

February 26, 2016

Commonwealth of Pennsylvania

Cost Submittal Best and Final Offer (BAFO)
in Response to RFP # SERS 2015-028 for Actuarial
Services and Pension Plan Consulting for the State
Employees' Retirement System

HayGroup®



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Hay Group Commentary in Support of Cost Submittal
Best and Final Offer (BAFO)

Variable Costs

1. Estimated Hours for Upcoming 5 Years:
 - a. It is Hay Group's expectation that significant pension reform legislation will occur sooner, rather than later. We're anticipating passage sometime in 2016. Therefore, we expect another fiscal year (FY16-17) of higher than usual overall hours, with continued significant reliance (as has been true in FY14-15 and thus far in FY15-16) upon our team's senior actuaries through the end of FY16-17. Therefore, we estimate FY16-17 total variable hours of 1,000 for FY16-17.
 - b. For the remaining 4 years of the upcoming 5-year period, we foresee that the level of demand for "variable services" will return to "normal", where we expect normal to be similar to the years before FY14-15. To arrive at our expected annual hours for each of these fiscal years, we determined the average annual hours for the three fiscal years: FY11-12, FY12-13 and FY13-14, which was approximately 875 hours.
 - c. As for the allocation of hours among our staff categories, we are including here some explanation relating to the modest shifting of hours that we will be initiating over the three-year period FY18-19, FY19-20 and FY20-21. But first, it is important to inform SERS of Craig Graby's well-earned promotion from Senior Consultant to Principal effective January 1, 2016. As a result, Craig's future (post June 30, 2016) hours will be in the "Principal" category, the level to which our second highest hourly billing rate applies. Please note that the total hours Hay Group has billed at the Principal level since FY11-12 (roughly 10 hours per year on average) were for services provided by our Principal, Melissa Rasman, Esq. Our high levels of projected future hours at the Principal level, therefore, include 10 hours per year expected for Melissa and the remaining hours (roughly 400 to 500 per year) expected for Craig.
 - i. FY16-17: The allocation of total hours (around 1,000, we expect) by category will likely be approximately the same as actually occurred over the past 4+ years.
 - ii. FY17-18: The return to "normal" levels, i.e., the decrease from 1,000 to 875 hours, we expect, will only impact the hours of our senior actuaries: Brent Mowery's hours and Craig Graby's hours will likely decline noticeably; we're estimating from 350 to 300 hours per year for Brent and from 525 to 450 hours per year for Craig.

- iii. Starting in FY18-19 and continuing for the following two fiscal years, with the nature of our actuarial assignments generally expected to be less complex and less urgent than they have been in the “pension reform and new GASB years”, our senior actuaries will be taking advantage of an opportunity to increase the amount of delegation to and professional development of the junior actuaries on our team. To capture these expected changes, for each of these three fiscal years, we expect Brent to delegate at least 20 hours of the work he would usually handle to Craig, and we expect Craig to delegate at least 40 hours of the work he would usually handle to, most likely, Erika Mitchell or Jared Grove, or other junior members of our team.
2. Rates Per Hour for Upcoming 5 Years: Continuing Hay Group’s longstanding practice of extending to SERS significant discounts off of our usual management-recommended hourly billing rates, in recognition of the high volume of services that SERS has purchased from Hay Group over the decades, we have assigned hourly billing rates for each of our staff categories that are only minimally adjusted upward, when compared to the hourly billing rates in our current contract. Specifically, the rate adjustments we have made, other than the higher than usual adjustment in recognition of Craig’s promotion, are actually lower (for our most senior staff category, much lower) than full inflation adjustments.

Fixed Costs

As a demonstration of Hay Group’s genuine desire to continue to serve as SERS’ actuary over the upcoming contract period, we have decided to (i) adjust the fee level for each of our annual actuarial valuations slightly downward (from \$75,000 to \$73,500) and to (ii) maintain the fee level for our actuarial experience study at the same dollar level as we quoted in our proposal five years ago.

Total Costs = Variable Costs + Fixed Costs

Please note that, while Hay Group’s proposed fees for the upcoming five-year contract period, as presented in this Cost Submittal Best and Final Offer (BAFO), are significantly higher than those we proposed five years ago, this is largely due to the vastly different hours estimates underlying each of the fee calculations, making them not really comparable.

Another, more appropriate, way to assess the level of our proposed fees is to compare our proposed average annual fee (variable + fixed) for the upcoming five years with the average annual fee (variable + fixed) that we actually charged SERS for our services over the most recently completed five fiscal year period (FY10-11 through FY14-15). When this, more appropriate, comparison is made, it shows that the fees Hay Group has proposed herein are, on average, only 2.5% higher than our actual fees over the five most recently completed fiscal years.

