ADDENDUM # 1 TO
REQUEST FOR PROPOSALS (RFP)
ERSP-105, ACTUARIAL SERVICES
FISCAL YEARS 2021-2026 for

Employees' Retirement System
of the State of Hawai'i
201 Merchant Street, Suite 1400
City Financial Tower
Honolulu, Hawaii 96813

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Offeror's: Addendum 1, Release Date March 29, 2021, (7) pages. As noted in RFP ERSP-105 Specification, Section 1.5, Procurement Timetable and Section 1.6.a, Prebid and Offeror's questions. Attached are Employees' Retirement System responses to the Offeror's questions. (Posting: https://ers.ehawaii.gov/resources/procurement & https://hands.ehawaii.gov/hands).

Thank you.

SJ Melendrez, Procurement Specialist
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cc: Steven.Melendrez@hawaii.gov &
Larry.Wolfe@hawaii.gov

Thomas Williams, Executive Director
Procurement Officer

ADDENDUM # 1
DESCRIPTION

1. **Question:** For the actuarial services contract currently in effect, what were the annual fees paid by year in each completed year (from 2015-2020)? In addition, please include separately by amount and year the fees paid to complete any experience studies performed during that period.

Response: The following is a summary of fees for actuarial services provided in the current contract term (including estimated amounts for March – June 2021), excluding discounts.

Calendar Year	Contract Year	Services	Annual Stress Test	Experience Study	GASB 68	Other Reporting for Participating Employer
2016	Year 1	$120,000	n/a	$50,000	$15,000	$0
2017	Year 2	$125,000	$7,500	n/a	$15,500	$0
2018	Year 3	$130,000	$7,600	n/a	$16,000	$13,000
2019	Year 4	$135,000	$7,700	$52,000	$16,500	$5,000
2020	Year 5	$140,000	$7,800	n/a	$17,000	$2,500
6/30/2021	Extension	$70,000	n/a	n/a	n/a	$0

a. Annual Fees in current contract include Actuarial Valuation and GASB Statement No. 67 report.
b. As of February 2021, there have been 35 cost study reports for the contract term included in the Annual Fees. Cost studies in excess of 50 studies during the contract term have a flat fee of $2,500 each.
c. Annual Stress Test from 2017 due to additional legislative requirement after start of current contract.
d. Employer reporting for GASB Statement No. 68 is the responsibility of participating employers/component units. Report are currently prepared for 10 component units. Employers are required to pay ERS; ERS is not required to pay the actuary until ERS receives payment from the employers.
e. Other Reporting fees are for specific reporting requirements from participating employer(s). See item above for payment terms for items requested from participating employers.
f. For services out of scope, the maximum billing rate was $450 per hour for the first contract year, subject to adjustment for inflation in the second and subsequent contract years.

2. **Question**: Please provide the total fixed fees for actuarial services for the last five years, broken out by year and project category, actuarial valuations, GASB 67 reports, experience studies, etc

Response: Please see the response to question 1, above.

3. **Question**: Please provide the total fees for hourly supplemental work in the last five years, the hours worked, and the hourly rates.

Response: Please see the response to question 1, above.

4. **Question**: What have been the fixed fees associated with GASB 68 reports over the last five years?

Response: Please see the response to question 1, above.

5. **Question:** How many supplemental reports were prepared in the last five years? If the number of reports exceeded 50, what was the additional cost per report?

Response: Please see the response to question 1, above.

6. **Question**: Are there any consulting service issues the ERS is looking to improve upon with the issuance of this RFP?

Response: ERS is always looking at process improvements to assist our effectiveness as an organization in servicing our memberships, please describe your organization's capabilities.

7. **Question:** What has been the fixed annual fee for services in the current contract for the last three years?

Response: Please see the response to question 1, above.

8. **Question:** What fees were charged for the last experience study?

Response: Please see the response to question 1, above.

9. **Question**: What are the current fees for GASB 68 services?

Response: Please see the response to question 1, above.

10. **Question**: What are the current fees (hourly rate and additional costs) for judicial proceedings?

Response: Please see the response to question 1, above.

11. **Question:** What are the current fees for cost studies in excess of the number included in the fixed fee?

Response: Please see the response to question 1, above.

12. **Question:** The RFP indicates that the lead consultant should plan on spending a minimum of 8 days per year in Hawaii. How many separate trips to Hawaii should be anticipated?

Response: The ERS anticipates there will be two (2) to three (3) trips per year based on historical services.

13. **Question:** For the Section 415 limit testing, are individual calculations (including annual updates) for members subject to the limit required, or is the actuary only asked to perform appropriate testing necessary to identify/screen members for individual calculations? If individual calculations are required, please provide the average number of 415 calculations performed, over each of the last three years.

