodology
6. Cost Structure
7. References
8. Contract Specifications
9. Attachments

E. **Proposal Review.** SCERS will review and evaluate the proposals. SCERS anticipates selecting one or more firms as finalists in May 2017. The evaluation criteria will be the following:

- Qualifications – Firm's ability to meet the qualifications.

- Ability – The firm’s ability to provide the requested services.
- Related Experience – The firm’s demonstrated, related experience in providing services comparable to the Board’s needs. Expertise in all aspects of actuarial auditing, preferably as it relates to public entities and the 1937 Act.
- Assigned Individuals – The credentials and experience of the person(s) who would be assigned to SCERS’ account.
- Fee Proposal – The fee structure proposed by the firm.
- General quality and adequacy of response, including completeness of response, conformity to terms and conditions.
- Quality of references – Level of satisfaction of present and/or former clients.
- Other Factors – Any other factors that would be in the best interest of the Board to consider which were not previously described.

F. **Interviews.** If required, SCERS will schedule presentations of the finalists in February. Note that there may not be any oral presentations; each proposal is expected to be complete in and of itself.

G. **Notification of Contract Award and Start Date Notification** of SCERS’ decision to award a contract for actuarial audit services will be by e-mail in May 2017.