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Colorado PERA Actuarial Services RFP 2006: Questions and Responses

1. With regard to Section F, question 2--please clarify what is meant by the "theory and determination of asset classes"--although the asset classes and expected returns are definitely considered in the determination of the investment return assumption, it is unclear to us what services you are requesting here since the actuary does not select the asset classes or investment policy?

R: You are correct. We do not expect the actuary to select asset classes or the investment policy. However, we do anticipate that the actuary play a role in providing guidance to the Board on historical investment rates of return, including by asset classes, for consideration in the Board's policy making decisions and actuarial assumptions. The Board sets the actuarial assumptions with the advice of the actuary, including the assumed rate of investment return.

2. With regard to Section F, question 8--please clarify what "after year end reports" you are referring to.

R: "Year end reports," include the annual actuarial valuations for all of the Trust Funds, the annual Gain/Loss Analysis and preparation of materials for the PERA annual CAFR.

3. With regard to the 5th bullet in the list of retainer services, please clarify what the survivor benefit fund reserve transfer calculations are and provide a sample calculation for our review.

R: The calculation is specified in law, C.R.S., 24-51-901-914. The calculation is necessary in order to transfer the appropriate assets from the pension trust fund to the survivor's trust fund. In general, the calculation is like most actuarial valuation calculations, discounted present value.

4. In the list of retainer services, you mention assistance to other PERA providers--can you clarify approximately how much time such assistance will require--for example--100 hours per year, 200 hours, more, less?

R: In general, this service should be viewed as inclusive in the providing of the retained services for PERA and for the vast majority of instances fall under the 12 meeting days per year. In addition, as PERA's actuary, the expectation is that addressing actuarial problems and questions posed to PERA or by PERA in the normal course of business that include the issues and entities listed in the question is an inherent duty as the actuarial service provider.

5. What is PERA's Medicare Part D strategy and will they require an actuarial attestation as part of the requested actuarial services?

R: We are applying for Retiree Drug Subsidy program for 2007. No, an actuarial attestation for Medicare Part D will not be required under this scope of services; our health care services actuary performs this function.

6. The cover letter lists a number of plans other than the defined benefit pension plan and the retiree health care subsidy fund. The statement is made that expertise in these other areas would be

considered a plus. However, could you please explain a bit more by what is meant by "health care service"? Is this help in evaluating the retiree health program beyond the subsidy?

R: No. You are correct in that we are not seeking direct help in the areas listed as not part of the actuarial services. In terms of health care, we are seeking only actuarial services for the retiree health care subsidy fund. PERA administers a comprehensive health care plan, known as PERACare, to retirees and some active employees of which the retiree subsidy fund is only a component. The term "health care services" is meant to be inclusive of all of the health care programs administered by PERA. Expertise in the areas not directly related to the scope of services is viewed as bonus for retention of bidder's services. For example, knowledge of defined contribution plans could play an important role as most new State Division Trust Fund employees have the ability to select between the PERA defined benefit plan and a defined contribution option. Therefore, the participation rates in the defined contribution plan have the ability to impact funding in the defined benefit plan.

7. The 2005 actuarial review/audit report was not found on the PERA website. Is a copy available to review, the same as the 2005 valuation report?

R: Yes, the 2005 actuarial review/audit report is available for review. The report did not make it onto the website, and that has been corrected.

8. The general consulting is expected to be 500 hours per year. Can you estimate what percentage of those consulting hours is expected to be with the lead consultant?

R: This will be dependent upon the level of expertise brought by the whole actuarial team assigned to PERA.

9. One of the eligibility requirements indicates "the firm's ability to acquire the insurance coverage". What type and amount of insurance is PERA expecting?

R: The actuary should maintain Professional Liability (E&O) Insurance providing a minimum limit of liability in the amount of \$100 million each occurrence and annual aggregate. Also, the actuary should maintain Bodily Injury and Property Damage Insurance with a minimum limit of liability in the amount of \$10 million annual aggregate.

10. The Actuarial Services Agreement included in the RFP has some provisions that are beneficial for PERA, but does not consider some legal provisions our legal advisors prefer to have in a consulting agreement. The timeline indicates a one week period for contract negotiation after the consultant selection has been made. We normally have not had any problems getting to a satisfactory contract once both sets of legal advisors can discuss the issues in their own terms. However, in preparing our proposal, including requested changes in the sample agreement, can you tell us if PERA is legally prohibited from:

- Accepting a limit of liability if the amount of the limit is significantly large?

R: No. However, the issue of liability limitations is very significant to PERA.

- Allowing for a bench trial rather than a jury trial under the disputes section? Given the complexity of actuarial work, we would prefer not to be exposed to a jury trial with lay persons. Either of the courts listed are acceptable with a judge rather than a jury.

R: No. PERA does not favor jury waivers as a contract provision. If a particular dispute lends itself to a jury waiver, then PERA will address such an issue at that time.

