

**REQUEST FOR PROPOSALS FOR**

**ACTUARIAL VALUATION SERVICES  
FOR OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

**ISSUING OFFICE**

**Pennsylvania Turnpike Commission  
Accounting and Financial Reporting Department**

**RFP NUMBER**

**11-10230-3375**

**DATE OF ISSUANCE**

**November 17, 2011**

**REQUEST FOR PROPOSALS FOR**  
**ACTUARIAL VALUATION SERVICES**  
**FOR OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

**RFP 11-10230-3375**

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**ATTACHMENT A - GASB 45 Actuarial Valuation as of March 1, 2010**

## PART I

### GENERAL INFORMATION FOR PROPOSERS

**I-1. Purpose.** This request for proposals (RFP) provides interested Proposers with sufficient information to enable them to prepare and submit proposals for consideration by the Pennsylvania Turnpike Commission (Commission) for actuarial valuation services of other postemployment benefits (OPEB).

**I-2. Issuing Office.** This RFP is issued for the Commission by the Accounting and Financial Reporting Department. All questions regarding this RFP must be directed to this office pursuant to the process identified in Section I-9. No questions will be addressed except through such process.

**I-3. Scope.** This RFP contains instructions governing the proposals to be submitted and the material to be included therein; a description of the service to be provided; requirements which must be met to be eligible for consideration; general evaluation criteria; and other requirements to be met by each proposal.

**I-4. Problem Statement.** The Pennsylvania Turnpike Commission is seeking a qualified firm of accredited actuaries to complete actuarial valuations of the Commission's other postemployment benefits (OPEB) as of March 1, 2012, 2014 and 2016. The actuarial valuations are to be completed and the final report(s) provided to the Commission no later than May 31, 2012, 2014 and 2016, respectively. The Commission's fiscal year end is May 31. This agreement will be for five (5) years and will give the Commission the option to request one additional actuarial valuation of postemployment benefits (OPEB) as of March 1, 2018 to be completed as of May 31, 2018. A work statement is provided in Part V.

In addition to the services discussed above, the selected firm may also be requested under the terms of this agreement to provide related actuarial services, calculations and guidance to the Commission. An example would be additional calculations based on various discount, benefit and contribution assumption scenarios. The Commission's aim is to select a qualified firm of accredited actuaries who demonstrate a strong record of experience in performing actuarial valuations for similar type entities.

**I-5. Type of Contract.** It is proposed that if a contract is entered into as a result of this RFP, it will be a fixed fee contract and paid upon completion and submittal of the deliverables described in Part V. The Commission may in its sole discretion undertake negotiations with Proposers whose proposals as to price and other factors show them to be qualified, responsible, and capable of performing the work.

**I-6. Rejection of Proposals.** The Commission reserves the right to reject any and all proposals received as a result of this request, or to negotiate separately with competing Proposers.

**I-7. Subcontracting.** Any use of subcontractors by a Proposer must be identified in the proposal. During the contract period use of any subcontractors by the selected Proposer, which were not previously identified in the proposal, must be approved in advance in writing by the Commission.

A firm that responds to this solicitation as a prime may not be included as a designated subcontractor to another firm that responds to the same solicitation. **Multiple responses under any of the foregoing situations may cause the rejection of all responses of the firm or firms involved.** This does not

preclude a firm from being set forth as a designated subcontractor to more than one prime contractor responding to the project advertisement.

**I-8. Incurring Costs.** The Commission is not liable for any costs the Proposer incurs in preparation and submission of its proposal, in participating in the RFP process or in anticipation of award of contract.

**I-9. Questions and Answers.** Written questions may be submitted to clarify any points in the RFP which may not have been clearly understood. Written questions should be submitted by email to [RFP-Q@paturndpike.com](mailto:RFP-Q@paturndpike.com) with RFP 11-10230-3375 in the Subject Line to be received no later than 12:00 PM local time on November 29, 2011. All questions and written answers will be posted to the website as an addendum to and become part of this RFP.

**I-10. Addenda to the RFP.** If it becomes necessary to revise any part of this RFP before the proposal response date, addenda will be posted to the Commission's website under the original RFP document. It is the responsibility of the Proposer to periodically check the website for any new information or addenda to the RFP.

The Commission may revise a published advertisement. If the Commission revises a published advertisement less than ten days before the RFP due date, the due date will be extended to maintain the minimum ten-day advertisement duration if the revision alters the project scope or selection criteria. Firms are responsible to monitor advertisements/addenda to ensure the submitted proposal complies with any changes in the published advertisement.

**I-11. Response.** To be considered, proposals must be delivered to the Pennsylvania Turnpike Commission's Contracts Administration Department, Attention: Wanda Metzger, on or before 12:00 PM local time on December 15, 2011. The Pennsylvania Turnpike Commission is located at 700 South Eisenhower Boulevard, Middletown, PA 17057 (Street address). Our mailing Address is P. O. Box 67676, Harrisburg, PA 17106.

**Please note that use of U.S. Mail, FedEx, UPS, or other delivery method, does not guarantee delivery to this address by the above-listed time for submission.** Proposers mailing proposals should allow sufficient delivery time to ensure timely receipt of their proposals. If the Commission office location to which proposals are to be delivered is closed on the proposal response date, due to inclement weather, natural disaster, or any other cause, the deadline for submission shall be automatically extended until the next Commission business day on which the office is open. Unless the Proposers are otherwise notified by the Commission, the time for submission of proposals shall remain the same.

**I-12. Proposals.** To be considered, Proposers should submit a complete response to this RFP, using the format provided in PART II. Each proposal should be submitted with **six (6)** hard copies and one **complete and exact** copy of the technical and cost proposal on CD-ROM in Microsoft Office or Microsoft Office-compatible format to the Contracts Administration Department. No other distribution of proposals will be made by the Proposer. Each proposal page should be numbered for ease of reference. Proposals must be signed by an official authorized to bind the Proposer to its provisions and include the Proposer's Federal Identification Number. For this RFP, the proposal must remain valid for at least 120 days, taking into consideration time required for evaluation of proposals and processing of the contract days. Moreover, the contents of the proposal of the selected Proposer will become contractual obligations if a contract is entered into.

