

# **STUDY OF MAIN PUBLIC EMPLOYEES RETIREMENT SYSTEM RETIREMENT PLAN - INFORMATION REGARDING THE REQUEST FOR PROPOSAL AND PROPOSAL RESPONSES**

## **BACKGROUND INFORMATION**

Section 16 of 2013 House Bill No. 1452 provides for a Legislative Management study of the feasibility and desirability of existing and possible state retirement plans. The study must include an analysis of both a defined benefit plan and a defined contribution plan with considerations and possible consequences for transitioning to a state defined contribution plan. The Legislative Council may contract for consulting and coordination of study services to assist the Legislative Management in conducting the main Public Employees Retirement System (PERS) retirement plan study. The Government Finance Committee has been assigned the responsibility for the 2013-14 interim.

## **REQUEST FOR PROPOSAL**

On March 24, 2014, as directed by the committee, the Legislative Council issued a request for proposal (RFP) for consultant services for assistance in a study of the main PERS retirement plan in North Dakota. The consulting services are to include a separate and independent review of the actuarial costs of the defined benefit plan if it is closed to new state employees. The specific actuarial information to be provided includes cashflow projections for the following scenarios:

1. The existing retirement plan going forward until the plan reaches a 100 percent funded status at market value of assets.
2. The existing retirement plan going forward assuming that beginning Friday, January 1, 2016, all newly hired state employees are required to participate in a defined contribution plan. The information should be shown through the year the last member of the plan is projected to receive a retirement benefit. The information should be shown only for state employees.
3. The existing retirement plan going forward assuming that beginning January 1, 2016, all newly hired state employees are required to participate in a defined contribution plan and that a one-time payment is made into the retirement fund on Wednesday, July 1, 2015, which would result in the plan being fully funded through the year the last member of the plan is projected to receive a retirement benefit. The information should be shown only for state employees.
4. A separate projection of the funded status of the political subdivision portion of the plan assuming that it remains open and is segregated from the closed state plan until that plan reaches a 100 percent funded status at market value of assets.
5. The existing plan if it is closed to both state and political subdivision employees beginning January 1, 2016, until the year the last member of the plan is projected to receive a retirement benefit.

Proposals were due to the Legislative Council office on April 11, 2014.

## SUMMARY OF REQUEST FOR PROPOSAL RESPONSES

Below is a summary of consultant background and proposal information gathered from each of the consultant's proposals.

Summary Proposal Information	The Nyhart Company	Milliman, Inc.	Arthur J. Gallagher & Co.	Cheiron, Inc.
Consultant profile	The Nyhart Company is an employee benefit consulting, actuarial, and administration firm that advises boards of state and city governmental plans, nonprofits, dioceses, corporations, and many other organizations throughout the United States. With over 100 employees, Nyhart provides services to many large public sector plans.	Milliman, Inc., is a global firm of consultants and actuaries with more than 50 offices in the United States and overseas employing approximately 2,600 people. Milliman offers a wide range of consulting services to state and municipal retirement systems. Its services include all aspects of public retirement systems, including actuarial valuations; experience investigations; development of plan costs; actuarial reviews; working with staff on administrative, disclosure, communication, and recordkeeping issues; and testifying before legislative committees and governing boards.	Arthur J. Gallagher & Co. is an insurance brokerage and risk management services firm with over 14,500 employees. Its actuarial services team consists of nine employees. Gallagher's actuarial services team provides funding and financial accounting valuations, actuarial audit, administration, compliance, employee communications, plan design, and consulting services to clients throughout the country. With over 95 clients and serving over 100 defined benefit and postretirement medical plans, their clients include public sector, publicly owned, and privately owned entities.	Cheiron, Inc., is a full-service actuarial and financial consultancy, advising a national client base of public employers, Taft-Hartley plans, nonprofits, and corporations. Cheiron's staff includes 89 employees.
Lead contacts	Mr. John L. Dowell, DB Practice Manager/Consultant/Actuary/Principal	Mr. Tim J. Herman, Principal and Consulting Actuary	Mr. Doug Anderson, Actuarial Lead Consultant	Mr. Stephen McElhaney, Principal Consulting Actuary Mr. Gene Kalwarski, Principal Consulting Actuary
Other team members	Mr. Carter Angell, Actuary Ms. Taylor Fireoved, Actuarial Analyst	Mr. Jack M. Chmielewski, Actuary Mr. William V. Hogan, Peer Review Actuary Mr. Allan L. Bittner, Peer Review Actuary	Mr. Bruce Johnson, Professional Standards Review Mr. Ben Holle, Actuarial Manager Mr. Anthony Pluth, Actuarial Analyst	Ms. Fiona Liston, Principal Consulting Actuary Ms. Elizabeth Wiley, Associate Actuary Special resource personnel: <ul style="list-style-type: none"> <li>• Mr. Kenneth Kent, Consulting Actuary</li> <li>• Mr. James Holland, Chief Research Actuary</li> <li>• Mr. William Hallmark, Retirement Consultant</li> <li>• Mr. Graham Schmidt, Consulting Actuary</li> </ul>

