



Memorandum

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

FROM: Benjie Chua Foy

SUBJECT: Actuarial Services

DATE: February 9, 2021

Approved

Date 02/10/21

RECOMMENDATION

- Discussion and action to authorize the CEO to negotiate and execute the first amendment to an agreement between the Board of Administration for the Federated Employees' Retirement System and Cheiron, Inc for actuarial services for three years ending June 30, 2024 and for an additional \$700,000.
- Discussion and action to authorize the CEO to negotiate and execute the first amendment to an agreement between the Board of Administration for the Federated Employees' Retirement System and Segal, Inc for actuarial audit services and as a retained actuary for three years ending June 30, 2024 and for an additional \$125,000 for audit services or \$250,000 that would include additional actuarial services.

BACKGROUND

Cheiron, Inc. ("Cheiron") has been the Board's actuary since May 2011. The Requests for Proposal ("RFP") for actuarial services in May 2011 and April 2016 resulted in their selection, and they have been serving as the current actuary for both retirement plans since then. The current original contract was for an amount not to exceed \$1,000,000 and expires on June 30, 2021. Prior to Cheiron, the actuary for the Federated System was Gabriel Roeder Smith & Company ("GRS"), and the actuary for the Police and Fire Plan was Segal Consulting ("Segal").

In 2010, the City Auditor issued a report on Pension Sustainability, recommending among other things having an actuarial audit performed every five years, if the current actuary conducting the valuations has not changed during that time period.

The RFP in April 2016 also resulted in the selection of Segal for actuarial audit services and as a retained actuary for a contract not to exceed \$250,000, and the audit of the 2015 valuations were conducted subsequently.

ANALYSIS

For the past three years, Cheiron has averaged approximately \$210,000 in fees, which include the pension and healthcare valuations, one experience study, the Governmental Accounting Standards Board's ("GASB") 67/68 and 74/75 reports, as well as other consulting services.

As for Segal, the cost of the actuarial audits was \$100,000 per plan for the audits of the pension and healthcare valuations. An additional \$150,000 was added to the original contract for services as retained actuary, but none of that amount was used.

Currently, there are only a handful of viable firms nationwide that provide actuarial services to public plans. More specifically, there are about 3-4 real options to California public plans including Cheiron, Segal and Milliman.

Furthermore, in accordance with the Government Finance Officer's Association's ("GFOA") Best Practices of Procuring Actuarial Services include the following, which by extending the contracts would be a practice in line with this.

6) Periodically Review and Rebid Actuarial Contracts. Most state pension systems have established contract renewal periods of approximately five years, often with two- to three-year extensions. And although there are requirements for rebidding the work, in many cases there is no requirement to change the actuary after the contract period expires. 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.

In this context, actuarial audits can help make sure the plan continues to receive high-quality actuarial work. In an actuarial audit, one actuary's work is reviewed by another actuary to see that the valuations are done correctly and the methods and assumptions are reasonable. Actuarial audits help plan trustees perform their due diligence and help assure that the information provided by the retained actuary is reasonable and accurate. The GFOA recommends that actuarial audits be done at least every five years, unless there is a change in the actuary.

CONCLUSION

Cheiron has provided excellent service throughout the years they have been the Board's actuaries. Staff values the relationship with them, and Staff believes the Boards do as well. They have been the Board's actuaries for a very long time so they are very familiar with the nuances of the plans. If the Board were to retain Cheiron as their actuaries, it would be in line with GFOA's Best Practices as mentioned above.

Segal has provided high quality actuarial audit services, and given the limited number of actuarial firms that are viable, Staff recommends the following:

- Authorize the CEO to negotiate and execute the first amendment to an agreement between the Board of Administration for the Federated Employees' Retirement System and Cheiron, Inc for actuarial services for three years ending June 30, 2024 and for an additional \$700,000.
- Authorize the CEO to negotiate and execute the first amendment to an agreement between the Board of Administration for the Federated Employees' Retirement System and Segal, Inc for actuarial audit services and as a retained actuary for three years ending June 30, 2024 and for an additional \$125,000 for audit services or \$250,000 that would include additional actuarial services.



Benjie Chua Foy, Accounting Div. Manager