Each and every Proposer submitting a proposal specifically waives any right to withdraw or modify it, except as hereinafter provided. Proposals may be withdrawn by written or telefax notice received at the Commission's address for proposal delivery prior to the exact hour and date specified for proposal receipt. However, if the Proposer chooses to attempt to provide such written notice by telefax transmission, the Commission shall not be responsible or liable for errors in telefax transmission. A proposal may also be withdrawn in person by a Proposer or its authorized representative, provided its identity is made known and it signs a receipt for the proposal, but only if the withdrawal is made prior to the exact hour and date set for proposal receipt. A proposal may only be modified by the submission of a new sealed proposal or submission of a sealed modification which complies with the requirements of this RFP.

**I-13. Economy of Preparation.** Proposals should be prepared simply and economically, providing a straightforward, concise description of the Proposer's ability to meet the requirements of the RFP.

**I-14. Discussions for Clarification.** Proposers who submit proposals may be required to make an oral or written clarification of their proposals to the Issuing Office to ensure thorough mutual understanding and Proposer responsiveness to the solicitation requirements. The Issuing Office will initiate requests for clarification.

**I-15. Best and Final Offers.** The Issuing Office reserves the right to conduct discussions with Proposers for the purpose of obtaining "best and final offers." To obtain best and final offers from Proposers, the Issuing Office may do one or more of the following: a) enter into pre-selection negotiations; b) schedule oral presentations; and c) request revised proposals. The Issuing Office will limit any discussions to responsible Proposers whose proposals the Issuing Office has determined to be reasonably susceptible of being selected for award.

**I-16. Prime Proposer Responsibilities.** The selected Proposer will be required to assume responsibility for all services offered in its proposal whether or not it produces them. Further, the Commission will consider the selected Proposer to be the sole point of contact with regard to contractual matters.

**I-17. Proposal Contents.** Proposals will be held in confidence and will not be revealed or discussed with competitors, unless disclosure is required to be made (i) under the provisions of any Commonwealth or United States statute or regulation; or (ii) by rule or order of any court of competent jurisdiction. All material submitted with the proposal becomes the property of the Pennsylvania Turnpike Commission and may be returned only at the Commission's option. Proposals submitted to the Commission may be reviewed and evaluated by any person other than competing Proposers at the discretion of the Commission. The Commission has the right to use any or all ideas presented in any proposal. Selection or rejection of the proposal does not affect this right.

In accordance with the Pennsylvania Right-to-Know Law (RTKL), 65 P.S. § 67.707 (Production of Certain Records), Proposers shall identify any and all portions of their Proposal that contains confidential proprietary information or is protected by a trade secret. Proposals shall include a written statement signed by a representative of the company/firm identifying the specific portion(s) of the Proposal that contains the trade secret or confidential proprietary information.

Proposers should note that “trade secrets” and “confidential proprietary information” are exempt from access under Section 708(b)(11) of the RTKL. Section 102 defines both “trade secrets” and “confidential proprietary information” as follows:

Confidential proprietary information: Commercial or financial information received by an agency: (1) which is privileged or confidential; **and** (2) the disclosure of which would cause substantial harm to the competitive position of the person that submitted the information.

Trade secret: Information, including a formula, drawing, pattern, compilation, including a customer list, program, device, method, technique or process that: (1) derives independent economic value, actual or potential, from not being generally known to and not being readily ascertainable by proper means by other persons who can obtain economic value from its disclosure or use; **and** (2) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. The term includes data processing software by an agency under a licensing agreement prohibiting disclosure.

65 P.S. §67.102 (emphasis added).

The Office of Open Records has determined that a third party must establish a trade secret based upon factors established by the appellate courts, which include the following:

- the extent to which the information is known outside of his business;
- the extent to which the information is known by employees and others in the business;
- the extent of measures taken to guard the secrecy of the information;
- the value of the information to his business and to competitors;
- the amount of effort or money expended in developing the information; and
- the ease of difficulty with which the information could be properly acquired or duplicated by others.

*See Crum v. Bridgestone/Firestone North Amer. Tire.*, 907 A.2d 578, 585 (Pa. Super. 2006).

The Office of Open Records also notes that with regard to “confidential proprietary information the standard is equally high and may only be established when the party asserting protection shows that the information at issue is either ‘commercial’ or ‘financial’ and is privileged or confidential, and the disclosure **would** cause substantial competitive harm.” (emphasis in original).

For more information regarding the RTKL, visit the Office of Open Records’ website at [www.openrecords.state.pa.us](http://www.openrecords.state.pa.us).

**I-18. Debriefing Conferences.** Proposers whose proposals are not selected will be notified of the name of the selected Proposer and given the opportunity to be debriefed, at the Proposer’s request. The Issuing Office will schedule the time and location of the debriefing. The Proposer will not be compared with other Proposers.

**I-19. News Releases.** News releases pertaining to this project will not be made without prior Commission approval, and then only in coordination with the Issuing Office.

**I-20. Commission Participation.** Unless specifically noted in this section, Proposers must provide all services to complete the identified work.

- A Commission representative will be available to assist in the scheduling (via Microsoft Outlook) of Commission personnel and conference rooms for meetings, if necessary.
- The Commission will provide the following to the actuary:
  - Plan provision summaries
  - Plan cost information (paid claims and premium rates)
  - Participant plan data
- It is the responsibility of the selected actuarial firm to plan and staff the engagement so it can provide the Commission with the final report according to the due date listed in Part V – Work Statement.

**I-21. Cost Submittal.** The cost submittal shall be placed in a separately sealed envelope within the sealed proposal and kept separate from the technical submittal. **Failure to meet this requirement may result in disqualification of the proposal.**

**I-22. Term of Contract.** The term of the contract will commence on the Effective Date (as defined below) and will be for five (5) years from that date with the option to request one additional actuarial valuation as of March 1, 2018. The Commission shall fix the Effective Date after the contract has been fully executed by the Contractor and by the Commission and all approvals required by Commission contracting procedures have been obtained.

