



RFP Checklist for OPEB Actuarial Valuation

Government Finance Officers Association  
Committee on Retirement and Benefits Administration

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In 2003 the Government Accounting Standards Board issued pronouncements 43 and 45 requiring governments to report the actuarial value of their “other post-employment benefits” (OPEB) liability<sup>1</sup>. With the first implementation deadline of December 2006 approaching, many entities are in the process of procuring actuarial professional services to determine their OPEB liability<sup>2</sup>.

This document is a checklist for the development of a request for proposals (RFP) for the procurement of these services. It should be construed neither as an RFP itself, nor as establishing mandatory items for inclusion in a RFP. Rather, the checklist is a document that recommends items for *consideration* based on sample RFP’s and the collective knowledge of the Government Finance Officers Association (GFOA) members. Furthermore, the checklist is not meant as a stand-alone document but should be utilized in conjunction with GASB Statements 43 and 45 and the related implementation guide. One should look to these documents for guidance on definition of terms and specific requirements.

We encourage GFOA members to provide feedback on this document, as it is intended to be updated periodically to reflect evolving views.

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GFOA Committee on Retirement and Benefits Administration  
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<sup>1</sup> For details, see Gauthier, Stephen J. *An Elected Official’s Guide: Employer’s Accounting for Pensions and Other Post-Employment Benefits (OPEB)*. GFOA, 2005

<sup>2</sup> For simplicity the term “OPEB liability” or “liability” is used throughout the document. When that term is used it generally refers to the actuarial accrued liability for OPEB

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## I. Introduction

*The following items should be considered for inclusion in an introductory section of the RFP.*

- Include a brief description of the entity, such as type of government, location, date established, number of full time employees, population, budget, etc.
- Summary information on the bid process including evaluation criteria.
- Contact information.

## II. Standard RFP Language

*Entities should include their standard “boilerplate” RFP language including information on the selection process, indemnity, liability insurance, conformance with any applicable local or state statutes, protest procedures, terms and conditions, etc.*

## III. Plan Description

*It is important that entities describe the plan whose liability the firm will be evaluating. In the RFP, entities should:*

- Provide a complete list of benefits whose liability are to be evaluated. This may require entities to inventory benefits prior to issuing the RFP to ensure a complete list of benefits. The benefits may include:
  - Health
  - Dental
  - Vision
  - Life Insurance
  - Other
- Describe the type of plan.
  - Single employer
  - Agent multiple-employer plan
  - Multiple-employer cost sharing plan
- Describe the size and composition of the plan assets and the provisions of the trust, noting whether or not the trust is an irrevocable trust.

- Describe the benefits and coverage levels that are provided, including historical changes that have taken place to modify these amounts. Benefits and coverage levels may be included in written plans or may be the result of on-going practices.<sup>3</sup> Benefits can be formal or informal, set up by charter, employment agreement or simply by governing board action. The description of the benefits should include:
  - Details on whether each plan is self insured or fully insured.
  - An indication of what the benefits of the age 65 and over group are and how they coordinate with Medicare. Examples of this detail would include descriptions of elements like having a contribution for a supplemental Medicare policy or having continued benefits within the existing plans after retirement.
  - Current eligibility criteria for post retirement group insurance.
  - Cost subsidy policies after retirement.
  - Required employee contribution rates (if any).
  
- Identify the beneficiaries (all employees, certain unions, retirees, etc). Describe the demographics of the beneficiaries (such as population size, number of covered lives, breakdown of active, retiree members, and number of Medicare eligible beneficiaries.) This is commonly referred to as the “census of plan members”.
  
- Identify what information about the covered population will be readily available to the consultant for analysis. (Availability of information could impact the cost of the study).
  
- Provide any current documentation describing the plan which may include:
  - A copy of the plan or a summary plan description
  - State or local laws
  - Union contracts
  - Employee manuals
  - Trust document
  - Other documents such as communication of plan benefits with members
  
- Identify the appropriate contacts for providing information about the plan.

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<sup>3</sup> It is important to remember that a written agreement is not required for an OPEB to exist. GASB clarified that OPEB were to be recognized based upon the substantive plan (i.e. the plan as understood by employers and employees.)