11. How long has the incumbent been serving the System?

R: The current actuary has been providing services since January 1, 2004

12. Why are the services out to bid at this time?

R: The Board directed staff to do an RFP.

13. What are the actuarial fees that have been charged annually related to the request scope of consulting services? Can you provide a breakdown of fees for the annual valuation services versus the Survivor Benefit Fund Reserves transfer calculations?

R: The current contract has a \$130,000 fee for the retainer services. In addition, the following hourly fees are in the contract (to be indexed to the CPI(U)) for non-retainer services:

Director or Principal - \$400
Associate Principal - \$325
Senior Consultant - \$275
Consultant - \$225
Senior Associate - \$200
Associate - \$175
Administrative Staff - \$100

The three-year average for fees charged related to Survivor Benefit Fund Reserve transfers is \$10,500 per year.

14. When do you estimate the data would be provided to the selected Offeror?

R: We anticipate the transfer of existing data to begin in December 2006. For data related to the 2006 valuation, we estimate information related to retirees to be available around the beginning of February, actives the beginning of March, preliminary investment data in April, and final investment data mid-May.

15. How much input will a vendor be permitted to provide on specific data formatting?

R: In general, we have the capability to produce data in numerous formats, including fixed position and CSV. In general, with the proper coordination and early notice most conceivable formatting requirements could be met.

16. How would you generally describe the quality of your participant data in terms of accuracy and completeness?

R: In general, we feel our data is accurate and complete, to the best of our knowledge. Such issues have not created any problems of importance or significance. In addition, we requested and received data anomalies for the last twenty years and have resolved the anomalies.

17. In order for the proposals to be in the possession of PERA by October 30th, please confirm the physical address for hand delivery?

R: Hand Delivery is available at:

1300 Logan St.
Denver, CO 80203

18. What are the annual performance criteria used to evaluate the actuary's performance?

R: The criteria for evaluating performance includes, but is not limited to, meeting reporting deadlines, responsiveness, clarity and accuracy.

19. What were the major findings of the 2005 actuarial review and is the report available for review by prospective bidders?

R: There were no major findings. Please see the report, now available on the website.

20. Please provide information on the current structure and amount of actuarial consulting fees.

R: Please see answer to question #13.

21. May we see a sample of the Medicare Part A modeling that is being requested, or the specifications of the report?

R: The constraints and methodology of producing an actuarial model of the Medicare Part A, which is just a portion of the overall Health Care Trust Fund, are described within the 2005 Actuarial Valuation Report, Pages 71-78. The PERA retiree program essentially provides a fixed subsidy for retirees to put towards health care premium costs for participants within the PERACare program. Therefore, much of the liability is relatively stable. The participants without Medicare Part A are entitled to disbursements in excess of the fixed subsidy to offset actual incurred medical expenses. In addition, the eligibility for these disbursements above the subsidy is dependent upon numerous factors not easily forecasted. Estimates of the members who are potentially eligible and the associated liability have been calculated by the current actuary. Making such estimates is also part of the scope of services for this RFP.

22. What is your budget for the requested services?

R: The budget for actuarial services is variable; please see the response to question #13.

23. Is a local firm of high importance to PERA?

R: A local firm would be convenient for geographic and emergency reasons. However, this factor will not outweigh the importance to PERA of obtaining the services of the best firm to match PERA's needs.

24. What are some of the key issues that PERA will be addressing during the term of the next contract?

R: The following is a partial list of some of the likely actuarial issues that PERA will face in concert with our chosen actuary over the next several years:

- Implementation and actuarial evaluations of the recently passed legislation contained in SB06-235. This includes the implementation and valuation of a new COLA mechanism, the expansion of groups of people eligible for both the defined benefit and defined contribution plans, and of the Amortization Equalization Disbursement and the Supplemental Amortization Equalization Disbursement;
- Cost benefit/analysis of Defined Contribution versus Defined Benefit plans; and
- Accurate assessments of liabilities, cash flows, and the consideration of alternative stochastic asset/liability modeling and actuarial projections.

25. The RFP mentions providing modeling software, could you please clarify (i.e., would you like to be able to do your own modeling)?

R: Currently, PERA's retained actuary is able to provide dynamic 30-year projection modeling of PERA's assets, liabilities, funded status and other actuarially valuable data and estimates. PERA seeks to retain this capability and potentially enhance upon it. The model allows for the adjustment of numerous variables, i.e. investment returns and others. PERA's desire is to maintain the capability to

adjust input variables simply for quick and easy reference while relying on the retained actuary for detail and strong oversight of interpretations of modeled outcomes. In PERA's estimation, this would not amount to PERA "being able to do our own modeling", rather it represents a quick reference tool provided to PERA from the actuary under the auspices of projections that require the skills and interpretations of a professional actuary to be meaningful.