**I-23. Proposer's Representations and Authorizations.** Each Proposer by submitting its proposal understands, represents, and acknowledges that:

- a. All information provided by, and representations made by, the Proposer in the proposal are material and important and will be relied upon by the Issuing Office in awarding the contract(s). Any misstatement, omission or misrepresentation shall be treated as fraudulent concealment from the Issuing Office of the true facts relating to the submission of this proposal. A misrepresentation shall be punishable under 18 Pa. C.S. 4904.
- b. The price(s) and amount of this proposal have been arrived at independently and without consultation, communication or agreement with any other Proposer or potential Proposer.
- c. Neither the price(s) nor the amount of the proposal, and neither the approximate price(s) nor the approximate amount of this proposal, have been disclosed to any other firm or person who is a Proposer or potential Proposer, and they will not be disclosed on or before the proposal submission deadline specified in the cover letter to this RFP.
- d. No attempt has been made or will be made to induce any firm or person to refrain from submitting a proposal on this contract, or to submit a proposal higher than this proposal, or to submit any intentionally high or noncompetitive proposal or other form of complementary proposal.
- e. The proposal is made in good faith and not pursuant to any agreement or discussion with, or inducement from, any firm or person to submit a complementary or other noncompetitive proposal.

- f. To the best knowledge of the person signing the proposal for the Proposer, the Proposer, its affiliates, subsidiaries, officers, directors, and employees are not currently under investigation by any governmental agency and have not in the last four (4) years been convicted or found liable for any act prohibited by State or Federal law in any jurisdiction, involving conspiracy or collusion with respect to bidding or proposing on any public contract, except as disclosed by the Proposer in its proposal.
- g. To the best of the knowledge of the person signing the proposal for the Proposer and except as otherwise disclosed by the Proposer in its proposal, the Proposer has no outstanding, delinquent obligations to the Commonwealth including, but not limited to, any state tax liability not being contested on appeal or other obligation of the Proposer that is owed to the Commonwealth.
- h. The Proposer is not currently under suspension or debarment by the Commonwealth, or any other state, or the federal government, and if the Proposer cannot certify, then it shall submit along with the proposal a written explanation of why such certification cannot be made.
- i. The Proposer has not, under separate contract with the Issuing Office, made any recommendations to the Issuing Office concerning the need for the services described in the proposal or the specifications for the services described in the proposal.
- j. Each Proposer, by submitting its proposal, authorizes all Commonwealth agencies to release to the Commission information related to liabilities to the Commonwealth including, but not limited to, taxes, unemployment compensation, and workers' compensation liabilities.



## PART II

### INFORMATION REQUIRED FROM PROPOSERS

Proposals must be submitted in the format, including heading descriptions, outlined below. To be considered, the proposal must respond to all requirements in this part of the RFP. Any other information thought to be relevant, but not applicable to the enumerated categories, should be provided as an appendix to the proposal. Each proposal shall consist of two (2) separately sealed submittals. The submittals are as follows: (i) Technical Submittal, in response to Part II-1 through II-7 hereof; (ii) Cost Submittal, in response to Part II-8 hereof.

The Commission reserves the right to request additional information which, in the Commission's opinion, is necessary to assure that the Proposer's competence, number of qualified employees, business organization, and financial resources are adequate to perform according to the RFP.

The Commission may make such investigations as deemed necessary to determine the ability of the Proposer to perform the work, and the Proposer shall furnish to the Issuing Office all such information and data for this purpose as requested by the Commission. The Commission reserves the right to reject any proposal if the evidence submitted by, or investigation of, such Proposer fails to satisfy the Commission that such Proposer is properly qualified to carry out the obligations of the agreement and to complete the work specified.

**II-1. Statement of the Problem.** State in succinct terms your understanding of the problem presented or the service required by this RFP.

**II-2. Management Summary.** Include a narrative description of the proposed effort and a list of the items to be delivered or services to be provided.

**II-3. Work Plan.** Describe in narrative form your technical plan for accomplishing the work. Use the task descriptions in Part V – Work Statement of this RFP as your reference point. Modifications of the task descriptions are permitted; however, reasons for changes should be fully explained. Indicate the number of personhours allocated to each task.

**II-4. Prior Experience.** Include a narrative description of actuarial experience and qualifications. Experience shown should be work done by individuals who will be assigned to this project as well as that of your company. Previous actuarial valuations referred to should be identified and the name of the customer shown, including the name, address, and telephone number of the responsible official of the customer, company, or agency who may be contacted. Indicate how many GASB 45 valuations your firm has performed over the past two years and how many GASB 45 clients you retain. Submit a sample GASB 45 valuation report.

**II-5. Personnel.** Include the number and names where practicable, of actuaries and other staff (e.g. in-charges, managers, senior managers, partners, project managers, analysts, auditors, researchers, programmers, consultants, etc.) who will be engaged in the work. Show where these personnel will be physically located during the time they are engaged in the work. Include through a resume or similar document indicating the level education and experience for each actuary who will be assigned to this engagement, the responsibilities each will have in this project and how long each has been with your

company. If you are unable to identify the personnel who will be assigned to this work, please provide a list of requirements (education and experience) needed to obtain each level (staff, in-charge, manager, etc.) in your organization. Identify subcontractors you intend to use and the services they will perform.

**II-6. DBE/MBE/WBE Participation.** The Turnpike Commission is committed to the inclusion of disadvantaged, minority, and woman firms in contracting opportunities. Responding firms shall clearly identify DBE/MBE/WBE firms, expected to participate in this contract, in their Proposal. Proposed DBE/MBE/WBE firms must be certified by the Pennsylvania Department of General Services ([www.dgs.state.pa.us](http://www.dgs.state.pa.us)) or the Pennsylvania Unified Certification Program ([www.paucp.com](http://www.paucp.com)) at the time of the submission of the proposal. While D/M/WBE participation is not a requirement for this RFP, inclusion of D/M/WBEs will be a factor in the evaluation determination. **If further information is desired concerning DBE/MBE/WBE participation,** direct inquiries to the Pennsylvania Turnpike Commission's Contract Administration Department by calling (717) 939-9551 Ext. 4241.