Response: ERS does the identification/screening of members and the actuary performs the individual detailed testing calculation(s). Although during the past three years ERS has not required individual testing calculations performed by the actuary, they may be requested in the future.

14. **Question:** Please provide a sample of a recent cost study.

Response: Please see attached sample cost study for "Proposed Changes to ERS Plan Benefits (Credited Service for Unused Sick Leave)", 3 pages.

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September 5, 2019

Mr. Thomas Williams
Executive Director
Employees' Retirement System of the State of Hawaii
201 Merchant Street, Suite 1400
Honolulu, Hawaii 96813

Re: Proposed Changes to ERS Plan Benefits (Credited Service for Unused Sick Leave)

Dear Thom:

We have been requested to the impact on the Employees' Retirement System of the State of Hawaii (ERS) of a potential change in the amount of service credit a member can obtain with unused Sick Leave. These changes, if adopted, could impact all future retirees after the change is effective.

Potential Changes

Currently a member of the ERS with at least 60 days of unused sick leave may convert the unused leave to credited service with the ERS (a member with less than 60 days does not receive any credit). The first 60 days of unused sick leave converts to 3 months of credited service with each additional 20 days of service converted to one additional month of service. For example, a member with 100 days of unused sick leave would receive 5 months of additional credited service with ERS. The proposed change would reduce by half the amount of credited service a member would receive from their unused sick leave. The first 60 days would convert to 60 days of credited service and each additional 20 days of unused sick leave would convert to 2 weeks of additional credited service. Using the example from above, 100 days of unused sick leave would convert to 20 weeks (or roughly 2.5 months) of credited service. The proposed effective date of the legislation would be June 30, 2020.

Analysis

As part of the actuarial valuation we assume that each member will have unused sick leave that will be converted to credited service. The amount of unused sick leave varies based on the employee type. The table below shows the assumed increase in credited service from unused sick leave at retirement for each employee type under the current assumptions and under the proposed assumptions for the proposal.

Employee Type	General	Teachers	Police & Fire
Current Assumption	3.750%	4.250%	5.000%
Proposed Assumption	1.875%	2.125%	2.500%

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The table below shows the impact of the proposed change on the unfunded actuarial accrued liability (UAAL) and the projected funding period.

Cost Item	Valuation	Proposal	Change
UAAL ($ in millions)			
All Other Employees	$11,092	$10,921	-$171
Police & Fire Employees	$2,313	$2,280	-$33
Combined	$13,405	$13,201	-$204
Funding Period			
All Other Employees	25 years	24 years	-1 years
Police & Fire Employees	26 years	25 years	-1 years
Combined	25 years	24 years	-1 years

Other Comments

It is possible that this type of benefit change which produces a cliff for the service credit conversion could induce additional retirements prior to the effective date in order for those retirees to get the full value of their unused sick leave. If this should occur it could reduce the cost savings shown above. In determining the cost impact shown above we have not modified the retirement patterns of employees to reflect this possibility. It is beyond the scope of this impact statement to estimate the possible impact of a significant number of additional retirements prior to the effective date of the proposal. However, we believe it was important to note the possibility.

Data and Assumptions

To prepare this analysis, we used member and financial data supplied by ERS in preparation of their June 30, 2018 actuarial valuation. The liability and costs are based on the actuarial assumptions or methods used in the actuarial valuation as of June 30, 2018.

Risks Associated with Measuring the Accrued Liability and Actuarially Determined Contribution

The determination of the accrued liability and the actuarially determined contribution requires the use of assumptions regarding future economic and demographic experience.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions due to changing conditions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period, or additional cost or contribution requirements based on the Plan's funded status); and changes in plan provisions or applicable law. Our calculations are based upon assumptions regarding future events, which may or may not materialize. Please bear in mind that actual results could deviate significantly from our projections, depending on actual plan experience.

Please see our June 30, 2018 actuarial valuation report for a more robust discussion of these risks.

The scope of this Actuarial Impact Statement does not include an analysis of the potential range of such future measurements or a quantitative measurement of the future risks of not achieving the assumptions. In certain circumstances, detailed or quantitative assessments of one or more of these risks as well as various plan maturity measures and historical actuarial measurements may be requested from the actuary. Additional risk assessments are generally outside the scope of an Actuarial Impact Statement. Additional assessments may include stress tests, scenario tests, sensitivity tests, stochastic modeling, and a comparison of the present value of accrued benefits at low-risk discount rates with the actuarial accrued liability.

Mr. Newton is a member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

This communication shall not be construed to provide tax advice, legal advice or investment advice.