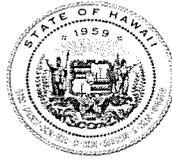


DAVID Y. IGE  
GOVERNOR



**STATE OF HAWAII**  
EMPLOYEES' RETIREMENT SYSTEM

October 30, 2015

Addendum 2

Request for Proposals  
for Actuarial Services

Employees' Retirement System  
State of Hawaii

RFP ERS 2015-01  
Dated  
October 6, 2015

OFFERORS:

In accordance with Section 1.6 of the Request for Proposals ERS 2010-02, the Employees' Retirement System of the State of Hawaii (ERS) is providing the responses to questions (attached) from Offerors.



Employees' Retirement System  
of the State of Hawaii

- 1) Question: Why is the ERS going out to bid at this time? When was the most recent time that the ERS went out to bid for actuarial services prior to this RFP?

Response: The current five-year contract expires in December. The contract was procured in 2010 pursuant to the provisions of Chapter 103D, Hawaii Revised Statutes.

- 2) Question: Has the firm currently providing actuarial services been invited to bid? How long has the current provider held the consulting relationship for these services?

Response: The firm currently providing actuarial services is not precluded from submitting a proposal. The firm was originally awarded a contract in 2000.

- 3) Question: To help us understand the system's anticipated mortality, please provide the Client Specific Tables for healthy male and female post-retirement mortality cited on page 66 of the most recent actuarial valuation report, preferably in MS Excel format.

Response: The client specific tables are attached. Please note that these are the rates before any of the adjustments described in the report (multipliers described in the report will still need to be applied).

- 4) Question: The RFP cites "cost studies" and indicates both the current contract's fee per cost study and the number of cost studies contemplated during the contract. Since the term cost study is vague and wide-ranging, can you please provide the following?

- a) Descriptions of the general categories/types of cost studies that have been conducted under the current services contract;
- b) Quantification of the approximate number of cost studies conducted during the current services contract, divided up into general category/type; or, preferably, a comprehensive list of the titles/subjects of the cost studies completed to date under the term of the current services contract;

Response: The cost studies completed in the past are not indicative of the cost studies that may be requested in the future. Many of the cost studies involved certain small (in terms of numbers) employee groups seeking to change their benefits and/or vesting criteria. In addition, there were considerable changes to the plan due to the pension reforms, pension spiking and a graduated adjustment to the investment yield return rate.

The actuary provided cost studies on the following subjects:

Redesign of pension system (including changes to variables related to vesting eligibility requirements, benefit multipliers, contribution and interest rates and combinations thereof) – approximately 80 studies

Legislative change regarding pension spiking – approximately 20 studies

In addition, there were approximately 30 studies on the impact to the system due to changes, including, but not limited to:

- Return rate assumptions
- Negotiated pay
- Future annual costs
- Modifications to benefit calculation variables
- Benefit enhancements
- Membership changes
- Legislative proposals

c) A sample final work product for each general category/type noted above.

Response: Copies of two sample studies are attached:

- (1) Study relating to Actuarial Impact of Proposal to Reduce Service Credit for Unused Sick Leave for New Hires, and (2) Study relating to HSTA proposal to change the post retirement allowance.

5) Question: Please provide a narrative description about how (and by whom) the determination is made regarding the number of cost studies (under the RFP's requested "\$x per cost study" pricing structure) for a study request which contains a single type of structural change to be studied, but with multiple variants of such a change. An example would be a cost study request to change from a 1.5% COLA to either a 1.0% or 0.5% COLA on a prospective basis.

Response: The Executive Director (or designee) will consult with the lead actuary to determine the scope of the request being made including, but not limited to, number of variables, time periods and membership. The number of cost studies covered by each request will be agreed upon by the awarded contractor and ERS.

6) Question: Our understanding is that Pension Consulting Alliance (PCA) is the ERS's current investment consultant. Please provide at least one of the following items:

- a) PCA's most recent public presentation, such as an asset allocation study, that indicates its outlook regarding prospective returns on system investments;

- b) PCA's most recently articulated 50<sup>th</sup> percentile geometric average annual expected long-term future investment return, and the time horizon over which that average was developed.

Response: Please see the attached 2015 Asset-Liability Study – Presentation 5 presented by PCA to the ERS Board of Trustees at the Board's September 2015 meeting. The Board adopted Simulation Version #2 (Portfolio 9); the expected compound return (7.8%) can be found on slide 27.

- 7) Question: According to Section 1.12 of the RFP, "Any proposal offering any other set of terms and conditions, or terms or conditions contradictory to those included in this RFP, may be disqualified without further notice." Actuarial firms take one of two general approaches to terms and conditions (listed below) regarding limitation of liability. Are both approaches listed below acceptable (i.e., non-disqualifying) alternatives regarding contracting terms and conditions?
- a) Fixed-amount, explicit contractual limitations whose terms and conditions are negotiated, with the amount of the limitation known to both parties and stated in the contract;
  - b) Unstated, implicit limitations based on the contractor's assets whose terms and conditions are typically not negotiated, with the amount of the limitation unknown to the sponsor due to an absence of specific contractual language.