## IV. Scope of Services

*Before completing this section, an entity must determine for itself what the desired scope of services will be. GFOA has attempted to differentiate between what it considers “standard” and “optional” items (although depending on local circumstances, an “optional” item may be critically important). Most of the “optional” items (indicated below as such) are related to consulting services that may be available for addressing, and potentially lowering, the OPEB liability. No matter which items an entity chooses to include, the scope should be delineated as clearly and specifically as possible.*

*In the RFP the entity should:*

- Clarify whether the contract is annual, a series of annual contract, a three-year contract, a five-year contract, etc. This would include specifying if proposals are sought for varying contract periods rather than selecting a contract period. Further, the contract period would need to be coordinated with the frequency of the actuarial valuation and the government should specify how changes would be handled in “off” years when the frequency is less than annual. This should clearly indicate whether the actuarial services are necessary to meet the requirements for an OPEB plan (i.e., a trust or its equivalent) or an employer that provides OPEB benefits.
  
- Indicate the desired completion date of the study.
  
- Indicate whether the actuary will be required to make a formal presentation to a governing body.

*In their RFP, entities should request that firms:*

- Analyze the data to assess any inconsistencies and make recommendations for enhancing data quality.
  
- Prepare an actuarial valuation following GASB 43 and GASB 45 standards.

*Note that in the year of the initial implementation of GASB 45, the actuarial valuation must be prepared early enough so that it can provide the Annual Required Contribution of the employer for that fiscal year. Accordingly, the actuarial valuation will most likely be as of a date no later than the start of the fiscal year of implementation.*

Include the following information:

- The actuarial present value of total projected benefits.
- Actuarial accrued liability.
- Actuarial value of assets.
- The unfunded actuarial accrued liability.
- Normal cost.

- Annual required contribution of the employer(s)-as a level dollar amount and as a level percentage of covered payroll.
  - Net OPEB obligation (for employer disclosure under GASB statement 45 if necessary).
- Prepare the necessary material for the Comprehensive Annual Financial Report to comply with GASB OPEB reporting and disclosure requirements.
  - Prepare the annual gain/loss analysis to determine reasons for changes in the unfunded actuarial accrued liability, whenever a prior actuarial valuation is available to support this.
  - Determine the implicit rate subsidy, if any, and the impact it would have on the OPEB liability.
  - Prepare an analysis to determine how establishing a trust or equivalent arrangement would affect the interest rate assumption. Timing considerations of establishing the trust should also be considered.
  - Prepare a cash flow analysis (the "pay-as-you-go-cost"). - (optional).
  - Prepare a sensitivity analysis showing the impact of alternative assumptions on the employer's contributions (healthcare trend rates and investment rate assumptions) – (optional)
  - If there is not a trust established, determine the difference in liability based upon the investment returns under a diversified portfolio versus a short-term fixed income portfolio (optional).
  - As appropriate, provide recommendations on managing the OPEB liability. This may include changes in plan design (optional).
  - As appropriate, review and update plan documents and design. Make recommendations as to formalizing informal plans (optional).
  - List any other non-routine services.

## V. Information about the Firm

*As OPEB valuations require complex actuarial calculations and the liability must be reported in the entity's financial statements, it is critical that a firm with the appropriate experience and expertise be utilized. The following items will solicit general information about the firm but also information helpful in differentiating between proposers.*

- The firm should provide its name, address of the office which would provide the services requested, telephone number, fax, e-mail address and website, if applicable.
- The firm should provide a general description of its business, including size, number of employees, number of credentialed actuaries, primary business, other business or services offered and review any past or contemplated changes in the ownership structure of the firm
- The supervising actuary who will be assigned to the engagement should be identified and their contact information provided.
- Other actuaries and other personnel who will have key roles in the work should also be identified.
- The firm should list the number and percent of consulting staff who have left each of the past five years.
- Brief resumes should be furnished for the key professional staff who will be assigned to this engagement. Summary information should be provided covering the professional qualifications and experience of the supervising and support actuaries and other personnel who would perform the requested work.
- The firm should provide a description of its experience in providing actuarial and consulting services for governmental entities/plans and a list of governmental entities/plans for which it has performed services similar to those identified under "Scope of Services." Describe the firm's experience with retiree healthcare and other post-employment benefit plans for other public entities. Recognizing the value of firm experience with FASB OPEB valuations, firms should also describe their private sector OPEB valuation experience.
- For the firm's office that will be responsible for the work, the firm should provide a list of the most significant engagements performed in the last five years that are similar to the engagement described in this request for proposal. The list of engagements can be both in the private or public sector but must be clearly labeled as such.

