

Summary of RFI Process and Responses

For the State Administration and Veterans' Affairs Committee (SAVA)
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Background

The State Administration and Veterans' Affairs Interim Committee (SAVA) voted during an October 1, 2009, conference call to issue a Request for Information (RFI) to acquire further knowledge on the availability and cost of retirement plan design/actuarial consulting services for its work on the House Bill No. 659 study.

Process

Using the eight plan design changes suggested by SAVA during the conference call and after consulting with procurement officers at the Department of Administration (DOA), staff drafted an RFI to solicit the requested information. A draft copy of the RFI was sent to SAVA members on October 9. Any suggested changes were incorporated in the version issued on October 13. The due date for responses was October 26, giving responders slightly less than two weeks to provide information to SAVA.

Due to the tight timeline and the relatively small world of public retirement plan consultants, staff conducted the RFI process by telephone and e-mail. The Teachers' Retirement System (TRS) and Montana Public Employee Retirement Administration (MPERA) both sent legislative staff list of actuarial consultants that responded to Requests for Proposals (RFPs) that TRS and MPERA issued earlier this year. Using that list in conjunction with a list of "actuarial consultants" maintained by the DOA, staff contacted nine firms before the RFI was issued to gauge interest in responding to the RFI and to confirm contact information. The current MPERA and TRS actuaries did not receive the RFI.

On the issue date, eight firms that responded to the TRS and MPERA RFPs were e-mailed the RFI and memo, along with 11 other firms that were listed on the DOA list. One firm from the TRS and MPERA list didn't think the scope of the project fit their work and thus did not receive an RFI. The DOA list actually contains a number of firms, but after reviewing available information, staff narrowed the list down to 11, since many of the other firms provided services unrelated to public employee retirement systems. Those 11 firms were not contacted in advance of the RFI release; instead, staff relied on the contact information provided by those firms to the DOA.

Firms Issued RFI

<i>Firms from MPERA and TRS lists</i>	<i>Firms from DOA list</i>
<ul style="list-style-type: none"> • Aon Consulting (MPERA) • Bolton Partners (MPERA) • Buck Consultants, Inc (TRS) • EFI Actuaries (both) • Gabriel, Roeder, Smith & Co (both) • Mercer Human Resource Consulting (TRS) • Milliman Inc (TRS) • Segal Company (both) 	<ul style="list-style-type: none"> • Accurate Background, Inc • Bickmore & Associates • Clerical Plus • Deloitte Consulting • Informatix, Inc • INS Regularatory Insurance Services, Inc • Kellenberg Consulting LLC • Milberg, LLP • NovaRest, Inc • SAS, LLC • The Savitz Organization of Massachusetts

SAVA received five responses by the deadline. All of those five were from the list of responders to the earlier TRS and MPERA RFPs. The five responding firms are:

- Aon Consulting;
- Bolton Partners;
- EFI Actuaries;
- Gabriel, Roeder, Smith & Co (GRS); and
- Milliman, Inc.

Each firm's response is included in this folder. Please bring the folder with you to Friday's meeting. There is time on the agenda for SAVA to discuss the RFI and how the Committee wishes to proceed with the retirement plan study.

Summary of Responses

The responses varied in form and content. Some firms chose to highlight their experience in the public retirement system arena; others answered the questions in list format. Many sent additional attachments to flesh out their responses. Essentially, though, there are three main takeaways from information provided in the RFI:

1. *If SAVA should decide to issue an RFP, it is crucial that the language of the RFP is clear and specific about SAVA's needs and requirements in order to solicit complete proposals that will accurately reflect the costs SAVA might incur.*

Although some firms included more specific per hour rates than others, all responses indicated that the exact charges SAVA might incur, especially for any fixed-fee

proposal, would depend on the scope of the work SAVA needs the firm to complete, the number of meetings required, and the set of deliverables. An RFP, should SAVA decide to issue one, needs to flesh out these issues for the firms, allowing them to provide specific information on which SAVA can base a decision to contract for consulting expertise.

2. It will likely be more cost-effective for the retirement systems' current actuaries to provide actuarial cost estimates for most of the suggested changes and plan designs..

Because any firm hired by SAVA would have to replicate the current valuations done for the retirement boards by the boards' actuaries, it is likely to be more cost-effective to get pricing estimates of most design changes from the retirement system actuaries. Three of the five responses suggested using a plan design consultant to develop design changes for SAVA consideration and selection, with the cost estimates for the suggested changes coming from the retirement systems' actuaries.

3. If hiring a plan design consultant, SAVA should consider working with that consultant to establish objectives or goals for proposed redesigns.

If the contracting consultant has a clear idea of SAVA's objectives for any proposal, there is less chance that time (and money) will be spent developing proposals that will be rejected by SAVA out of hand as undesirable. Several firms suggested working with SAVA to establish these objectives. All of the firms have experience working with states facing similar budget situations and in helping stakeholders and decisionmakers set goals to guide a redesign process. Setting plan design criteria also gives SAVA something against which it can measure any proposed changes sent to it by the consultant and/or other stakeholders in the process.

Question by Question

Below are the RFI questions, along with summaries of the responses given by each firm. Remember that the responses were provided simply for SAVA's edification - and potentially to help draft an RFP - not to judge one firm against the other or to establish a preference for one firm over another.

RFI Question #1: Please identify any additional retirement plan design elements you believe should be considered or included for inquiry by SAVA.

- Aon Consulting - Suggested an additional 11 items (page 3 of its response) for consideration by SAVA, some of which might be rejected based on SAVA's objectives for the study. The response also suggested that Aon work with SAVA to flesh out those objectives.