Response: The ERS has not agreed to a fixed limit on the liability of the Contractor in prior contracts for actuarial services. It has not decided whether it will agree to a fixed limit on the liability of the Contractor for the contract that will be awarded pursuant to this RFP. If the ERS decides that it will agree to such a limit, the decision will be made after priority-listed offerors are selected. All priority-listed offerors will be notified of any limit that the ERS is willing to accept when they are notified that they are priority-listed offerors.

- 8) Question: In the event the highest-scoring proposer required an explicit, negotiated limitation of liability, which would be waived in the event of gross negligence or willful misconduct, would the ERS be able and willing to negotiate such a contractual term in good faith?

Response: Please see the response to question 7, above.

- 9) Question: Pursuant to Section 1.12 of the RFP, is at least one of the following two alternatives for dispute resolution acceptable (i.e., non-disqualifying) approaches regarding contracting terms and conditions?

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- a) Resolution via trial, with venue specified as the First Circuit/District (Oahu) and a contractual stipulation to waive trial by jury unless both parties consent to the contrary;
- b) Resolution via a binding arbitration/alternative dispute resolution process.

Response: The ERS will not agree to binding arbitration. Under Hawaii law, the circuit courts of the State have exclusive original jurisdiction to hear and determine claims against the ERS under the contract, without intervention of a jury. Section 661-1, Hawaii Revised Statutes. The ERS will not agree to trial by jury. The ERS will agree that venue will only be in the First Circuit.

10) Question: Pursuant to Section 1.12 of the RFP, is including in the fee proposal an indication that the fee would auto-adjust in the event of a change during the contract's term in the General Excise Tax (GET) rate an acceptable (i.e., non-disqualifying) contracting term and condition?

Response: Escalation of the annual fee may only be made in specified amounts.

11) Question: Section 2.2.2 of the RFP states that the ERS will provide data required for the actuarial valuation as an electronic file as soon as possible after the fiscal year end. Could you please clarify the following:

- a) How long after the fiscal year end has data typically been provided in the past?

Response: Data has typically been provided in September.

- b) Does the ERS provide all data in a single cohesive electronic file, or are multiple files provided according to some type of distinctions within the ERS? (For example, is data provided separately for the contributory, hybrid, and non-contributory plans? Or separately for different member groups and/or employers?)

Response: The ERS census data from FY 2015 going forward is provided in two (2) files: pensioners receiving a payment and active/inactive members. The census data for prior years through FY 2014 are included in three files: pensioners, active members, and inactive members.

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- c) The RFP states that “the contractor will review and verify that the information meets the data requirements...” Does ERS reconcile the data or otherwise review it internally before it is provided to the contractor? Under Actuarial Standard of Practice #23, the actuary is not required to audit third party data provided for accuracy or comprehensiveness, but should perform a review of the data to ensure reasonableness and consistency. Is there an expectation that the contractor will perform an audit of the data provided that exceeds the review requirements of ASOP 23?

Response: The ERS reviews the data internally before providing it to the actuary. Please see paragraph 5 of the Special Conditions of the contract form (Section 5 of the RFP) regarding the testing of data.

- 12) Question: Could you please clarify the meaning and significance of the text cited below from Section 2.2.3 of the RFP?

“Funds may not be available for performance under the contract beyond the current fiscal year. The ERS’s obligation for performance of the contract beyond the fiscal year is contingent upon the availability of funds from which payment for contract purposes can be made. No legal liability on the part of the ERS for any payment may arise for performance under the contract beyond the current fiscal year until funds are made available for performance of the contract.”

Response: The administrative budget for ERS is established as part of the State’s biennium budget process through legislative action, with a supplemental budget that allows changes/updates in second year of the biennium. There is a separate legislative budget authorization passed each fiscal year that authorizes spending for the fiscal year.

Funding for each year of service under the contract is expected to be authorized and expended during the respective fiscal year that services are performed. Funding for the entire five-year contract will not be authorized in the budget of a single fiscal year.

- 13) Question: Section 2.3 of the RFP states “The proposed annual fixed fee shall be the same throughout the contract, except to the extent that price adjustment may be provided in this RFP and the resulting contract.” Would it be allowable for the proposer to provide annual fixed fee pricing which incrementally increases taking anticipated inflation into consideration so that it starts lower and ends higher than a flat annual fee?

Response: Escalation of the annual fee may only be made in specified amounts.

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14) Question: The *Fees* portion of RFP Section 4.2.1 requests "The proposed annual fee shall include travel, taxes and all expense."