**II-7. Locations.** List your firm's total number of locations and employees and the number of locations and employees in Pennsylvania. Also, please list the business address(es) of the personnel who will be assigned to the engagement.

**II-8. Cost Submittal.** The information requested in this section shall constitute your cost submittal. **The Cost Submittal shall be placed in a separate sealed envelope within the sealed proposal, separate from the technical submittal.**

Proposers should **not** include any assumptions in their cost submittals. If the proposer includes assumptions in its cost submittal, the Issuing Office may reject the proposal. The cost submittal should list the proposed fixed fee for each of the biennial actuarial valuations. The cost submittal should include a detailed itemization (costs for each actuarial valuation for each year should be clearly listed) of the proposed fixed fee.

- a. Direct Labor Costs.** Itemize to show the following for each category of personnel with a different rate per hour:
  - (1) Category: e.g., partner, actuary, project manager, analyst, research associate.
  - (2) Estimated hours.
  - (3) Rate per hour. (if "loaded" rates are used, please provide breakdowns of these rates by indicating amount of overhead, profit, or any other factor that is included in rate).
  - (4) Total cost for each category and for all direct labor costs.
- b. Labor Overhead.** Specify what is included and rate used. If there is no labor overhead rate in your proposal, so state.
- c. Travel and Subsistence.** Itemize transportation, lodging and meals per diem costs separately. Travel and subsistence costs must not exceed current Conus rates and IRS approved mileage rates. If there are no travel and subsistence in your proposal, so state.

- d. **Subcontract Costs.** Itemize as in (a) above. If there are no subcontract costs in your proposal, so state.
- e. **Cost of Supplies and Materials.** Itemize. If there are no supplies and materials in your proposal, so state.
- f. **Other Direct Costs.** Itemize. If there are no other direct costs in your proposal, so state.
- g. **Total Cost.** Inclusive of items a. to f. The sum should equal the proposed fixed fee for each biennial valuation (2012, 2014, and 2016).

The Commission may require additional services to be performed during the term of this engagement. Please describe services that are out of scope, such as those additional services discussed in Section I-4 Problem Statement. Services determined to be out of scope will be compensated at the standard hourly rates set forth in Section II-8.a. above.

The cost submittal should describe your firm's standard progress billing policy procedures. The Pennsylvania Turnpike Commission will determine if your standard procedure is acceptable. The Commission and the selected Proposer will agree upon final contract terms.

**Any costs not provided in the cost proposal will be assumed as no charge to the Commission.**

**The selected Proposer shall only perform work on this contract after the Effective Date is affixed and the fully-executed contract sent to the selected Proposer. The Commission shall issue a written Notice to Proceed to the selected Proposer authorizing the work to begin on a date which is on or after the Effective Date. The selected Proposer shall not start the performance of any work prior to the date set forth in the Notice of Proceed and the Commission shall not be liable to pay the selected Proposer for any service or work performed or expenses incurred before the date set forth in the Notice to Proceed. No Commission employee has the authority to verbally direct the commencement of any work under this Contract.**

## PART III

### CRITERIA FOR SELECTION

**III-1. Mandatory Responsiveness Requirements.** To be eligible for selection, a proposal should be (a) timely received from a Proposer; (b) properly signed by the Proposer; and (c) formatted such that all cost data is kept separate from and not included in the Technical Submittal.

**III-2. Proposal Evaluation.** Proposals will be reviewed, evaluated, and rated by a Technical Evaluation Team of qualified personnel. The Technical Evaluation Team will present the evaluations to the Professional Services Procurement Committee (PSPC). The PSPC will recommend for selection those firms that most closely meet the requirements of the RFP and satisfy Commission needs. Award will only be made to a Proposer determined to be responsive and responsible in accordance with Commonwealth Management Directive 215.9, Contractor Responsibility Program.

**III-3. Evaluation Criteria.** The following criteria will be used, in order of relative importance from the highest to the lowest, in evaluating each proposal:

**a. Understanding the Problem.** This refers to the Proposer's understanding of the Commission needs that generated the RFP, of the Commission's objectives in asking for the services or undertaking the study, and of the nature and scope of the work involved.

**b. Proposer Qualifications.** This refers to the ability of the Proposer to meet the terms of the RFP, especially the time constraint and the quality, relevancy, and recency of valuations and projects completed by the Proposer. This also includes the Proposer's financial ability to undertake a project of this size.

**c. Personnel Qualifications.** This refers to the competence of professional personnel who would be assigned to the job by the Proposer. Qualifications of professional personnel will be measured by experience and education, with particular reference to experience on valuations/services similar to that described in the RFP. Particular emphasis is placed on the qualifications of the project manager/lead actuary.

**d. Soundness of Approach.** Emphasis here is on the techniques for collecting and analyzing data, sequence and relationships of major steps, and methods for managing the service/project. Of equal importance is whether the technical approach is completely responsive to all written specifications and requirements contained in the RFP and if it appears to meet Commission objectives.

**e. Cost.** While this area may be weighted heavily, it will not normally be the deciding factor in the selection process. The Commission reserves the right to select a proposal based upon all the factors listed above, and will not necessarily choose the firm offering the best price. The Commission will select the firm with the proposal that best meets its needs, at the sole discretion of the Commission.

**f. DBE/MBE/WBE Participation.** This refers to the inclusion of D/M/WBE firms, as described in Part II-6, and the extent to which they are expected to participate in this contract. Participation will be measured in terms of total dollars committed or percentage of total contract amount to certified D/M/WBE firms.

**PART IV  
BACKGROUND INFORMATION**

**Pennsylvania Turnpike Commission Retiree Medical Trust:**

The Commission maintains a welfare plan program (the Plan), one purpose of which is to provide benefits to eligible retirees and their dependents. The Plan is a single employer, defined benefit plan. The Plan's financial statements are not included in the financial statements of a public employee retirement system. The Plan issues a stand-alone financial report, which can be obtained by contacting the Commission's Accounting Department.