- Bolton Partners - Suggested looking at Other-Post-Employment-Benefits (OPEBs), as well as reviewing the legal nature of promises to employees.
- EFI Actuaries - Explained their approach to measuring impacts of design changes on retirement plans, which includes looking at costs, benefits, and risks.
- Gabriel, Roeder, Smith & Co - Suggested considering an automatically adjusting mechanism to adjust full-benefit retirement age (similar to Social Security), measures to encourage participation in the defined contribution (DC) plan, consideration of a true DC component to the hybrid plan type listed in SAVA's RFI, review of service purchase and termination pay provisions, and a review of funding, as well as benefits.
- Milliman - Suggested an automatic adjustment to the retirement age based on life expectancy, sharing contribution rate increases/decreases with employees, change in investment strategies to reduce risk, and changing how benefits are paid to provide a guaranteed floor, as well as a second level of non-guaranteed benefits.

RFI Question #2: With respect to the list of potential changes being considered by SAVA and the additional elements you have identified, please identify for each potential change the type of consulting expertise necessary to evaluate the change, the number of hours expected to be required to provide the necessary consulting services, and the hourly rate for each type of consultant necessary.

- Aon Consulting - Refer to table on page 4 of Aon's response. Costs range from \$290/hour to \$390/hour, depending on type of services required.
- Bolton Partners - Most of work to be done by consulting actuaries, probably at a rate of \$350/hour. The true amount of time and money needed will depend on the scope of SAVA's work. The response also suggests producing cost estimates may be more cost effective if done by the retirement systems' current actuaries.
- EFI Actuaries - The fees will vary greatly depending on the scope of services required by SAVA. Hourly rates for the senior actuaries range from \$367 - \$475, but a total fee will be easier to determine after they have a better idea of SAVA's needs.
- Gabriel, Roeder, Smith & Co - Refer to tables on pages 2 and 3 of response. Fees range depending on type of consultant that would be used. Meeting time and preparation are billed at hourly rates. The

response also suggests producing cost estimates for certain proposals may be more cost effective if done by the current retirement systems' actuaries working with GRS.

- Milliman - Provides outline and cost estimate of a four-meeting process to assist SAVA select and analyze design changes (pages 2-5). The response also suggests producing cost estimates may be more cost effective if done by the retirement systems' current actuaries.

RFI Question #3: Please identify any other cost basis upon which you would be willing to provide the plan design/actuarial consulting services you believe would be necessary to assist SAVA in this effort.

- Aon Consulting - Can provide services on either a fixed-fee basis or hourly rate. They would need more precision on timeframe, plan changes, number of meetings, and reports before they could issue a more definite fixed fee estimate.
- Bolton Partners - Can provide services on a fixed-fee basis, but they would need more details to provide an estimate.
- EFI Actuaries - The end cost would depend on a detailed description of the services SAVA requires.
- Gabriel, Roeder, Smith & Co. - Can work on a not-to-exceed fee if it were based on more specific information on scope of services, set of deliverables, and number of meetings.
- Milliman - Works on both fixed amount and hourly contracts. Any fixed amount contracts must be specific to avoid changes in the fee amounts.

RFI Question #4: Do you have all of the necessary plan design and actuarial consulting expertise in-house?

- All responding firms had the necessary expertise in-house.

RFI Question #5: Please briefly describe your experience with developing, redesigning, and providing actuarial cost analysis for public employee retirement systems.

- Responding firms listed a variety of experiences with public sector retirement systems ranging from smaller local plans to large state plans. Some provided examples of their work for other systems.

RFI Question #6: Please briefly describe any experience you have in working with and presenting to legislative committees, commissions, task forces, etc.

- Responding firms listed a variety of experience presenting in similar situations, including elaborating on past processes that have worked well for decision-making bodies facing similar situations as SAVA.

RFI Question #7: Because a contracting firm may be required to review and comment upon any legislation resulting from the HB No. 659 study, briefly describe your experience in reviewing legislation that amends state retirement systems.

- All responding firms had experience in reviewing legislation that would alter public employee retirement systems. A few pointed out that such a review would not be a substitute for any required legal analysis of legislation.

RFI Question #8: In your work suggesting redesigns for public retirement systems and providing cost analysis for those redesigns, are you generally paid using an hourly rate, a set amount determined in advance of the work being performed, some combination of the two, or in another manner entirely?

- Aon Consulting - Can be paid on either approach or a combination, depending on what best fits the client's needs.
- Bolton Partners - Can be paid on a fixed-fee rate if provided with specific questions and specific delivery dates. Generally, they find these types of projects need the use of hourly rates.
- EFI Actuaries - The end cost would depend on a detailed description of the services SAVA requires.
- Gabriel, Roeder, Smith & Co - Have worked under both arrangements and a combination of the two, depending on the timing and scope of projects.
- Milliman - Prefers to be compensated hourly, but can do fixed-fee or a combination, depending on the type of work required.

RFI Question #9: Would you be able to attend at least two SAVA meetings to be held at the State Capitol in Helena between January and June 2010?

- All responding firms were certain their personnel could be available during the timeframe.

Threshold Questions

Friday's agenda provides time for SAVA members to discuss their views of the status of Montana's retirement systems and their goals for potential changes. The following questions should be answered by SAVA before adjourning on Friday.

Question #1: Does SAVA want to hire plan design consultants to help with the HB No. 659 study?

Question #2: If yes on Question #1, does SAVA wish to use current retirement system actuaries to provide cost estimates for any design changes it suggests or does it wish to include actuarial cost analysis in any RFP/contract it issues?

Question #3: If yes on Question #1, does SAVA wish to have a meeting with the plan design consultant to set design measurement goals to assist: (1) the consultant in developing proposals for SAVA, and (2) SAVA in making decisions about which plans or changes to recommend to the Legislature?

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