- a) In order for us to prepare an appropriate fee, please provide information regarding the approximate number of days each year that the current consultant has conducted in-person meetings in the State of Hawaii during the course of the actuarial contract currently in effect.
  
- b) Of the number of days included in the response above, how many were included in the annual fee?

Response: The current consultant has conducted in person meetings an average of 7-8 days each year during the contract period; these meetings were held during the course of 2-3 trips per year. All of these annual meetings days and trips were included in the annual fee.

15) Question: Are the fees in the current actuarial services contract all-inclusive, with neither ERS nor the State of Hawaii providing reimbursement for travel, out-of-pocket, or other expenses of the actuarial firm?

Response: The fees in the current actuarial services contract are all-inclusive. Neither the ERS nor the State of Hawaii provided reimbursement to the actuary for travel, out-of-pocket, or other expenses.

16) Question: To provide as competitive a fee as possible, would be it acceptable to indicate in our proposal the maximum number of in-person meeting days per year included in the proposed annual fee, with a separate fee for additional days of in-person meetings?

Response: The annual fee should be all-inclusive. Please see the response to question 14, above, for the number of meeting days and trips under the current contract.

17) Question: To assist us in providing an appropriately comprehensive proposal, please indicate the composition of the *Actuary Selection Committee* referenced in Section 4.2 of the RFP by position and/or role.

Response: The Actuary Selection Committee will be comprised of members of the ERS accounting branch and a program specialist.

18) Question: We note that in RFP Section 6, the fees for the reports for GASB 67 and 68 were divided into two equal pieces for the portion of the year through August 31, 2015 and the portion of the year from September 1, 2015 onward. Please verify that the work is for a single year's financial reporting rather than for two separate years.

Response: The fees are for two separate financial reporting and valuation years of the ERS: the fiscal year ended June 30, 2014 and the fiscal year ended June 30, 2015.

19) Question: How are the dates of Board meetings determined, i.e., are they the same day of each month like the first Tuesday of the month?

Response: Yes. Board meeting dates are set at the Board's discretion and are normally scheduled on the second Monday of each month. The board meeting calendar year schedule is set at the beginning of the year; however, dates may be re-scheduled at the Board's discretion due to holidays and availability of Board members.

20) Question: In Section 1.18 (page 8) of the RFP there are listed the licenses and certificates that the successful offeror must comply with "before award of contract may be made". Could you confirm that these licenses and certificates may be obtained and provided after the company has been awarded the contract for actuarial services rather than before the proposal is submitted?

Response: The Certificate of Vendor Compliance must, as a matter of law, be submitted prior to commencement of the contract. Because of the short turn-around time between the selection and contract commencement, offerors are encouraged to begin the application process for the required Certificate of Vendor Compliance immediately and to submit the Certificate in concurrently with the submission of their proposal. Failure to provide the Certificate of Vendor Compliance prior to the anticipated contract start date may result in a delay in the contract commencement (with corresponding reduction in the compensation for the first year of the contract) or loss of the contract award.

21) Question: In Section 3.2.4, it states "the offeror must provide evidence that the offeror is registered to do business in Hawaii. True and accurate copies of the offeror's licenses and certificates must be provided". Can you clarify that this evidence should be provided in the proposal and therefore, must be obtained before a proposal can be submitted?

Response: Copies of the offeror's current licenses and certificates, as referred to in Section 3.2.3, should be provided with the proposal. Please see the response to question 20, for the requirements under section 1.18.

22) Question: Page 4 indicates that selected priority listed offerors will be required to make a presentation on December 1 or 2 in Honolulu. If those dates are problematic because of a prior commitment for another client's Board meeting, is there any flexibility in your schedule?

Response: There are no plans to change the presentation schedule.

23) Question: Have the actuarial services under the current contract been subject to the General Excise Tax (GET) for businesses?

Response: The actuarial services provided to the ERS under the current contract are subject to the General Excise Tax. It is the responsibility of each offeror/awarded contractor to determine how the tax laws affect their specific situation.

24) Question: Can you provide the hourly billing rates for services not included in the annual fixed fee under the current contract whether or not such services have been used?

Response: The maximum hourly rate for work not included in the annual fixed fee during the current five-year contract period is \$395. There were no services provided during the contract term that were not included in the fixed fee.

25) Question: Our firm's policy requires the inclusion of a limitation of liability clause on claims asserting our alleged negligence or breach of contract (as opposed to our alleged gross negligence or willful misconduct). Such a limitation would typically be an agreed-to dollar amount or expressed as an agreed-to multiple of the annual fee paid to us. Is such a clause permissible under ERS policy? Will you allow a clause in any way limiting the non-fault based nature of the indemnity?

RESPONSE: Please see the response to question 7, above.