Plan benefit provisions and employee contribution rates are established and may be amended by the Commission. The Plan provides certain postemployment medical, prescription drug, dental and vision benefits to management employees who have reached 20 years of service and are under age 60; benefit eligibility changes from 20 to 10 years for retirees 60 years of age or older. The Plan provides certain postemployment medical and prescription drug benefits to union employees who have reached 20 years of service and are under age 60; benefit eligibility changes from 20 to 10 years for retirees 60 years of age or older.

The Commission established The Pennsylvania Turnpike Commission Retiree Medical Trust to provide these postemployment benefits other than pensions (OPEB). The Trust is administered by the Trustees. PNC Bank serves as custodian of the assets of the Trust. Payments from the Trust are made by the custodian at the direction of the Trustees.

Membership consists of the following as of March 1, 2010, the date of the last actuarial valuation:

Retirees and beneficiaries receiving benefits	957
Fully eligible active plan participants	576
Other active plan participants	1,049
Total participant count	2,582

The Commission approved a Retiree Medical Trust Funding Policy whereby the Commission anticipates approving an annual contribution to the Trust in the amount of the Annual Required Contribution (ARC) as determined by the Commission's actuary during the approval of each Operating Budget.

## PART V

### WORK STATEMENT

#### V-1. Objectives.

It is the intent of the Commission to procure the services of a qualified firm of accredited actuaries to provide the available resources to effectively analyze and complete an actuarial valuation of the Commission's other postemployment benefits as of March 1, 2012, 2014 and 2016. The Commission is required to comply with GASB Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* which requires biennial actuarial valuations.

#### V-2. Nature and Scope of the Project.

The selected firm will complete actuarial valuations of the Commission's postemployment benefits other than pensions (OPEB) as of March 1, 2012, 2014 and 2016.

Services for each biennial valuation shall include, but not limited to:

- Calculation of the GASB 45 actuarial liability. The calculation of the actuarial liability will include the actuarial accrued liability (AAL) and the unfunded actuarial accrued liability (UAAL).
- A 12-year projection of the annual required contributions (ARC), based on the respective March 1<sup>st</sup> measurement date.
  - The year one and year two ARCs will be broken down by component (e.g. normal cost, amortization of UAAL, mid-year interest cost, etc.).
- The above calculations will be completed using three different contributions towards the ARC, discount rate and rate of return scenarios. The Commission will provide specifics about the scenarios but following is a general description.
  - One scenario will assume the Commission is making zero contributions towards the ARC.
  - One scenario will assume the Commission is fully funding the ARC.
  - The final scenario will assume the Commission is partially funding the ARC.
- The above calculations / amounts will be summarized in a final report. In addition to the above, the final report will include:
  - A schedule showing how the amortization of the UAAL was calculated.

- A listing or narrative description of:
  - economic assumptions – discount rate, rate of return of assets, health care trend rates, etc.,
  - demographic assumptions – mortality, retirement, turnover, disability, retiree participation, spouse coverage, spouse age difference, etc.,
  - measurement date (March 1<sup>st</sup>),
  - actuarial cost method,
  - health care per capita cost method,
  - summary of plan provisions and eligibility,
  - plan participants – active, retirees, surviving spouses, etc.
- In addition to the final report, the Commission requires an Excel file listing expected benefit payments by year that was used in the actuarial liability calculations.

For added clarification of the above information and the minimum requirements, see Attachment “A”, GASB 45 Actuarial Valuation as of March 1, 2010. **Please note, for the March 1, 2010 valuation, we required just two funding and discount rate scenarios. As noted above, the minimum requirement for the March 1, 2012, 2014 and 2016 valuations is three scenarios.**

**V-3. Time Requirements.** The final reports and files of expected benefit payments will be due on or before May 31<sup>st</sup> of the respective valuation year.

**V-4. Reports.** Twelve (12) copies of the final reports should be provided along with an electronic file copy.



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Mr Tony Maun  
 Director of Accounting & Payroll  
 Pennsylvania Turnpike Commission  
 P.O. Box 67676  
 Harrisburg PA 17106

30 July 2010

## **GASB 45 Actuarial Valuation as of March 1, 2010**

Dear Tony

This report provides the non-pension (i.e., other) postemployment benefit (OPEB) obligation as of March 1, 2010 for the Pennsylvania Turnpike Commission's (PTC's) retiree health care benefit plans in addition to the annual required contribution (ARC) to the plan.

The measurement of the obligations was prepared in accordance with Governmental Accounting Standards Board Statement 45 (GASB 45), Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. Further, all results provided within this report assume that the PTC adopted GASB 45 in its fiscal year ended May 31, 2008 (fiscal year 2008) and will use the "Year 1" results from this report for the fiscal year ending May 31, 2011.

Exhibit I provides the total OPEB obligation, i.e., the unfunded actuarial accrued liability (UAAL) at March 1, 2010, in addition to the Year 1 and Year 2 OPEB costs (i.e., the ARC). The ARC includes the normal cost for the year, a component for the level dollar amortization of the total UAAL, and a mid-year contribution interest component.

Exhibit II breaks down the level dollar amortization of the Year 1 UAAL component between the initial UAAL amortization and the cumulative gain/loss amortization amounts. Exhibit III provides a 12 year projection of the UAAL and ARC, recognizing that the PTC has assets of \$66,436,000 set aside in a Plan Trust as of May 31, 2010, and makes mid-year contributions each fiscal year thereafter.

As requested, Exhibits I, II, and III provide two obligation scenarios using different discount rate assumptions; an "internal" rate of return of 4.5% and an "external Trust" rate of return of 8.0. The March 1, 2010 results under the two scenarios are as follows:

	<u>4.5%</u>	<u>8.0%</u>
Unfunded Actuarial Accrued Liability (UAAL)	\$404,115,000	\$196,962,000
Annual Required Contribution (ARC)	\$48,489,000	\$26,703,000



For comparison purposes, the fiscal year 2010 actual pay-as-you-go annual expense (i.e., gross premiums minus retiree contributions) was \$7,483,000

The above results are based on plan provision summaries, plan cost information (i.e., paid claims and premium rates), and plan participant data in effect at or as of March 1, 2010, as communicated by the PTC. The actuarial assumptions and methods, summary of plan provisions, and plan participant information, which in total, formed the basis of these results, are provided in Exhibits IV, V, and VI, respectively.