**APPENDIX D
COST SUBMITTAL BEST AND FINAL OFFER (BAFO) WORKSHEET**

**RFX: SERS 2015-028 ACTUARIAL SERVICES
AND PENSION PLAN CONSULTING**

OFFEROR NAME	CONTACT PERSON	
Hay Group	Brent M. Mowery	
OFFEROR ADDRESS	EMAIL ADDRESS	
4301 North Fairfax Drive, Suite 600	brent.mowery@haygroup.com	
Arlington, VA 22203	PHONE NUMBER	FAX NUMBER
	703-841-3109	703-841-3108
	VENDOR NUMBER	FEDERAL ID OR SSN
	166616-001	

COST SUMMARY

TOTAL PROJECT COST FOR ACTUARIAL SERVICES AND PENSION PLAN CONSULTING	
Fiscal Year 16	\$453,290.00
Fiscal Year 17	\$406,275.00
Fiscal Year 18	\$401,765.00
Fiscal Year 19	\$397,055.00
Fiscal Year 20	\$429,395.00
TOTAL COST TO BE EVALUATED FOR THE FIVE YEAR TERM OF THE CONTRACT.	\$ 2,087,780.00

Hay Group **BEST AND FINAL OFFER (BAFO)**

**RFX: SERS 2015-028 ACTUARIAL SERVICES
AND PENSION PLAN CONSULTING**

Variable Costs	FY 2016-2017			FY 2017-2018			FY 2018-2019			FY 2019-2020			FY 2020-2021		
	Est. Hrs	Hourly Rate	Total Cost	Est. Hrs	Hourly Rate	Total Cost	Est. Hours	Hourly Rate	Total Cost	Est. Hours	Hourly Rate	Total Cost	Est. Hours	Hourly Rate	Total Cost
Client Manager/Supervising Actuary	350.00	\$464.00	\$162,400.00	300.00	\$468.00	\$140,400.00	280.00	\$473.00	\$132,440.00	260.00	\$478.00	\$124,280.00	240.00	\$483.00	\$115,920.00
Principal	535.00	\$356.00	\$190,460.00	460.00	\$359.00	\$165,140.00	440.00	\$363.00	\$159,720.00	420.00	\$367.00	\$154,140.00	400.00	\$370.00	\$148,000.00
Senior Actuary/Senior Consultant	0.00	\$324.00	\$0.00	0.00	\$328.00	\$0.00	0.00	\$331.00	\$0.00	0.00	\$334.00	\$0.00	0.00	\$338.00	\$0.00
Consultant	0.00	\$287.00	\$0.00	0.00	\$290.00	\$0.00	0.00	\$293.00	\$0.00	0.00	\$296.00	\$0.00	0.00	\$299.00	\$0.00
Mid-Level Consultant	75.00	\$226.00	\$16,950.00	75.00	\$229.00	\$17,175.00	100.00	\$231.00	\$23,100.00	125.00	\$233.00	\$29,125.00	150.00	\$236.00	\$35,400.00
Associate Consultant	40.00	\$187.00	\$7,480.00	40.00	\$189.00	\$7,560.00	55.00	\$191.00	\$10,505.00	70.00	\$193.00	\$13,510.00	85.00	\$195.00	\$16,575.00
Actuarial Ass't-Tech Associate	0.00	\$169.00	\$0.00	0.00	\$170.00	\$0.00	0.00	\$172.00	\$0.00	0.00	\$174.00	\$0.00	0.00	\$176.00	\$0.00
			\$0.00			\$0.00			\$0.00			\$0.00			\$0.00
			\$0.00			\$0.00			\$0.00			\$0.00			\$0.00
			\$0.00			\$0.00			\$0.00			\$0.00			\$0.00
			\$0.00			\$0.00			\$0.00			\$0.00			\$0.00
			\$0.00			\$0.00			\$0.00			\$0.00			\$0.00
Total	1,000.00		\$377,290.00	875.00		\$330,275.00	875.00		\$325,765.00	875.00		\$321,055.00	875.00		\$315,895.00

Fixed Costs	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Valuation Reports	\$73,500.00	\$73,500.00	\$73,500.00	\$73,500.00	\$73,500.00
Experience Study	\$2,500.00	\$2,500.00	\$2,500.00	\$2,500.00	\$40,000.00
Total	\$76,000.00	\$76,000.00	\$76,000.00	\$76,000.00	\$113,500.00

	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Total Cost (Variable and Fixed)	\$453,290.00	\$406,275.00	\$401,765.00	\$397,055.00	\$429,395.00

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