- For the engagements listed above, indicate the scope of the work, date, supervising actuaries, and the name and telephone number of the principal client contact who would serve as a reference for the firm.
- The firm should list any clients that have been lost in the last five years.
- The firm should provide an affirmative statement that it is independent of the governmental entity/plan and that it is unaware of any potential conflicts of interest if it were selected to perform the requested work.
- The firm should describe any limits on liability that the firm requests from its clients due to negligence of its firm.
- The firm should warrant that the firm maintains errors and omissions insurance that provides a prudent amount of coverage for negligent acts or omissions insurance that provides a prudent amount of coverage for negligent acts or omissions and that its coverage is applicable to the work requested in this proposal.
- The proposal should include an example of a job arrangement letter or contract that the firm would require covering this engagement if it were successful in winning the engagement.
- The response to the request for proposals should be signed by a representative of the firm with the acknowledgement that this individual is authorized to contractually bind the firm.
- The firm should indicate if there are any pending legal actions against it.

## VI. Process

*Governments may consider the following items for inclusion in a section of the OPEB Request for Proposal on the process that will be used to complete the actuarial valuation.*

- Approach – State the overall approach of the valuation, including objectives, scope of work to be performed and methodologies to be used.
- Describe how the firm will work with the government to determine the proper actuarial cost method, actuarial asset valuation method, amortization method and key assumptions to the valuation based on relevant accounting and actuarial standards. Some key assumptions (not all of them applicable) to consider as part of this discussion are:
  - Turnover
  - Retirement Age

- Disability retirement age
  - Mortality
  - Projected salary increase
  - Inflation rate
  - Healthcare cost trend data for appropriate region
  - Amortization timeframe
  - Investment return
  - Post retirement benefit changes
  - Actuarial assumptions associated with the method (projected unit credit, entry age normal, etc.)
- Provide an analysis of allowed actuarial methods and amortization methods with the pros and cons of each method and recommend the most appropriate or commonly used one or two methods for this type of study.
- Describe how the firm would assist in the interpretation of the plan and value the associated costs in situations where there is ambiguity related to the substantive plan.
- Timeline – The firm will identify the major tasks in the valuation engagement and the suggested timeline for completion. *Note: If the government has key deadlines for development of this valuation they should be identified in the scope of services.*
- Data Requirements – The actuarial firm should list all data requirements, other than what has been identified in the RFP, that they require to complete the valuation and in what type of format that data must be provided
- Support – Provide the support that is required of the government’s staff.
- Sample Report – Include in the Appendix of the firm’s response a copy of a sample report.

## **VII. Cost and Terms of Agreement**

*Governments may consider the following items for inclusion in a section of the OPEB Request for Proposal related to the cost of performing the requested actuarial services for this engagement.*

- Cost Proposal – The firm will provide the cost of the engagement detailing out the cost of the valuation and any optional consulting services included in the scope of services. The proposal should include estimated hours, hourly rates and expenses, as well as a total, not-to-exceed cost that should be clear and concise. *Note: it*

*may be helpful in evaluating proposals to include a cost-sheet template with the RFP.*

- Costs for the any of the services indicated as “optional” in the *Scope of Services* section of this document should be requested as separate from the cost of the valuation as these services can be expensive.
- Terms of Agreement – The Government should identify any required general terms or conditions that must be met as part of this engagement contract.

## **VIII. Other Issues for Consideration**

*Prior to developing their RFP, entities should consider the following items as they may potentially impact how the entity proceeds in valuating its OPEB liability and what requirements are included in the RFP document.*

- Consideration should be given to using the same firm as your current health or pension actuary (may result in administrative efficiencies and cost savings).
- Consideration should be given to consistency between the pension and health care assumptions and methods, unless characteristics of population or plans require differences.
- Consideration should be given as to whether or not a trust should be created, if there is not a trust already in place.
- Consider having a proposers conference or facilitating processes for answering questions from proposers.
- Ensure that employee information is provided in a manner that does not violate any privacy rights or limitations on the use of social security numbers.

## **IX. Suggested RFP Appendices**

- HIPPA Business Associate Requirements
- Include a sample showing the form of contract required by the governmental entity. Describe insurance required for firms that provide professional services to the governmental entity. Consideration should be given to including the RFP and the proposal with the final contract signed with the firm
- Cost proposal template

## **X. Other Resources**

- The Governmental Accounting Standards Board website at [www.gasb.org](http://www.gasb.org) where GASB maintains an implementation guide and “plain language summary” to statements 43 and 45.
  
- For details on OPEB accounting, see Gauthier, Stephen J. *An Elected Official’s Guide: Employer’s Accounting for Pensions and Other Post-Employment Benefits (OPEB)*. GFOA, 2005