Consistent with the GASB Technical bulletin, our determination of the UAAL and the ARC does not reflect the impact of any Federal retiree drug subsidies that are obtained by PTC as a result of providing prescription drug benefits to Medicare eligible retiree and spouse plan participants.

The actuarial assumptions, as selected by PTC, are in the aggregate, considered to be reasonable expectations of anticipated plan experience and meet the parameters for disclosure under GASB 45. To the best of our knowledge, the results are complete and accurate and have been prepared in accordance with generally accepted actuarial principles and practice.

Please call me at (212) 773-3482 if you have any questions.

Yours sincerely



Paul B. Wroblewski, ASA, MAAA  
Senior Manager

Attachments

Copy to: Phil Hur – Ernst & Young LLP



**Pennsylvania Turnpike Commission**  
**GASB 45 Obligations as of March 1, 2010**  
**Obligations and ARC Requirements**

**Exhibit I**

	<u>4.5%</u>	<u>8.0%</u>
1. Actuarial Accrued Liability:		
a. Active employees	\$331,873,000	\$167,842,000
b. Retirees	<u>\$138,678,000</u>	<u>\$95,556,000</u>
c. Total	\$470,551,000	\$263,398,000
2. Market Value of Assets at 5-31-10	\$66,436,000	\$66,436,000
3. Unfunded Actuarial Accrued Liability (UAAL), [(1c) – (2)]	<b>\$404,115,000</b>	<b>\$196,962,000</b>
<b>Year 1 ARC</b>		
4. Normal Cost	\$15,038,000	\$6,931,000
5. Level Dollar Amortization of the UAAL	\$32,384,000	\$18,745,000
6. Mid-Year Interest Cost	\$1,067,000	\$1,027,000
7. Annual Required Contribution (ARC) for Fiscal Year 2009, [(4) + (5) + (6)]	<b>\$48,489,000</b>	<b>\$26,703,000</b>
<b>Year 2 ARC</b>		
8. Normal Cost	\$15,631,000	\$7,356,000
9. Level Dollar Amortization of the UAAL	\$39,895,000	\$20,377,000
10. Mid-Year Interest Cost	\$1,236,000	\$1,088,000
11. Annual Required Contribution (ARC) for Fiscal Year 2009, [(4) + (5) + (6)]	<b>\$56,762,000</b>	<b>\$28,821,000</b>



Pennsylvania Turnpike Commission  
GASB 45 Obligations as of March 1, 2010  
Level Dollar Amortization of the UAAL – Year 1

Exhibit II

	<u>4.5%</u>	<u>8.0%</u>
1. Initial UAAL Amortization:		
a. Initial UAAL at 2-28-06	\$306,971,000	\$167,785,000
b. Amortization period	30 years	30 years
c. Amortization factor	17.02	12.16
d. Amortization amount, [(a) ÷ (c)]	<b>\$18,034,000</b>	<b>\$13,800,000</b>
2. Cumulative (Gain)/Loss Amortization:		
a. AAL at 3-1-10	\$470,551,000	\$263,398,000
b. Market value of assets at 5-31-10	\$66,436,000	\$66,436,000
c. UAAL, [(a) – (b)]	\$404,115,000	\$196,962,000
d. Outstanding initial UAAL	\$285,444,000	\$161,111,000
e. Cumulative (gain)/loss, [(c) – (d)]	\$118,671,000	\$35,851,000
f. Amortization period	10 years	10 years
g. Amortization factor	8.27	7.25
h. Amortization amount, [(e) ÷ (g)]	<b>\$14,350,000</b>	<b>\$4,945,000</b>
3. Level Dollar Amortization of the UAAL:		
a. Initial UAAL amortization amount	\$18,034,000	\$13,800,000
b. Cumulative (gain)/loss amortization	<u>\$14,350,000</u>	<u>4,945,000</u>
c. Total amortization, [(a) – (b)]	<b>\$32,384,000</b>	<b>\$18,745,000</b>

Pennsylvania Turnpike Commission  
GASB 45 Obligations as of March 1, 2010  
ARC Requirements – 12 Year Projections

Year	Fiscal Year	4.5%	8.0%
1	2011	\$48,489,000	\$26,703,000
2	2012	\$56,762,000	\$28,821,000
3	2013	\$65,283,000	\$30,527,000
4	2014	\$74,207,000	\$31,931,000
5	2015	\$84,871,000	\$33,785,000
6	2016	\$97,491,000	\$36,146,000
7	2017	\$111,637,000	\$38,594,000
8	2018	\$127,640,000	\$41,318,000
9	2019	\$145,943,000	\$44,447,000
10	2020	\$166,519,000	\$47,814,000
11	2021	\$175,032,000	\$46,189,000
12	2022	\$192,598,000	\$49,152,000

**Notes:**

- 1) The May 31, 2010 market value of assets of \$66,436,000 was used as the starting point for the projections, discounted 3 months backwards using the respective discount rate assumptions to a March 1, 2010 measurement date.
- 2) For the 4.5% scenario, assets were assumed to remain unused for benefit payments, with no further contributions made. A 4.5% annual return assumption was then used.
- 3) For the 8.0% scenario, it was assumed that PTC would continue to i) fund the full ARC each year; and ii) make benefit payments directly from the Trust. An 8.0% annual return assumption was then used.
- 4) From Year 3 and on, annual gains/losses were separately amortized using a 10-year amortization period.

