

Memorandum

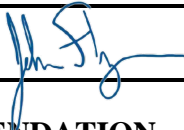
**TO: Board of Administration for the
Police and Fire Department
Retirement Plan**

FROM: Benjie Chua Foy

**SUBJECT: Actuarial Audit Services Request For
Proposal (RFP) Results**

DATE: May 1, 2025

Approved



Date April 23, 2025

RECOMMENDATION

Discussion and action on the results of the RFP for actuarial audit services, including Board authorization for the Chief Executive Officer (CEO) to negotiate and execute an agreement with Milliman for a term of six (6) years for an amount not to exceed \$200,000, with four (4) one-year options to extend.

BACKGROUND

According to the Government Finance Officers Association (GFOA) Best Practices for Procuring Actuarial Services: *While reviewing actuarial contracts is an important part of due process, frequently rebidding or changing actuaries can be time-consuming and expensive. It can also lead to the plan being serviced by individuals who are not familiar with its more complicated provisions. The GFOA therefore recommends that contracts for actuarial valuations be for multiyear periods of at least five years.*

The City Auditor's 2010 report on Pension Sustainability recommended to have an actuarial audit every five years if the actuary conducting the valuations has not changed in that time. Segal is currently the auditing actuarial firm for both plans and has conducted two audits of the June 30, 2016 and June 30, 2021 actuarial valuations. The next audit is scheduled for the June 30, 2026 actuarial valuations. Cheiron currently provides actuarial services for both plans. Prior to Cheiron, the actuary for the Police and Fire Plan was Segal Consulting ("Segal"), and the actuary for the Federated System was Gabriel Roeder Smith & Company ("GRS").

- On May 5, 2016, the Board of Administration for the Police and Fire Department Retirement Plan ("Board") authorized the CEO to negotiate and execute a contract with Segal for actuarial audit services, not to exceed ("NTE") \$250,000, with a term ending June 30, 2021, following an RFP for actuarial services. This was for the audit of the June 30, 2016 pension and healthcare actuarial valuations.
- On February 4, 2021, the Board authorized the CEO to negotiate and execute an amendment to the contract with Segal for actuarial audit services for an amount NTE \$250,000, with a term ending June 30, 2024 for the audit of the June 30, 2021 pension and healthcare valuations.

- An RFP for actuarial services was scheduled to be issued in 2024, however, following the retirement announcement of the then current CEO, the Board decided to complete the search for a new CEO prior to initiating the procurement process for actuarial services.
- In November 2024, the Board approved to establish a Joint Ad Hoc Committee with the Police and Fire Board, with one member from each plan to work with staff in the procurement of actuarial services.
- On December 20, 2024, staff issued an RFP for actuarial services, which included actuarial audit services, with RFP responses due January 31, 2025.

Five RFP responses were received from the following vendors:

- Cavanaugh Macdonald Consulting LLC,
- Cheiron, Inc.,
- Gabriel, Roeder, Smith & Company (GRS),
- Milliman, and
- The Segal Company.

Overseen by the CEO, the RFP staff evaluation team consisted of the Deputy Director, and one staff member from the Accounting, Benefits and Investments Divisions. The combined average scores were as follows:

Description	Weight	COMBINED AVERAGE				
		Cavanaugh	Cheiron	GRS	Milliman	Segal
Proposal Responsiveness	Pass/Fail	Pass	Pass	Pass	Pass	Pass
General Requirements	10	9.75	10.00	9.75	8.00	8.25
Experience and Qualifications	25	20.00	24.50	20.25	23.50	24.50
Project Approach	15	12.25	15.00	13.25	13.25	14.50
Technical Capabilities	20	17.25	19.75	19.50	17.75	19.50
Cost Proposal	20	19.25	19.75	17.75	18.00	15.25
Local Business Enterprise	5	-	-	-	-	-
Small Business Enterprise	5	-	-	-	-	-
	100	78.50	89.00	80.50	80.50	82.00

In February 2025, Staff met with the JAHC to discuss the results of their evaluation of the RFPs and recommended that Cheiron be appointed as the actuary for the plan, with the remaining four be interviewed for actuarial audit services.

The interviews were conducted by Staff (CEO, Deputy Director, Benefits Manager, Accounting Manager and Investments Officer) on April 1, 2025. Staff re-evaluated the four firms based on their interviews, and the updated combined average scores were as follows:

Description	Weight	COMBINED AVERAGE			
		Cavanaugh	GRS	Milliman	Segal
Proposal Responsiveness	Pass/Fail	Pass	Pass	Pass	Pass
General Requirements	10	9.75	9.75	8.00	8.25
Experience and Qualification	25	20.00	20.25	23.50	24.50
Project Approach	10	8.17	9.92	8.83	9.67
Technical Capabilities	10	8.63	12.13	8.88	9.75
Cost Proposal	20	19.25	17.75	18.00	15.25
Interview	15	11.00	7.50	14.50	12.75
Local Business Enterprise	5	-	-	-	-
Small Business Enterprise	5	-	-	-	-
	100	76.8	77.3	81.7	80.2

ANALYSIS

The RFP team thoroughly reviewed the RFP responses and determined, based on the highest combined average score, that Milliman should be recommended for actuarial audit services.

The scores between the top two candidates were close; however, given Cheiron, the incumbent actuary, was recommended as the plans' actuary, Staff believes that selecting Milliman would provide an opportunity to provide a fresh perspective and expertise, at a competitive price. The fee structure Milliman provided, a flat fee of \$80,000, for the first-year audit was a contributing factor in their selection. Cavanaugh also provided a flat fee of \$80,000. GRS and Segal provided only hourly rates. Segal scored higher in certain proposal categories, possibly due to incumbent bias, as well as the familiarity and experience Staff has with their work. However, Milliman's presentation was particularly thorough, and Staff feels they would be a great fit for the Boards with their new insights and strong presentation skills.

Based on the scores which includes the interview, Staff recommended appointing Milliman for actuarial audit services. Staff met with the JAHC on April 7, 2025, and the JAHC approved moving forward with the recommendation to the Board.

Contract Not to Exceed Amount

Staff recommends a total NTE amount for the six-year contract with Milliman of \$200,000: \$80,000 for the first-year audit as proposed in the response to the RFP and \$120,000 for the subsequent audit accounting for cost-of-living increases. The previous audits, which included the pension and healthcare valuations, cost a total of \$100,000 each year for each Board.

CONCLUSION

After a thorough review of the RFPs, the evaluation team determined that Milliman was the best option for the Board. Staff made a recommendation to the Actuarial Joint Ad Hoc Committee (JAHC) to appoint Milliman as the actuarial audit consultant for both Boards, which they accepted.

Staff recommends the Board authorize the CEO to negotiate and execute an agreement with Milliman for a term of 6 years for an amount not to exceed \$200,000 for actuarial audit services.

Benjie Chua Foy

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Accounting Division Manager