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STATE PROCUREMENT OFFICE  
NOTICE OF AND REQUEST FOR EXEMPTION  
FROM CHAPTER 103D, HRS

- 1. TO: Chief Procurement Officer
- 2. FROM: Budget & Finance, Employees' Retirement System

Department/Division/Agency

Pursuant to §103D-102(b)(4), HRS, and Chapter 3-120, HAR, the Department requests a procurement exemption to purchase the following:

3. Description of goods, services or construction: see attached	
4. Name of Vendor: KMH LLP Address: 1003 Bishop Street, Suite 2400, Honolulu, HI 96813	5. Price: \$ 140,000.00
6. Term of Contract: From: September 15, 2010 To: January 1, 2011	7. Prior Exemption Ref. No. not applicable
8. Explanation describing how procurement by competitive means is either not practicable or not advantageous to the State: see attached	
9. Details of the process or procedures to be followed in selecting the vendor to ensure maximum fair and open competition as practicable: Competition is not practicable at the time as the proposed vendor is capable of providing the services needed in the time frame necessary because of its familiarity with the current program.	
10. A description of the agency's internal controls and approval requirements for the exempted procurement: A contract for services will be conducted under the supervision of Wesley K. Machida, Administrator of the Employees' Retirement System and is subject to final approval by the Board of Trustees of ERS.	

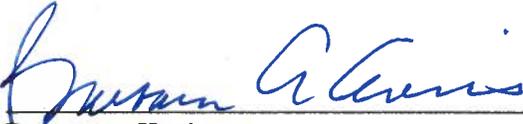
**REQUEST FOR EXEMPTION FROM CHAPTER 103D, HRS (Cont.)**

12. A list of agency personnel, by position, who will be involved in the approval process and administration of the contract:		
Name	Position	Involvement in Process
Wesley K. Machida	Administrator	<input checked="" type="checkbox"/> Approval <input checked="" type="checkbox"/> Administration
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13. Direct inquiries to:	Department: Employees' Retirement System Contact Name: Wesley K. Machida Phone Number: (808) 587-5380 Fax Number: (808) 586-1677
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Agency shall ensure adherence to applicable administrative and statutory requirements

14. *I certify that the information provided above is, to the best of my knowledge, true and correct.*

for   
 Department Head

9/3/10  
 Date

Reserved for SPO Use Only	
	15. Date Notice Posted <u>9/10/2010</u>
The Chief Procurement Officer is in the process of reviewing this request for exemption from Chapter 103D, HRS. Submit written objections to this notice to issue an exemption from Chapter 103D, HRS, within seven calendar days or as otherwise allowed from the above posted date to: <p align="center">                     Chief Procurement Officer                      State Procurement Office                      P.O. Box 119                      Honolulu, Hawaii 96810-0119                 </p>	
Chief Procurement Officer's comments: <p>This request is disapproved as it lacks justification for an exemption. Agency may use §103D-304, HRS, Procurement of Professional Services to expedite their needs, while affording other potential vendors the opportunity to complete.</p> <p>It is noted that the department personnel, Mr. Wesley Machida and Ms. Gerri Konishi who are responsible for this procurement request do not have written delegated procurement authority. Please be advised that Mr. Machida and Ms. Konishi shall not participate in any procurement activities until they have received both written delegated procurement authority and have completed the appropriate mandatory procurement training requirements pursuant to Procurement Delegation No. 2008-01 and Procurement Circular No. 2008-05.</p>	

16.  APPROVED  DISAPPROVED  NO ACTION REQUIRED

  
 Chief Procurement Officer      Date 10/5/2010

Vendor: KMH LLP

Attachment to Notice of and Request for Exemption from Chapter 103D, HRS

3. Description of goods, services or construction:

To conduct diagnostic process review of the entire retirant pension benefit payment process from the initial application to computation of final benefit payment calculation. The diagnostic will include documentation of the ERS retirement application processes and information flows. The processes will be "mapped" to cover the entire member life cycle from pension retirant application to final payment. The process maps will include the "as is" and the desired "to be" state. The process maps will highlight key control points, process flow and most importantly, inefficiencies in the key processes.

