



Employee Benefits, Actuarial & Investment Consulting

Summer 2019

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Cape Coral, FL 33915

Re: Time for an actuarial audit

Dear Finance Officer,

You should consider an actuarial audit as part of the administration of your retirement plan. Plan administrators and trustees of retiree benefit plans rely on the expertise of actuaries. The funding and accounting requirements for pension plans and other postemployment benefit (OPEB) plans are determined by applying actuarial assumptions and methods to value the plan provisions as they apply to participants. Decision about benefit levels and other budget choices depend on the reliability of actuarial calculations. Additionally, the results of actuarial calculations are used to measure risks and influence investment policy. A recent Fitch study questioned the effectiveness of increasing equity and alternative investment exposure stating that the additional investment risk is not being rewarded.

Often financial statement audits and plan audits rely on the actuary as an expert and focus on the participant data and asset information. A periodic actuarial audit is mandated in some situations. When not required, going through the process will serve as due diligence related to plan administration. An actuarial audit provides a more robust look at the details behind the numbers. The results will assist in monitoring the services being received whether they confirm results of an incumbent actuary or identify weakness.

The Government Finance Officers Association (GFOA) defines three levels of audit. For all three levels the actuarial assumptions and methods are reviewed for reasonableness and internal consistency. The differences are:

- Level 1 – a full scope audit where the reviewing actuary replicates the results of the plan actuary
- Level 2 – the reviewing actuary tests samples of the calculations done by the plan actuary
- Level 3 – the reviewing actuary does not perform actuarial calculations

Key tasks of a level 3 audit, which often are completed for fees ranging from \$5,000 to \$7,500 include:

- Initial meeting to establish our contacts for communication, gather reports, studies and other actuarial information that we will be auditing and to confirm expectations and timing for the project
- Review of plan documents, relevant law, summary plan descriptions and recent actuarial communications
- Communication with the plan actuary (if they are not included in the initial meeting) to confirm our understanding of reports they provided and to ask questions based on our initial review of the materials

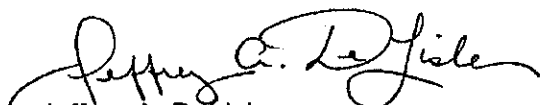
- Evaluation of whether the methods and assumptions used in determining the plan liability are in accordance with applicable Actuarial Standards of Practice issued by the Actuarial Standards Board, meet applicable legislative local requirements, and are utilized appropriately
- Determination of whether the method and assumptions represent best practice, acceptable practice, or are cause for concern
- Meeting with plan actuaries and plan administrators as necessary to discuss our conclusions regarding the actuarial assumptions and methods being utilized.

Bolton has extensive audit and other forensic experience with pension and OPEB plans. We serve as the actuary for over 30 clients in Florida and have performed actuarial audits and plan design studies for many Florida municipalities. We are on the leading edge of understanding and implementing actuarial standards of practice through active involvement in the Society of Actuaries, Academy of Actuaries, and Conference of Consulting Actuaries with members of our team leading and serving on many of the boards and committees that guide the profession.

To learn more about our services contact Jim McPhillips (jmcpPhillips@boltonusa.com; 484.319.5283) or Jeff DeLisle (jdelisle@boltonusa.com; 443.825.6901).

Sincerely,


Jim McPhillips
Senior Consulting Actuary


Jeffrey A. DeLisle
Senior Consultant