**Economic Assumptions**

	<u>Internal</u>	<u>External Trust</u>		
<b>Discount rate</b>	4.5% per annum	8.0% per annum		
<b>Rate of return on assets</b>	4.5% per annum	8.0% per annum		
<b>Health care trend<sup>1</sup>:</b>	<u>Medical</u>	<u>Presc. Drugs</u>	<u>Dental</u>	<u>Vision</u>
<b>Initial rate</b>	10.0%	12.0%	5.0%	4.0%
<b>Ultimate rate</b>	5.0% in 2020	5.0% in 2024	5.0%	4.0%
<b>Annual change</b>	0.5% decrease	0.5% decrease	N/A	N/A
<b>Cost basis</b>	incurred costs	incurred costs	incurred costs	incurred costs
<b>Salary increases</b>	N/A – benefits are not based upon pay.			

**Demographic Assumptions**

<b>Mortality</b>	RP 2000 Mortality table projected to 2010.
<b>Retirement</b>	Rates reflect the percentage of <i>eligible</i> active employees retiring during the year and vary by age as follows <sup>2</sup> :

<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>
50	2.5%	63	20.0%
51 - 52	1.0%	64	17.5%
53	1.5%	65	50.0%
54	2.0%	66	30.0%
55	1.5%	67	22.5%
56 - 58	2.0%	68	25.0%
59	3.0%	69	40.0%
60 - 61	15.0%	70	100.0%
62	37.5%		

Based on this table, the expected average age at retirement is 61.7.

<sup>1</sup> Trend rates do not apply to the flat PTC subsidies for the post-age 65 medical coverage.

<sup>2</sup> Retirement rates assume that no eligible active employees retire before age 50.

Demographic Assumptions  
(continued)

**Turnover** Crocker Sarason T-3 table. Sample rates are as follows:

<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>
20	6.6%	40	3.8%
25	5.3%	45	3.2%
30	4.8%	50	1.5%
35	4.5%	55	0.3%

Turnover rates cease at first eligibility for postemployment benefits.

**Disability** Not valued due to a very low incidence level.

**Retiree participation** 100% of all future eligible retirees will elect to be covered under the health care benefit plans.

**Spouse coverage** Current retirees are valued based on actual spouse enrollment. Future eligible male retirees who elect to participate under the health care benefit plans are 80% likely to cover a spouse at retirement. Future eligible female retirees who elect to participate under the health care benefit plans are 50% likely to cover a spouse at retirement.

**Post-age 65 medical plan elections<sup>1</sup>** 100% of future retirees will elect the Highmark Blue Shield supplement plan.

**Spouse age difference** Current retiree spouses are valued based on actual dates of birth. For future eligible retirees, females are assumed to be three years younger than their male spouses.

<sup>1</sup> Post-age 65 retirees also have the choice of an Aetna HMO plan or a Freedom Blue PPO plan, but the majority i.e., more than 90% of plan participants elect the HBS supplement plan.

**Measurement Date - Accounting Method**

March 1, 2010

**Actuarial Cost Method**

The actuarial cost method used in the valuation is the projected unit credit (PUC) method. Under the PUC method, the projected benefit for each individual is treated as if it is earned ratably over that individual's period of employment prior to becoming eligible to retire with the maximum possible benefit earned, i.e., from date of hire to the date of full eligibility.

**Health Care Per Capita Cost Method**

**Morbidity**

Annual medical/prescription drug (Rx) per capita costs are assumed to increase with age as follows:

<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>
<40	0.0%	55-59	3.4%	75-79	1.8%
40-44	2.5%	60-64	3.7%	80-84	1.3%
45-49	2.6%	65-69	3.2%	85+	0.0%
50-54	3.2%	70-74	2.4%		

**Base-period per capita annual costs:**

**Medical:**

**Pre-age 65**

Separate costs were developed for the pre-7/1/98 Management/pre-10/1/97 Union and the post-7/1/98 Management/post-10/1/97 Union retirees using the appropriate 2008 Highmark Blue Shield retiree single premium rates and the above morbidity scale. Note that for the former group, Rx is covered under Major Medical.

**Post-age 65**

Flat PTC annual per person subsidy rates of \$231 and \$882 were used for the pre-7/1/98 Management/pre-10/1/97 Union and post-10/1/97 Union retirees, respectively. For the post-7/1/98 Management retirees, the appropriate 2010 Highmark Blue Shield retiree single premium rate and the above morbidity scale was used.

**Health Care Per Capita Costs Method**  
**(continued)**

**Prescription drugs:**  
**Pre-age 65**

For the pre-7/1/98 Management/pre-10/1/97 Union retirees, Rx is covered under Major Medical. For the post-7/1/98 Management/post-10/1/97 Union retirees, the appropriate 2010 Aetna retiree single premium rates and the above morbidity scale were used.

**Post-age 65**

For the pre-7/1/98 Management/pre-10/1/97 Union retirees, there is no separate Rx coverage. For the post-7/1/98 Management/post-10/1/97 Union retirees, the appropriate 2010 Aetna retiree single premium rate and the above morbidity scale was used.

**Dental & Vision**

Based on the appropriate retiree single premium rates.

Sample age-specific base-period per capita costs (i.e., per participant costs for 3/1/10 to 2/28/11) are as follows:

<u>Age</u>	Pre-7/1/98 Mgmt & Pre-10/1/97 Union	Post-7/1/98 Mgmt	Post-7/1/98 Mgmt
	<u>Medical/Rx</u>	<u>Medical</u>	<u>Rx</u>
55	\$4,837	\$5,451	\$1,503
60	\$5,734	\$6,442	\$1,781
64	\$6,631	\$7,450	\$2,060
65	\$ 231	\$1,873	\$2,126
70	\$ 231	\$2,175	\$2,489
75	\$ 231	\$2,448	\$2,802

<u>Age</u>	Post-10/1/97 Union	Post-10/1/97 Union	Post-7/1/98 Mgmt	Post-7/1/98 Mgmt
	<u>Medical</u>	<u>Rx</u>	<u>Dental</u>	<u>Vision</u>
55	\$5,451	\$1,503	\$505	\$113
60	\$6,442	\$1,781	\$505	\$113
64	\$7,450	\$2,060	\$505	\$113
65	\$ 882	\$2,126	\$505	\$113
70	\$ 882	\$2,489	\$505	\$113
75	\$ 882	\$2,802	\$505	\$113

**Medicare**

The non-flat post-age 65 medical per capita costs reflect that Medicare is the primary payer. Additionally, no retiree drug subsidies are reflected in the per capita cost.

