June 15, 1995
Room 10 State Office Building

1st Meeting

Actuarial Services Subcommittee

of the LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

<u>MINUTES</u>

Rep. Bob Johnson, Chair of the Actuarial Services Subcommittee, called the meeting to order at 9:30 A.M.

<u>Subcommittee members present:</u>

Representatives Richard Jefferson, Bob Johnson, and Steve Smith
Senators Steven Morse, LeRoy Stumpf (Senator Phil Riveness also attended the meeting)

1. **Review and Discussion of Written Proposals To Provide Actuarial Consulting Services to the Legislative Commission on Pensions and Retirement**
Lawrence A. Martin, LCPR Executive Director, noted that the Commission had sent out 34 RFPs to actuarial consulting firms on April 20, 1995 and had received two responses. The responses were from Milliman & Robertson, Inc. and The Segal Company. Mr. Martin noted that member's packets contained summaries of both proposals received, a Commission staff comparison of the actuarial fees provided by the two firms, general and specific questions for both actuarial firms, and copies of the letters of reference received to date regarding both firms.

   Rep. Johnson provided background information on the Commission's relationship with the Commission-retained actuary and the reasons for the establishment of the RFP process.

   Rep. Johnson asked if the Commission was required to select the low bidder. Mr. Martin responded that statute only requires that the term of the contract be two years with the possibility of two one year extensions and that the contract be the result of a competitive bidding process specified by the Commission.

   Rep. Jefferson asked Mr. Martin if he knew why the Commission had only received two responses to its RFP out of the 34 RFPs issued. Mr. Martin responded that four years ago the Commission sent out [illegible] RFPs and received six or eight responses. At that time, it may have been well-known that the Commission was dissatisfied with the actuarial consultant firm under contract and was open to a new consultant. In addition, several of the firms that might have bid this time may have had a conflict of interest with serving other Minnesota public pension plans.

   Sen. Morse asked if there was an inherent cost advantage for the current actuarial firm over a new firm since the current firm would not have the start up costs a new firm would have and a new firm might have difficulty underbidding the current firm. Mr. Martin responded that Sen. Morse was probably correct, however, four years ago Milliman & Robertson, Inc. did underbid the actuarial firm that had the contract previously.

   Rep. Johnson stated that it is his intention to ask the Subcommittee to make a decision today on the recommendation to the full Commission.

   Mr. Martin reviewed the two proposals on a side by side basis. He then reviewed the memo comparing the actuarial fees. Mr. Martin referred members to page two of the memo and reviewed the table which showed the actuarial fee quotations on a fiscal year basis including an estimate of the potential special project costs. Mr. Martin concluded his review. Discussion followed.

   Rep. Johnson questioned why there was such a large difference between the price quotations from the two firms. Mr. Martin responded that The Segal Company's higher fees for experience studies, consolidation account valuations, and hourly charges for special projects seem to be the main reason for the price differential. Discussion followed.

The Subcommittee recessed at 10:30 A.M. with the intention of resuming at 11:00 A.M.

2. In-person Presentations From Bidding Actuarial Consulting Firms

11:00 A.M. - The Segal Company

The Segal Company began its scheduled presentation. Mr. Rod Crane, Benefits Consultant/Vice President out of the Denver office, and Mr. Keith Anderson, Head of the Actuarial Department/Vice President out of the Chicago office, made The Segal Company presentation to the Commission. Mr. Crane stated that the primary actuaries that would be on the consulting team working on the Commission account were not available for today's presentation. Dale Grant, Vice Chair and Supervising Actuary out of the New York office, was attending a GFOA conference in Baltimore and sent her regrets. Lall Bachan, the lead actuary on the consulting team out of the Chicago office, was doing a special project for the Public Employees Retirement System for the country of Guyana for three months and also sent his regrets. The other two members of the team would be James Barr, Assistant Actuary out of the Chicago office, and Ed MacDonald, Government Resource out of the New York office. Actuarial work for the Commission would be performed primarily out of the Chicago office.

