



ITEM 5

Executive Staff
Richard Stensrud
Chief Executive Officer
Steve Davis
Chief Investment Officer
Robert L. Gaumer
General Counsel
Kathryn T. Regalia
Chief Operations Officer
John W. Gobel, Sr.
Chief Benefits Officer

For Agenda of:
May 11, 2017

May 5, 2017

TO: President and Members
Board of Retirement

FROM: Richard Stensrud, Chief Executive Officer
Kathryn T. Regalia, Chief Operations Officer

SUBJECT: Recommended Selection of a Firm to Provide
Actuarial Auditing Services

Recommendation:

That your Board: (1) Select Cheiron to perform actuarial auditing services for SCERS as outlined in the 'Scope of Services' section of the request for proposals issued February 17, 2017; and (2) Direct Staff to work with Cheiron to finalize an agreement for such services.

Background:

Conducting an actuarial audit is a component of SCERS' overall plan with respect to actuarial services. The goals of an actuarial audit are:

- 1) To verify that the assumptions, methods, calculations and experience used in SCERS' valuation are in compliance with generally accepted actuarial principles and practices, the 1937 Act, and SCERS' regulations and policies;
- 2) To verify the actuarial methods and assumptions are being applied properly in computing SCERS' benefits and actuarial liabilities, funded status, unfunded liabilities, reserve accounts and required contribution rates, and that the calculations related to such matters are accurate;

- 3) To verify that the valuation results are actuarially sound, reasonable, and consistent with industry standards; and
- 4) To determine that the valuation reflects information required to be disclosed under required reporting standards.

It is understood and acknowledged that there can be differences among actuaries regarding approaches or methodologies which can result in some variance. The ultimate goal is to adequately analyze the reasons for the variances and to determine that the variances do not exceed accepted actuarial practice tolerances.

In February 2017, your Board approved and Staff issued a request for proposals (RFP) for actuarial auditing services. The scope of services to be provided involved replicating the annual actuarial valuation as of June 30, 2016, and reviewing the triennial experience study for the three years ended June 30, 2016. SCERS' RFP was issued to two firms, Cheiron and Milliman, which both have meaningful experience in working with California pension funds and with 1937 Act pension funds in particular.

Discussion:

Both Cheiron and Milliman submitted very thorough and professional proposals to SCERS. Staff found each firm to be well-qualified, highly experienced, and fully capable of performing the audit. The firms were both comparable in their proposed auditing methods and in their actuarial auditing experience.

Staff would, however, give a slight edge to the consulting team proposed by Cheiron. Graham Schmidt would be assigned with David Holland as co-consulting actuaries on the SCERS audit services. Mr. Schmidt has been particularly engaged regarding actuarial matters of concern to the California pension community. Mr. Schmidt is the SACRS representative to the California Actuarial Advisory Panel, has been a member of the Academy of Actuaries Public Plans Subcommittee, and the Conference of Consulting Actuaries Public Plans Committee, the primary actuarial committees dealing with public sector retirement issues in the U.S. Additionally, Mr. Schmidt also served on the Society's Retirement Plans Experience Committee (RPEC), which is responsible for developing the mortality tables used by all U.S. pension actuaries from 2006-2012. Mr. Schmidt's insight regarding various actuarial matters that have been addressed in the SACRS community is highly regarded.

Staff also notes that the fees proposed by Cheiron (\$60,000) are lower than the fees proposed by Milliman (\$67,500).

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Accordingly, it is Staff's recommendation that your Board select Chieron as SCERS' auditing actuary.

As always, Staff will be happy to answer any questions you might have.

Respectfully submitted,

Concur:

Kathryn T. Regalia
Chief Operations Officer

Richard Stensrud
Chief Executive Officer

Attachments