

SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (SJCERA)

**Request for Proposal 2010-02
Actuarial Audit Services**

**Response to Written Questions from Potential proposers
August 24, 2010**

1. Pages 3 to 4, Item II. A., "Background Information," we note that SJCERA management and staff are responsible for administering Post Employment Healthcare Plans for participants. Does the audit include an audit of a valuation for the Post Employment Healthcare plans? If so, please provide a description of the Post Employment Healthcare benefits program and a copy of the latest actuarial valuation report.

ANSWER:

The audit requested by SJCERA will not include a review of the valuation for Post Employment Healthcare. This is a termination benefit that converts accumulated sick leave hours at retirement to a dollar value that can be used to pay monthly premiums, which are fully paid by the retirees.

2. Page 12, Item VII, "Insurance Requirements," we note that it is required that the proposer carry professional and fiduciary liability insurance which shall insure against errors and omissions and breaches of fiduciary responsibility of the proposer in performance of services. Would the proposer be expected to be a fiduciary of the plan? Our legal counsel has advised us that we cannot agree to serve in a fiduciary capacity. Case law in the US Supreme Court has found that actuaries providing professional services to a plan are not fiduciaries because they do not exercise discretionary control with respect to the assets or functioning of the plan. For actuarial services, our counsel has advised that it is important that we not agree to be a named fiduciary. Fiduciaries are potentially liable for the actions of other fiduciaries. Will our position regarding being a fiduciary eliminate us from providing a successful proposal?

ANSWER:

Given that this is a request for audit services, and not for consulting actuarial services, the proposer is not expected to be a fiduciary of the plan. SJCERA will accept and consider proposals from all qualified firms who follow all laws, rules, and professional standards applicable to the work contemplated by the request for proposal and who are insured for errors and omissions.

3. Page 12, Item VII, "Insurance Requirements," we note that for the insurance mentioned above, the coverage must be in an amount not less than \$10 million per occurrence, and shall include not more than a \$150,000 deductible. We meet the coverage criterion, but cannot meet the requirement for the deductible. We have sufficient size and stature that we have found it in our best interest to carry a policy with a higher deductible. We agree to be fully responsible for our deductible. Would SJCERA be willing to be flexible in relaxing the deductible requirement?

ANSWER:

SJCERA is willing to be flexible regarding the deductible requirement, provided the proposer can demonstrate to SJCERA's satisfaction that the firm is able to fund a higher deductible from readily available sources in the event of a claim.

4. How much is SJCERA currently paying for the annual actuarial valuation by the retained actuary?

ANSWER:

SJCERA has a multi-year agreement with its consulting actuary. For the annual actuarial valuation conducted during calendar year 2010, SJCERA's fee is \$38,125.

5. Has an actuarial audit of SJCERA been performed previously? If so, can we receive a copy of the latest actuarial audit report?

ANSWER:

In the past, SJCERA has engaged a second actuarial firm to conduct parallel experience studies and annual valuations. The last such parallel work was performed for SJCERA for the triennial experience study for the three years ending 12/31/2003 and for the annual actuarial valuation as of 1/1/2004. SJCERA's consulting actuary at that time was Buck (aka Mellon) and auditing actuary was EFI Actuaries. Both the consulting actuary and auditing actuary started with the same data set and each independently performed the studies and reported the results, findings, and recommendations. Subsequently, both the consulting and auditing actuaries met to discuss and reconcile differences. The Retirement Administrator for SJCERA prepared a memorandum to the Board of Retirement summarizing each firm's results and the coordinated recommendation for assumption changes and implementation of contribution rates.

SJCERA is making the following documents available as part of its response to this question:

- Board of Retirement Letter dated October 8, 2004 regarding Annual Actuarial Valuation for 2003 and Triennial Experience Study for Three Years Ended December 31, 2003**
- Non-Economic Actuarial Experience Study performed by EFI Actuaries for the period January 1, 2001 through December 31, 2003**
- Actuarial Valuation performed by EFI Actuaries as of January 1, 2004**

6. Our firm currently maintains an active risk control program intended to protect the viability of our firm and our continuing ability to provide the highest quality consulting advice to our clients. We expect to provide excellent quality work and would not anticipate the need to deal with any legal disputes with SJCERA. Unfortunately, due to the increased litigation against actuarial firms in recent years, on advice of our counsel we have amended our policies to require certain language in our contracts that protects us. While most of the legal details are usually worked out between the attorneys, there are key contract stipulations we would need in order to provide actuarial audit services as described in the RFP. Our policies require that a contract with SJCERA include a Limitation of Liability. Please confirm that the contract provisions can be made to include a Limitation of Liability of a reasonable dollar amount. We would be glad to discuss the amount with you.

ANSWER:

SJCERA is aware of, and has concerns regarding, the trend among public pension actuarial firms to include contract language on limitations of liability. We have avoided incorporating such limits into our consulting actuary agreements thus far, and will strive hard to do so going forward. However, given the limited duration and scope of the services anticipated by this RFP, SJCERA will consider proposals from firms that require limitation of liability language in their contracts.

7. Our firm seeks to have any legal issues reviewed by binding arbitration or a federal bench trial rather than a jury trial. We do not expect disputes to arise. However, in the event they do, we need the option to have them decided by independent qualified adjudicators. A jury of laypeople is not equipped to understand the complexities of actuarial services. Please confirm that the contract provisions can be made such that disputes are resolved through binding arbitration or a federal bench trial.

ANSWER:

SJCERA is willing to negotiate terms of dispute resolution acceptable to both parties to the contract.