Summary Proposal Information	The Nyhart Company	Milliman, Inc.	Arthur J. Gallagher & Co.	Cheiron
<p>Similar clients and related experience</p>	<ol style="list-style-type: none"> <li>1. Provide actuarial services to large public sector plans including those in:                             <ol style="list-style-type: none"> <li>a. Indiana.</li> <li>b. Florida.</li> <li>c. Rhode Island.</li> <li>d. Illinois.</li> </ol> </li> <li>2. Similar projects have been conducted for:                             <ol style="list-style-type: none"> <li>a. New Orleans.</li> <li>b. Fort Lauderdale.</li> <li>c. Baton Rouge.</li> <li>d. Miami.</li> <li>e. Daytona Beach.</li> <li>f. Orlando.</li> </ol> </li> </ol>	<p>Provide actuarial and related services to public employee retirement systems, including:</p> <ul style="list-style-type: none"> <li>• California State Teachers' Retirement System.</li> <li>• Florida Retirement System.</li> <li>• Idaho Public Employees Retirement System.</li> <li>• Los Angeles County Employees Retirement Association.</li> <li>• Minnesota Legislative Commission on Pensions and Retirement.</li> <li>• New Jersey Teachers' Pension and Annuity Fund.</li> <li>• Puerto Rico Teachers Retirement System.</li> <li>• Puerto Rico Government Employees Retirement System.</li> <li>• Texas County and District Retirement System.</li> </ul>	<ol style="list-style-type: none"> <li>1. Experience with public sector plans in Arizona, Georgia, Hawaii, Michigan, Minnesota, North Dakota, Tennessee, Texas, and Guam.</li> <li>2. Actuarial audit experience, including 15 independent actuarial reviews of the work of other actuaries within the past three years.</li> <li>3. Actuarial experience studies for various clients to analyze the reasonableness of economic and demographic assumptions.</li> </ol>	<ol style="list-style-type: none"> <li>1. Similar projects involving projections in the states of:                             <ol style="list-style-type: none"> <li>a. Florida.</li> <li>b. Maine.</li> <li>c. Montana.</li> <li>d. Illinois.</li> <li>e. Rhode Island.</li> <li>f. Maryland.</li> <li>g. Utah.</li> </ol> </li> <li>2. Consulting services to public retirement systems in:                             <ol style="list-style-type: none"> <li>a. New Jersey.</li> <li>b. Virginia.</li> <li>c. Washington.</li> <li>d. Pennsylvania.</li> <li>e. Oregon.</li> <li>f. California.</li> <li>g. New York.</li> </ol> </li> <li>3. Consulting projects for the federal government and local governments.</li> </ol>
<p>Project plan</p>	<ol style="list-style-type: none"> <li>1. Review current information, including:                             <ol style="list-style-type: none"> <li>a. Actuarial reports by The Segal Company.</li> <li>b. Plan provisions.</li> <li>c. Actuarial assumptions.</li> </ol> </li> <li>2. Create scenarios:                             <ol style="list-style-type: none"> <li>a. Existing retirement plan until 100 percent funded.</li> <li>b. Existing retirement plan assuming as of January 1, 2016, new employees enter defined contribution plan.</li> </ol> </li> </ol>	<ol style="list-style-type: none"> <li>1. Replicate fund actuary's July 1, 2013, valuation results, including:                             <ol style="list-style-type: none"> <li>a. Collect plan documentation and historical information.</li> <li>b. Attempt to replicate and review the fund actuaries methodologies, assumptions, and results. This would include the development of the unfunded actuarial accrued liability, normal cost rate, unfunded accrued liability rate, and the resulting required contribution rate.</li> <li>c. Compare these results to the July 1, 2013, actuarial valuation report to determine reasonableness.</li> <li>d. Review actuarial assumptions and recommend changes if any.</li> </ol> </li> </ol>	<ol style="list-style-type: none"> <li>1. Provide separate and independent review, including:                             <ol style="list-style-type: none"> <li>a. Obtain participant data as used for the July 1, 2013, valuation from The Segal Company.</li> <li>b. Run independent valuation.</li> <li>c. Attempt to match July 1, 2013, actuarial valuation results and reconcile differences with The Segal Company.</li> <li>d. Review the appropriateness of the actuarial assumptions used by The Segal Company and provide recommendations for changes, if any.</li> </ol> </li> </ol>	<ol style="list-style-type: none"> <li>1. Initial planning meeting.</li> <li>2. Data request.</li> <li>3. Data collection and data check using The Segal Company's processed valuation data, or using raw data from the system.</li> <li>4. Review of actuarial assumptions and methods.</li> <li>5. Perform initial analysis using The Segal Company's valuation output, or independent replication of the valuation results.</li> <li>6. Construct a "p-scan" model and run the projections.</li> <li>7. Report preliminary results.</li> </ol>