**Expenses**

Administrative expenses are included in the per capita costs.



**Eligibility**

<b>Retiree coverage</b>	Age 60 with at least 10 years of service, or any age with at least 20 years of service.
<b>Spouse coverage</b>	The same coverage is provided to spouses of eligible retirees until the death of the retiree. Surviving spouses are required to contribute the full cost of coverage except for surviving spouses of Management employees who retired after March 1, 2001.

**Pre-7/1/98 Management & Pre-10/1/97 Union**

<b>Medical &amp; Rx benefit:</b>	
<b>Pre-age 65</b>	Highmark Blue Shield (HBS) Indemnity with Rx covered under Major Medical.
<b>Post-age 65</b>	Choice between HBS Supplement (no Rx), Aetna HMO (with Rx), or Freedom Blue PPO (with Rx)
<b>Medical &amp; Rx contrib.:</b>	
<b>Pre-age 65</b>	None.
<b>Post-age 65</b>	The retiree/spouse contributes the full cost of coverage less the PTC monthly subsidy of \$19.28 per person.
<b>Dental &amp; Vision</b>	No coverage.

**Post-7/1/98 Management**

<b>Medical &amp; Rx benefit:</b>	
<b>Pre-age 65 medical</b>	HBS PPO
<b>Post-age 65 medical</b>	Choice between HBS Supplement, Aetna HMO, or Freedom Blue PPO
<b>Prescription drugs</b>	Aetna
<b>Medical &amp; Rx contrib.:</b>	
<b>Pre-age 65</b>	None.
<b>Post-age 65</b>	None.
<b>Dental &amp; Vision</b>	United Concordia Dental and Highmark Vision plans are provided with no retiree contribution requirements.



**Pennsylvania Turnpike Commission**  
**GASB 45 Obligations as of March 1, 2010**  
**Summary of Plan Provisions**

**Exhibit V**  
**(continued)**

**Post-10/1/97 Union**

**Medical & Rx benefit:**

<b>Pre-age 65 medical</b>	HBS PPO
<b>Post-age 65 medical</b>	Choice between HBS Supplement, Aetna HMO, or Freedom Blue PPO
<b>Prescription drugs</b>	Aetna

**Medical & Rx contrib.:**

<b>Pre-age 65</b>	None.
<b>Post-age 65</b>	The retiree/spouse contributes the full cost of medical coverage less the PTC monthly subsidy of \$73.50 per person. There are no contribution requirements for the separate Aetna Rx coverage.

**Dental & Vision**

No coverage.

**Other Postemployment Benefits**

**Medicare Parts A & B**

Premiums are paid by the retiree.

**Medicare Part D**

If elected and applicable, premiums are paid by the retiree.

**Life insurance**

None.



**Pennsylvania Turnpike Commission  
GASB 45 Obligations as of March 1, 2010  
Plan Participant Information**

**Exhibit VI**

**Active Plan Participants at March 1, 2010**

	<b><u>Pre-7/1/98 Mgmt &amp; Pre-10/1/97 Union</u></b>	<b><u>Post-7/1/98 Mgmt</u></b>	<b><u>Post-10/1/97 Union</u></b>
Fully eligible active plan participants	N/A	166	576
Other active plan participants	<u>N/A</u>	<u>243</u>	<u>1,049</u>
Total	N/A	409	1,625
Average age	N/A	50.3 years	49.6 years
Average past service	N/A	16.1 years	15.7 years
Average expected future service:			
To full eligibility	N/A	4.5 years	4.6 years
To retirement	N/A	12.4 years	12.6 years

**Retiree Plan Participants at March 1, 2010**

Retirees	208	140	553
Retiree spouses	109	106	363
Surviving spouses <sup>1</sup>	<u>93</u>	<u>6</u>	<u>41</u>
Total	410	252	957
Pre-age 65	15	152	485
Post-age 65	<u>395</u>	<u>100</u>	<u>472</u>
Total	410	252	957
Average age	79.7 years	63.8 years	64.8 years

<sup>1</sup> Surviving spouses are paying 100% of the premium, except for surviving spouses of Management employees who retired after March 1, 2001

# **Addendum No. 1**

RFP # 11-10230-3375

## **Actuarial Valuation Services for Other Postemployment Benefits (OPEB)**

**Prospective Respondents: You are hereby notified of the following information in regard to the referenced RFP:**

Following are the answers to questions submitted in response to the above referenced RFP as of November 29, 2011. All of the questions have been listed verbatim, as received by the Pennsylvania Turnpike Commission.

1. Is the incumbent firm invited to re-bid?

**Answer: Yes**

2. Why did the fund issue the RFP now?

**Answer: The tasks on the previous agreement are complete and the term of the agreement has expired.**

3. Why is the work being put out for bid?

**Answer: See number 2.**

4. If you are able to say, what were the fees paid for the March 1, 2010 valuation?

**Answer: The Commission will not provide that information.**

5. Are the demographic assumptions based on an experience analysis of the PTC? If so, when was the most recent analysis performed?

**Answer: Demographic assumptions used in the March 1, 2010 valuation were based on Pennsylvania Turnpike Commission records and experience as of March 1, 2010, unless otherwise noted.**

6. Is there any self-funded portion of the Plan, or is it entirely insured?

**Answer: The majority of the Plan is self-funded. Additionally, there are two plans that are offered as an option to retirees, age 65 or older, that are fully insured.**

7. Does the Commission have a preferred method/format for member data submission? Please describe.

**Answer: Plan participant data is provided in Excel spreadsheets. Plan letters, plan summaries and plan cost information are provided in Word documents and/or pdf documents.**

All other terms, conditions and requirements of the original RFP dated November 17, 2011 remain unchanged unless modified by this Addendum.