

House Bill No. 659 Study Review and Recommendation of Proposals

By Rachel Weiss

for the State Administration and Veterans' Affairs Interim Committee

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Background

As part of its work on the HB659 study of public employee retirement systems and redesign of the Teachers' Retirement System (TRS), the State Administration and Veterans' Affairs Interim Committee (SAVA) voted on October 30, 2009, to issue a Request for Proposals (RFP) from consultants who would be willing to work with SAVA on the study and redesign. SAVA has a \$200,000 appropriation to finance the study and redesign work. When authorizing SAVA to spend the appropriation, the Legislative Council capped the amount that could be used for a consultant to \$125,000.

At its December 11, 2009, meeting, SAVA amended and then tentatively approved draft wording for the RFP. Its tentative approval allowed any necessary changes to be made after consultation with and consent of the chair and vice chair.

One revision made by SAVA at the December 11 meeting was to require proposal offerors to submit a 5-year client list instead of references. The scoring committee would then contact some of the clients to obtain references. SAVA assigned 5% of the RFP's total points to the reference section. The State Procurement Bureau (SPB) of the Department of Administration made a recommendation to SAVA staff that the client list provision be reconsidered for two reasons. One, the generality of the client list approach made it hard to include in the RFP criteria (will the committee call the fifth client on the list? the most recent? the least recent? only the clients for whom similar work was provided? Will the committee be able to consider verbal answers that went outside of the scope of the set questions but gave important information?) and would also be hard to score. A response to an RFP can only be evaluated on a set of specific criteria that are written in the RFP.

Second and more importantly, the client list approach would be time consuming in a process that was already in a time crunch. Considering that the overall total of the points assigned to the references (5 percent) was very small and taking into account the recent experiences of the retirement system boards when hiring their actuaries, the SPB suggested the work put into the client list approach would not be worth the information or points that it would yield.¹ Given the strong recommendation of the SPB and acknowledging the limited time available for the RFP

¹The Public Employees' Retirement Board (PERB) scored references in their recent RFP. According to the State Procurement Bureau, the overall difference in the reference scores was less than half of one percent, which would not have made any difference in the outcome. Also, it was not entirely clear if the references were for the firm or for the actuary, which made scoring difficult. The Teachers' Retirement Board (TRS Board) asked for written references but only upon a pass/fail basis. Even if they had scored references upon a 5% basis, the differences in points between offerors made it unlikely that the references would have made a difference.

process, staff approached the SAVA chair and vice chair with the recommendation that the references be conducted on a pass/fail basis, giving the scoring committee the discretion to contact references for the highest-scoring offeror during the scoring process if they felt it necessary to confirm their decision. The 5 percent of points assigned to the client list would instead be added to the cost proposal, raising the point total for that section from 20 to 25 percent of the total points for the RFP. The changes were approved by both the chair and vice chair.

Process and Evaluation

An RFP is a procurement tool allows the State to secure a service or goods based not just on cost but also offeror's qualifications, experience, and approach to a problem. The RFP must state the criteria upon which an offer will be judged and the point value given to each criterion. According to administrative rule, the contract must be awarded to "the responsive and responsible offeror whose proposal best meets the evaluation criteria," which is the highest-scoring offeror.

The SAVA RFP was issued on January 29, 2010. Three firms submitted proposals by the February 19th deadline.

Two SAVA members and three staff made up the RFP evaluation committee: Sen. Joe Tropicola, Rep. Pat Ingraham, Research Director Dave Bohyer, David Niss, and Rachel Weiss. At a February 24 meeting, the scoring committee met to evaluate the proposals.

The HB659 RFP contained 15 scored areas, worth a total of 2,000 points. After evaluation of the sections containing the project plan, one proposal was deemed unresponsive because its initial score did not equal or exceed a 70 percent of the total points available in Section 4 (the offeror's work plan, timeline, and response to questions about the project scope). According to the RFP, any proposal failing to meet this 70 percent threshold is eliminated from further consideration.

The highest-scoring offeror after the evaluation is Buck Consultants. The consultant(s) assigned to SAVA for the duration of the contract would be David H. Slisinsky and Douglas J. Fiddler based out of Denver, Colorado.

Scoring committee recommendation: Based on the score assigned to Buck Consultants, staff recommends that SAVA contract with Buck Consultants for the HB659 study and redesign.

The pages that follow provide a description of the firm and a summary of its proposal.

Buck Consultants: Proposal for Retirement Plan Design Consulting Services

Background

Buck is a national employee benefits consulting firm whose retirement practice is the firm's largest focus. In business for 93 years, Buck provides public sector pension and health care actuarial and benefits consulting to nearly 200 public retirement systems, including more than 50 statewide retirement systems. Buck assigned two consultants to this project, both of them actuaries. Both have significant experience in the consulting field and with testifying before and working with legislative committees. Buck also has previous experience in Montana, having performed an audit of MPERA and TRS in 2004 for the Office of the Legislative Auditor and worked as a benefits consultant for the Montana University System. The primary consultant for the study has recent experience in retirement plan redesign, having worked in Colorado, Nebraska, and South Dakota on projects to evaluate and change the system structures.

