



Memorandum

TO: Board of Administration for the Federated Employees' Retirement System

FROM: Benjie Chua Foy

**SUBJECT: Actuarial Services Agreement
Term extension**

DATE: January 31, 2024

Approved *B. Hayman*

Date 2/7/2024

RECOMMENDATION

Discussion and action to authorize the CEO to negotiate and execute the second amendment to the agreement between the Board of Administration for the Federated Employees' Retirement System and Cheiron, Inc for actuarial services to extend the term to June 30, 2025 with an additional \$375,000, of which \$75,000 is for Fiscal year 2023-24 and \$300,000 is for fiscal year 2024-25, for a not to exceed contract amount of \$2,075,000.

BACKGROUND

Cheiron, Inc. ("Cheiron") was selected as the Board's actuary in August 2010 following a Request for Proposal ("RFP") for actuarial services. The Board entered into a three-year agreement with Cheiron, which was extended to June 2016 for a maximum contract amount of \$1,200,000 following 4 amendments. During the first half of 2016, an RFP for actuarial services was issued and Cheiron was selected as the Plan's actuary for the term July 1, 2016 through June 30, 2021 for a maximum contract amount of \$1,000,000. In February 2021, a first amendment was approved by the Board to add \$700,000 and extend the contract to June 30, 2024.

ANALYSIS

At the Police and Fire February Board meeting, Staff presented the recommended timeline and steps to issue a Request for Proposal (RFP) for actuarial services since Cheiron has been the actuary for both plans for over thirteen years and eight years since the last RFP was issued. The chart below outlines the steps in the current vendor policy, which is consistent with the proposed policy regarding procurement and contracting of goods and services that will be presented by the Joint Governance Committee. The three rightmost columns are the proposed timeline and steps that are recommended by Staff in order to have a new agreement in place for a plan actuary by July 1, 2024.

Current Vendor Selection Policy		Proposed Timeline		
Who	What	Who	What	When
			Issue RFP	02/16/24
			Proposer's deadline to submit questions	02/29/24
			Staff response to questions posted to website Post available interview dates	03/08/24
			Proposals due	03/15/24

Staff	Conduct due diligence	Staff	Review proposals	03/15/24-03/22/24
Staff	Identify interview candidates	Staff	Identify interview candidates, if needed	03/22/24
Ad hoc committee and Board	Interview finalists	Joint ad hoc committee and Board	Interview finalists	By 04/10/24
		Staff	Complete reference checks, if needed	By 04/17/24
Staff to ad hoc committee Ad hoc committee to Board	Recommend (appointment and termination)	Ad hoc committee to Board	Ad hoc committee to make a recommendation to the Board	By May 2024 Board meetings
Board	Appoint / terminate	Board	Board to appoint new actuary	May 2024 Board meetings
		Staff / Board Counsel	Contract setup and completion	June 2024

However, after some discussion regarding the timeline and the current workload for the trustees, including the Chief Executive Officer (CEO) search and policy revisions, the Police and Fire Board decided to extend the agreement with Cheiron for an additional one year to June 30, 2025. Staff have assessed the vendor’s past performance and have been very happy with their performance, professionalism and timely delivery of services, information and calculations.

By the end of fiscal year 2023-2024, Cheiron will have billed approximately \$1,750,000 in fees, which include the pension and healthcare valuations, two experience studies (FY19-20 and FY23-24), the Governmental Accounting Standards Board’s (“GASB”) 67/68 and 74/75 reports, as well as other consulting services. All of the fees for the services are fixed fee with escalation per year based on the prior year’s Consumer Price Index (“CPI”) rates. The services that fluctuate on an annual basis is the consulting services, which is also a fixed fee with a starting base of \$50,000 in the first year of the contract that includes 200 hours of services. Anything in excess of the 200 hours is charged at the actuaries’ prevailing rate based on the level of staff. Staff is requesting an additional \$375,000 through the end of FY24-25, of which \$75,000 will cover the shortage for the current fiscal year. The rest is for the extended term.

Services	Actual							Projected	
	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25
Annual Actuarial - Defined Benefit Pension	57,000	58,140	61,058	62,890	64,148	66,072	70,697	72,818	75,003
Annual Actuarial - Postemployment Healthcare Plan (OPEB)	41,000	41,820	43,919	45,237	46,142	47,526	50,853	52,378	53,949
Annual Actuarial - Pension Plan (GASB 67)	8,000	8,160	8,570	8,827	9,003	9,273	9,922	10,220	10,527
Annual Actuarial for Reporting(GASB 74/75)	-	8,160	8,570	8,827	9,003	9,273	9,922	10,220	10,527
Experience Study	-	-	-	38,000	-	-	-	43,765	-
Consulting and Advisory Services	50,000	51,000	53,560	55,167	56,270	57,958	62,015	56,401	58,093
Excess hours	41,124	7,120	39,774	17,412	-	46,087	25,823	29,556	30,443
Total	197,124	174,400	215,451	236,360	184,566	236,189	229,232	275,358	238,541
						Grand Total	\$ 1,987,220		
						Current maximum contract	\$ 1,700,000		
						Shortage	\$ 287,220		
						Contingencies	\$ 87,780		
						Amount requested	\$ 375,000		

Given the Federated Board is also dealing with an increased workload, including the CEO search and policy revisions, staff are recommending the Board take a similar approach to the Police and Fire Board to extend the agreement with Cheiron for an additional one year to June 30, 2025.

CONCLUSION

Staff recommends the Board to authorize the CEO to negotiate and execute the second amendment to the agreement between the Board of Administration for the Federated Employees' Retirement System and Cheiron, Inc for actuarial services to extend the term to June 30, 2025 with an additional \$375,000, of which \$75,000 is for Fiscal year 2023-24 and \$300,000 is for fiscal year 2024-25, for a not to exceed contract amount of \$2,075,000.

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