In addition, it is worthy to note that PERA understands the highly uncertain predictive value of actuarial projections and models, and views them as extreme simplifications of uncertain future phenomena. However, PERA still sees value in modeling in the framework and understanding mentioned above.

Finally, PERA has often received requests from outside entities concerning interest in reviewing and critiquing "our models." Any submitting actuary should realize such an environment exists and that PERA does its fullest to comply with law under the auspices of seeking public transparency in our actions. However, we have never viewed these models as "ours", rather as a tool and service provided to us from our actuary.

26. Please describe what services were provided by your current actuarial consultant over the last two years.

R: Our current actuary has provided services substantially similar and related to the entire scope of services list. The 500 hours of consulting under the retained services was not part of the previously retained services.

27. Please provide the retainer and non-retainer fees paid to the current actuary for the last 3 fiscal years. Are the retainer services covered by the retainer fees the same as those requested in the RFP? If not please explain the difference. Does the retainer include the 500 hours of consulting?

R: Please see the responses to questions #26 and #13.

28. Please expand on the services needed for 415 limit testing and discrimination testing.

R: This is the calculation under IRS Section 415 for the Replacement Benefit Arrangement PERA has in effect. Please see page 45 in the 2005 CAFR. The calculation involves determining the 415 limit for benefit recipients and the accrued benefit. The excess of the accrued benefit over the allowable 415 limit is the amount that will be funding under the Replacement Benefit Arrangement.

29. How many separate meetings are involved in the 12 meeting days each year?

R: 12 meetings of a public nature.

30. How should we sort the retiree healthcare clients requested in D2 of the questionnaire if most do not have any assets?

R: By highest to lowest premium expenses and please note such a distinction.

31. Please expand on the services needed in developing Survivor Benefit Fund transfers.

R: Please refer to response #3.

32. Please expand on the services needed in the Annual Increase Reserve Fund calculation and valuation.

R: The Annual Increase Reserve Fund is a new COLA fund for members hired after January 1, 2007. Therefore, the fund doesn't exist or have any assets yet. The development of a methodology for the calculation of the total future cost of granting a COLA under the provisions of SB06-235 will be

necessary. In general, it is expected that one could value it as a typical COLA fund or as typical pension fund for actuarial valuation purposes and transfer calculations.

33. Please describe the bidder evaluation process.

R: Please see the Actuarial Services: Eligibility Requirements and the 2006 RFP Process portion of the RFP.

34. Has the list of criteria been weighted? If so, can the weights be provided?

R: Please see the Actuarial Services: Eligibility Requirements and the 2006 RFP Process portion of the RFP.

35. How many organizations have you invited to provide proposals for the work described in your RFP?

R: PERA contacted nine individual firms that have expressed interest in providing services to PERA. However, we exclude no one from bidding, and would expect and appreciate additional interest beyond these nine.

36. Assuming all competitors will propose competent, capable team members, what are the unique qualities you are looking for in proposed team members (experience, expertise, locale)?

R: Experience and expertise would carry substantial weight along with a proven track record of timeliness, accuracy and clarity. Price is another factor that would be evaluated closely.

37. How will you measure success for this work? In one year? In five years?

R: The criteria for evaluating performance includes, but is not limited to meeting reporting deadlines, responsiveness, clarity and accuracy. The PERA Governance Manual stipulates annual review.

38. What are the primary concerns of Colorado PERA and how do you expect your actuary to help you address those concerns?

R: The primary concerns of Colorado PERA include, but is not limited to meeting reporting deadlines, responsiveness, clarity and accuracy, especially in regards to the public and legislative oversight.

39. Regarding attendance at meetings as described under Retainer Services, should we assume a minimum of 12 meetings for purposes of pricing? How many times to attend or testify before the General Assembly should be assumed?

R: Yes. One meeting is a certainty to include testifying before the General Assembly. Two to three is probable and four to six is possible.

40. What are the current contracted fees for the retainer annual services covered by the RFP? How much has been spent on non-retainer services over the prior contract? Is this level of non-routine service a reasonable expectation for the future?

R: Please see response to question #13.

41. Is this RFP being issued on PERA's regular schedule or is it considered an "out of cycle" RFP? If "out of cycle", what has prompted the RFP?

R: Please see response to question number #12.

42. For question D2, do you want a list of our top10 pension clients and our top10 health care retirement plans; or do you want a list of our top10 clients, regardless of whether they are a pension plan or a health care retirement plan?

R: Both please.

43. Please clarify question F5. Are you looking for a description of the process we use to determine the assumptions we would use in projecting participation in optional defined benefit and optional defined contribution plans for purposes of projecting liabilities and contributions?

R: Yes, we are looking for such a description. In addition, a clear response would include caveats and considerations in relation to the method and the outcomes.

44. When is PERA currently receiving reports after year end? When would you like to receive them?

R: Early June.