Mr. Anderson provided his part of the presentation for The Segal Company. He stated that The Segal Company felt that it was important to provide a smooth transition from one actuary to another and described the procedures they would use to assure that smooth transition. Mr. Crane interjected that The Segal Company plans to attend all Commission meetings for the first year at no charge. Mr. Anderson reviewed the timeline for the 1995 actuarial valuations. After the presentation, there was a question and answer segment.

Rep. Johnson asked if The Segal Company would be able to handle the Minnesota workload involving 400,000 members. The response was that they would be able to handle that volume and already handle other large volume clients.

Rep. Johnson questioned The Segal Company actuaries ability to translate technical information into plain language for citizen legislators. The response was that they have a great deal of experience in making presentations to lay people and believe that even their reports are designed to be easily understood by lay people.

Rep. Johnson questioned the turnaround time for cost estimates during the Legislative Session. The response was that they normally could provide a 24 hour or 48 hour turnaround time for most cost estimates.

Rep. Jefferson questioned why they were not using the Minneapolis office. The response was that the Minneapolis office has only been open for two years and the primary person in the office is a Taft-Hartley expert.

Sen. Morse questioned the lead actuary's qualifications. The response was to provide a description of Mr. Bachan's qualifications in relationship to the definition of an FSA.

Rep. Jefferson questioned why an audit of the company was not provided. The response was that The Segal Company is privately held and does not usually make that information available to the public but would be happy to provide it to the LCPR Executive Director. Questions and discussion continued and The Segal Company concluded their presentation.

11:45 A.M. - Milliman & Robertson, Inc.

Milliman & Robertson, Inc. began its scheduled presentation. Mr. Thomas Custis, Lead Actuary, introduced Lance Burma, Supervisor of MTRFA, StPTRFA and MERF valuations out of the Minneapolis office, and Bill Hogan, supervisor of technical work out of the Milwaukee office. Mr. Custis noted that this team has been the Commission's consulting actuaries for the last four years and the same team is proposed to continue in that role. He further noted that all three members are FSA's. He stated that with the experience of the last four years, they feel comfortable in taking on a more active role in performing critical evaluations of the actuarial standards, in providing new ways to look at funding deficiencies and various other areas, and in taking on a more proactive consulting role. After the presentation, there was a question and answer segment.

Rep. Johnson questioned the problem of not factoring in the "Rule of 90" for MSRS and how has that been corrected? The response was that Milliman & Robertson, Inc. did make a mistake in the first MSRS valuation that had to do with the way decrements were applied. The error was discovered in the second year and was corrected.

Rep. Johnson questioned the problem with the MSRS annualized salary figures. The response was that when they noticed salary data inconsistencies, MSRS gave Milliman & Robertson, Inc. a second data set. MSRS continued to research the problem and recently advised Mr. Custis that the problem was due to annualizing the salaries of part-time and partial year employees. They believe the problem has been resolved.

Rep. Johnson questioned the process used to change salary and interest assumptions and whether the Commission-retained actuary should be taking more of a lead. Mr. Custis responded that they would welcome that.

Sen. Morse questioned whether Milliman & Robertson, Inc. was comfortable with the assumption changes made last year. Mr. Custis responded that they were comfortable with the changes made. Sen. Morse questioned the variations between funds. Mr. Custis responded that Milliman & Robertson, Inc. would like to see the interest and base salary assumptions be the same across all of the plans including MERF. Questions and discussion continued and Milliman & Robertson, Inc. concluded their presentation.

Rep. Jefferson asked Mr. Martin to review the consulting fee quotation comparison. Mr. Martin reviewed the fees for both actuarial firms. Discussion followed.

Rep. Jefferson asked how the Commission staff's working relationship was with the Commission actuary. Mr. Martin responded that he was favorably impressed with Milliman & Robertson, Inc. He stated that his only problem was not with Mr. Custis but was a frustration with the process of setting actuarial assumptions which was left largely to the actuaries retained by the major pension funds with Milliman & Robertson, Inc. more or less left to referee.

Sen. Morse moved that the Milliman & Robertson, Inc. bid be accepted and be recommended to the full Commission. **MOTION PREVAILED.**

The meeting adjourned at 12:45 P.M.

Jean A. Liebgott

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