HB659 Study/Redesign Project Plan

Task 1: Review and Present Information on Plan Design Policy Goals

What Buck Will Do

After a contract is signed, Buck will distribute a short survey to SAVA members to assist with preparation for the March 19 meeting. Questions will be asked that address the importance of retirement benefit objectives that consider:

- Attracting qualified employees (attraction)
- Retaining valuable employees (retention)
- Benefit adequacy
- Benefit flexibility (choice)
- Benefit security
- Benefit competitiveness
- Cost efficiency
- Cost stability
- Cost competitiveness
- Desirable cost level
- Low expenses
- Efficient investment structure
- Intergenerational equity
- Investment risk
- Control of investment decision
- Mortality risk

The survey results will be presented at the March meeting. In addition, Buck will present information crucial to understanding retirement income policy, a discussion on how retirement plan alternatives work, what are realistic retirement income delivery goals, what changes other states have made or are considering to their retirement systems recently, and how Montana PERS and TRS benefits compare to other similar regional retirement systems. In addition, Buck will

lead a discussion of the defined benefit changes suggested by SAVA and included in HB659. This list includes potential changes to the current defined benefit programs and the design of a money purchase plan, required changes to TRS and potential changes to PERS, and whether these changes are applied to new members only, or also to current active members and GABA changes to current retirees.

Outcome

The SAVA committee will gain a better understanding of the various retirement income policy issues, potential ideas for change, and will reach consensus on a clear set of retirement plan design policy goals.

Task 2: Based on SAVA's policy goals, Develop, Analyze, and Recommend Potential Design Alternatives

What Buck Will Do

At the April meeting, Buck will identify and contrast each different type of retirement plan alternative that is in use in both the public and private sectors including defined benefit, defined contribution, and combination (or hybrid) plans. Specifically they will consider:

- Changes to the current defined benefit plans for PERS and TRS
- Defined contribution plans
- Combination defined benefit and defined contribution plans
- Cash balance plans
- Defined benefit plans with expanded defined contribution features
- Floor plans

In addition to the detailed description of each alternative, they will utilize a basis that accurately and comprehensively compares the benefit delivery of each type of plan, and will graphically display these results. The analysis will include the strengths and advantages/disadvantages of each type of alternative from the viewpoint of both the employer and employee, considering the following:

- Risks
- Long term funding costs
- Death, disability, and termination benefits, as well as retirement benefits
- Typical and best practices and trends in both the public and private sectors
- Portability factors
- Administrative complexities and costs
- Employee understanding
- Benefit payment flexibility
- Benefit adequacy

As part of this analysis, Buck will identify typical retirement income goals and will rank each of the alternative plan designs against those goals. This analysis and ranking of potential alternatives against prioritized goals will be performed using proprietary software designed to

quantitatively resolve conflicting goals using the following four step process:

- Define and confirm objectives with alignment to your benefit and human resource strategies
- Quantify the importance of each objective
- Score all the applicable alternative courses of action according to how well they meet each of the objectives
- Use weighted scores to identify alternatives that best fulfill the stated objectives

Outcome

The SAVVA committee will attain a thorough understanding of the various ways to provide retirement income and the strengths and weaknesses of each. In addition, the State will receive an objective and independent assessment of the types of retirement plans that best satisfy specific human resource and retirement benefit goals established in Task 1.

Task 3: In-Depth Analysis of Potential Plan Design Alternatives

What Buck Will Do

After the April meeting, Buck will focus our analysis on the potential plan designs that best meet the retirement plan design policies and objectives identified in Task 2. To do this, Buck will utilize a proprietary retirement plan software model to compare current PERS and TRS benefits with the benefits of the potential plan designs as applied to the actual member database. This system will allow Buck and SAVVA to make an objective assessment and comparison of PERS and TRS that considers the value of all benefits of each program.

Specifically, the software will facilitate:

- A comparison of PERS and TRS with the identified alternative plan designs
- The benchmarking of PERS and TRS compared to each alternative plan designs by benefit amount, benefit value, and income replacement ratio, including Social Security
- A determination if each alternative plan would likely cost more or less than PERS/TRS
- Consideration of the effect of changes to PERS/TRS benefits, assumptions, and long-range funding
- Evaluation of benefit adequacy when combined with Social Security benefits
- Identification of winners and losers among various employee groups under alternative plan designs

In addition, Buck will assess the administrative complexities of each alternative plan studied compared to that of PERS and TRS. Available experience will be obtained and analyzed with regard to the impact of retirement plan design on employee recruitment and retention. Finally, an evaluation of asset management costs and the incremental costs for participation in investment options by employees will be included.

Outcome

The SAVA will see the impact of the potential plan designs on the current PERS and TRS active membership and can evaluate the consequences of change as it relates to benefits delivered, costs, benefit adequacy and administration, and visually see how well the potential plan designs meet the retirement plan design policy goals established in Task 1. The SAVA can then make an informed decision in choosing the plan design alternative for final cost analysis.

Task 4: Confirm Final Cost Analysis

What Buck Will Do

After the SAVA committee has made a decision on the potential plan designs for TRS and PERS in Task 3, Buck will provide SAVA with a detailed description on the retirement plan design's provisions for delivery to the TRS and PERS actuaries so they can perform the cost analysis for the respective plans.

Upon completion of the cost analysis provided by the TRS and PERS actuaries, Buck will perform a limited scope audit of those results to assure SAVA those results are reasonable. To do this, Buck will request detailed actuarial valuation results for a sampling of members. We typically request a number of test cases per system for review. Buck will review these results for accuracy and the total results for reasonableness.

Buck's work will include a review of the calculation of the present value of benefits, actuarial accrued liability, unfunded actuarial accrued liability, normal cost rate, and the employer contribution rate.

Outcome

The SAVA committee will have the necessary plan design and cost analysis needed to make a final decision on the retirement plan changes to be recommended to the Legislature. The results of Buck's work will be documented in a supporting report, complete with analysis and conclusions. The detailed plan provisions provided to SAVA by Buck will form the basis for legislative staff to draft legislation for introduction during the 2011 Legislative session.

Study Timeline

Buck also presented a timeline that met SAVA's tight meeting schedule for the spring and summer.