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	<ul style="list-style-type: none"> <li>c. Existing retirement plan assuming as of January 1, 2016, new employees enter defined contribution plan and a lump sum payment is made to 100 percent fund the plan.</li> <li>d. Separate projection for political subdivisions.</li> <li>e. Existing plan if closed to state and political subdivisions as of January 1, 2016.</li> </ul> <ul style="list-style-type: none"> <li>3. Reconcile scenarios.</li> <li>4. Prepare and present the final report.</li> </ul>	<ul style="list-style-type: none"> <li>2. Perform the projections for the five scenarios identified in the RFP.</li> <li>3. Prepare a written report and present the report.</li> </ul>	<ul style="list-style-type: none"> <li>e. Prepare cost projections for five scenarios as outlined in RFP.</li> <li>f. Prepare additional cost projections to reflect recommended assumption changes, if any.</li> <li>g. Attempt to reconcile differences from The Segal Company's results.</li> <li>h. Prepare a final report with findings and recommendations and present results to the committee prior to Monday, September 1, 2014.</li> </ul>	<ul style="list-style-type: none"> <li>8. Draft report and present report to the committee.</li> </ul>
Proposal cost	\$55,000 plus travel costs	\$55,000	\$27,500	\$50,000
Optional services and related fees	Utilize pension design modeler to produce charts showing how participants are impacted by a new design - \$15,000.	<ul style="list-style-type: none"> <li>1. Prepare July 1, 2013, replication valuation using raw demographic data from the retirement system - \$15,000.</li> <li>2. Prepare only 30-year projections of the five scenarios - (\$4,000).</li> <li>3. Add stochastic asset projection capability to PERS projection model - \$14,000.</li> </ul>	Receive and review raw census data - \$5,000	<ul style="list-style-type: none"> <li>1. Independent replication of actuarial valuation results - \$80,000.</li> <li>2. Use raw data from the system rather than The Segal Company's processed data - \$20,000.</li> <li>3. Rerun valuation results and projections using an alternate set of valuation results - \$20,000.</li> </ul>