

ADDENDUM No. 2

RFP No. 19-09

Pension Annuity

Due: April 10, 2019 at 2:00 P.M. (local time)

The following questions and answers shall be made available to the Request for Proposal for Pension Annuity, RFP No. 19-09, on which proposals will be received on/or before the date and time listed above.

The information contained herein shall take precedence over the original documents and all previous addenda (if any), and is appended thereto. **This Addendum includes three (3) pages.**

The Proposer is to acknowledge receipt of this Addendum No. 2, including all attachments in its Proposal by so indicating in the proposal that the addendum has been received. Proposals submitted without acknowledgement of receipt of this addendum may be considered non-conforming.

The following forms provided within the RFP Document must be included in submitted proposal:

- **Attachment C – City of Ann Arbor Non-Discrimination Declaration of Compliance**
- **Attachment D – City of Ann Arbor Living Wage Declaration of Compliance**
- **Attachment E - Vendor Conflict of Interest Disclosure Form**

Proposals that fail to provide these completed forms listed above upon proposal opening will be rejected as non-responsive and will not be considered for award.

I. QUESTIONS AND ANSWERS

The following Questions have been received by the City. Responses are being provided in accordance with the terms of the RFP. Respondents are directed to take note in its review of the documents of the following questions and City responses as they affect work or details in other areas not specifically referenced here.

Question 1: Is the ongoing actuary eligible to bid on this work?

Answer 1: The City's existing actuary is Gabriel, Roeder, Smith & Company (GRS). GRS will not be responding directly on this RFP. However, if an offeror desires to utilize them as part of their bid, GRS may be engaged by the offeror as long as a different partner in the firm is utilized from the one presently providing services to the City.

Question 2: How much is budgeted to hire a consultant to assist with this project?

Answer 2: Since this request is not common in the public sector, no pre-established budget has been set aside. When staff has a proposal to recommend to City Council, staff will return to Council with a recommendation, a contract, and a request for funds.

Question 3: How long is it anticipated this project will last?

Answer 3: No predetermined timeframe has been established. Each respondent should include their expected timing in their response with sufficient time allocated to deal with the complexities of this engagement.

- Question 4: How many in-person meetings are anticipated?
Answer 4: At a minimum, four in-person meetings should be assumed. An initial meeting, a meeting to review a draft report, a working session with City Council (2 hours), and attendance at a Council meeting when Council action is required.
- Question 5: How many references of similar projects are required under Section II, B (Past involvement with similar projects)?
Answer 5: There is no minimum.
- Question 6: Is the City looking to purchase annuities for all retirees or a sub-set of retirees? Or are you expecting this project to include analysis to determine the optimal group of retirees that would potentially have an annuity purchased?
Answer 6: The City is looking to purchase annuities for all retirees. It would be beneficial to understand the sub-sets for police, fire, and all other retirees. It is desired the analysis include a recommendation for the optimal groups of retirees for which an annuity could be purchased.
- Question 7: Our standard consulting agreement terms and conditions include some limitation on liability for mere negligence or from consequential damages. Is the City open to accepting mutually-agreeable contract terms, which include some limitation of liability on the work performed by the contracting actuarial firm?
Answer 7: Any limitation of liability would need to adequately protect the City from possible direct damages due to the firm's negligence. Limitation of liability concerning consequential damages is negotiable.
- Question 8: Exhibit C, Section A (page 36) set's forth 5 types of insurance coverage. Our firm is a professional service firm exclusive to consulting on "Institutional Retirement Plans". Thus, our firm insurance coverage comprise solely "professional liability insurance" meeting the criteria in Item A-1. Our firm does not have any of the insurance coverages listed in items A2 through A5. QUERY: Does this eliminate our firm from consideration for this Pension Annuity project?
Answer 8: The City will work and negotiate with the firm who we intend to award on insurances and coverages amounts outlined in the RFP Document. However, at a minimum, professional liability insurance will be required from the awarded firm at a negotiated coverage amount.
- Question 9: Our firm is a "Limited Liability Company" established by the State of North Carolina. I presume this is not an issue but want to confirm. Our clients spread across several states. Our firm's business model is designed to be engaged by clients throughout the U.S.
Answer 9: This RFP is open for proposals from firms located outside the State of Michigan. Being established in another state is not a concern.
- Question 10: Typically the first step in pension de-risking is to close the plan to new entrants and freeze benefit accruals. The City of Ann Arbor pension plan appears to be on open plan with continued accruals to active members. Has the city considered or would you consider closing of the plan and freezing of benefit accruals? Note that insurance companies will not take over the liabilities for participants who are still accruing benefits.
Answer 10: All options are acceptable to be included in a final report. However, please note that City employees are represented by nine bargaining units plus the non-union workforce. With the exception of police and fire employees, all new active employees since January 2017 qualify for a hybrid pension plan (1/2 defined benefit and 1/2 defined contribution plan). Freezing benefit accruals for active employees would require negotiations with labor, so if this is recommended the benefits to the City need to be clearly described.

Question 11: From reading the request for proposal, it appears that the City of Ann Arbor is potentially interested in a complete transfer of risk for the full plan to an insurance company. If so, the typical steps in the process include: 1) a freeze of pension accruals, 2) lump sum offers to participants and 3) the purchase of a group annuity contract for those who do not elect a lump sum. Is the City of Ann Arbor open to lump sum offers to active participants and/or retired participants?

Answer 11: Yes. The City is interested in understanding all feasible options.

Question 12: What other types of pension risk mitigation strategies has the City explored in the past five years, and what were the conclusions or decision points of such exploration? This includes both liability and asset strategies.

Answer 12: Between 2010 and 2012, all employee groups increased employee contributions from 5% of pay to 6% of pay. The vesting period for new hires increased from 5 years to 10 years. The Final Average Compensation was expanded from the average of the highest 3 years over the past 10 years to the average of the highest 5 years over the past 10 years.

In addition, in 2017 all employee groups except Police and Fire implemented a hybrid pension plan for all new hires consisting of $\frac{1}{2}$ traditional defined benefit and $\frac{1}{2}$ defined contribution. The hybrid plan was designed to share the investment risk with the new hires while maintaining the estimated benefit levels assuming a 7% investment return.

The Pension assets have continued to be invested in a diversified portfolio of securities with a slightly conservative slant. Returns since inception have been approximately 8% on average, which is in excess of the 7% assumed return.

Offerors are responsible for any conclusions that they may draw from the information contained in the Addendum.