Vendor will gather the information for the documentation from interviews with ERS personnel, observation and analysis of current processes and document reviews.

Vendor will document the diagnostic review with process maps, process narratives, and such other documentation necessary to provide a thorough and complete understanding of the pension benefit payment process.

8. Explanation describing how procurement by competitive means is either not practicable or not advantageous to the State:

Procurement by competitive means would not be advantageous to the State because, in order for the services to be performed expeditiously and in a cost effective manner, it is vital that the vendor be familiar with the ERS retirement application and benefit finalization process.

KMH LLP is one of two contractors which are currently under contract with the ERS to finalize pension benefits for ERS retirants. KMH LLP therefore has the requisite familiarity with the ERS retirement application and benefit finalization process. KMH LLP's fees are considerably lower than the other existing contractor. The other contractor has also undergone a change in management structure and staffing reductions, and indicated they would not be able to take on this type of service at this time. In addition, the other contractor has not recently performed this type of service for another State government agency. The ERS therefore believes that KMH LLP is better positioned to immediately undertake additional responsibilities as it has performed similar services (i.e., review of, and recommendations for streamlining, personnel recordkeeping) for another State entity.

When an ERS member retires, the retirant receives an estimated benefit until the retirant's benefits are "finalized" – i.e., the actual benefit is determined. If the estimated benefit is less than the actual or finalized benefit, the retirant is paid interest on the under payment at the rate of 4 1/2% per annum, commencing six months from the retirant's retirement date. At the present time, most finalizations take more than six months.

At this time there are over 3,000 benefit files to be finalized. There were 317 retirements on June 1, 2009, whereas in recent years there has been an average of 60 retirements in June. Each year an estimate of approx. 1,600-1,800 members retire from the State and counties.

As the State and county labor force ages, a continued increase in the number of retirements can be expected.

Finalization (i.e., calculation) of a retiree's benefits is presently a complicated and time consuming process to perform accurately. There are more than 100 different personnel actions that occur throughout a member's employment history including salary increase, leaves of absences, promotions, retirement plan changes, transfers, change in full time equivalency status, return to work after a previous separation from service and others. In order to determine final pension benefits, the ERS may have to obtain correction or clarification of inaccurate information that is provided to the ERS. The ERS may also have to wait for information from the employers or a decision on an issue requiring interpretation of the law, rules, policies, or procedures before final pension benefit payment can be determined. Continuing implementation surrounding ERS' new information technology systems has also caused various undocumented changes to existing procedures.

There is an urgency to start this process as further delays will result in an increased backlog of retirement estimates requests to be computed and processed. This will create an economic hardship for those who are depending only on this retirement income to live on. There are still 2,500 out of approximately 30,000 retirees on estimated pension benefit payments. Some have been waiting up to 2 years to be finalized.

In addition because of the economic conditions, pension funds (public and private) globally are looking into benefit changes. The ERS is also taking a hard look into making statutory changes in the 2011 legislative session. As such this will have a dramatic impact on the ERS as all members eligible to retire will secure their benefits by taking early retirement whether they are ready to retire or not.

In order to eliminate the backlog and to prevent future delays in processing retirement benefits, the ERS Board of Trustees has directed staff to engage a consultant to review the final process and to make recommendations to make the final processing more efficient and to improve it to meet best practices. The recommendations may include statutory as well as procedural changes.

Procurement by competitive means will only cause an unnecessary delay and will not result in either a better qualified vendor or a lower contract price. Any other vendor would have to take the time to become thoroughly familiar with the ERS finalization process. This additional time would also add to the contract cost.

9. Details of the process or procedures to be followed in selecting the vendor to ensure maximum fair and open competition as practicable:

Time is of the essence in this matter so that any recommended statutory changes can be proposed in the 2011 legislative session.