

LEOFF Plan 2 Retirement Board Actuarial Audit

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Agenda

- Your Milliman Team
- Our Approach
- Audit Process
- Interactions with OSA
- Preliminary Observations
- Summary



Your Milliman Team

- Proud to be working for one of Milliman's two oldest clients
 - When Wendell Milliman founded our firm in Seattle in 1947 the Washington State Employees Retirement System was a client.
- Mark, Nick, and Daniel
- Have worked for public plans for many years
 - Serve many of the nation's largest public plans



Daniel Wade



Mark Olleman



Nick Collier

How will Milliman approach the audit?

- Identify any concerns the LEOFF 2 Board may have
- Verify results independently
- Work cooperatively with OSA to improve work product
- Thorough analysis and evaluation of all material information:
 - Data
 - Processes
 - Reports
- Conformance with Actuarial Standards of Practice



How will Milliman approach the audit? *(continued)*

- Identify issues which may:
 - Cause a material difference in results
 - Result in improved communications
- Resolve issues
 - Discuss findings with State Actuary
 - Work with State Actuary to understand “why”
- Recognize that differences of opinion may exist in certain areas, particularly with respect to actuarial assumptions
- Communicate clearly to the Board any material areas in which our judgment differs from the State Actuary and explain “why”



Audit Process

- Goals
 - Verify financial condition of Plan is accurately reported
 - Evaluate actuarial communication
- Replication audit
 - Most comprehensive approach
 - All calculations are independently replicated based on the same census data, assumptions, and methodology
 - actuarial value of assets
 - actuarial liabilities
 - recommended contribution rates

Audit Process *(continued)*

- Preliminary discussions with OSA
- Gather Necessary Information
 - Reports, Methods and Assumptions
 - Member data and assets
 - Applicable Law
- Data
 - Assess accuracy and appropriateness
 - Salary, Service, Birthdates
 - Test for missing elements
 - Compare data provided by Systems to data used by OSA

Audit Process *(continued)*

- Experience Study
 - Review assumptions and cost methods
 - Consistency with Actuarial Standards of Practice
 - Professional judgment
 - Economic assumptions consistent with reasonable capital market assumptions
 - Compare to other systems
 - Demographic assumptions
 - Review data associated with actual experience for retirement, termination, death, disability, salary increases, and many other assumptions
 - Review methodology, analysis, and calculations performed on the data
 - Review reasonableness of proposed assumptions to actual experience

Audit Process *(continued)*

- Actuarial Assets - Independent Replication
- Valuation Liability Calculations
 - Check Individuals
 - Perform full parallel valuation
 - Compare results to OSA
 - Reconcile differences
- Valuation Funding Calculations
 - Cost methods applied properly
 - Parallel calculations
 - Independent reconciliation of contribution rates

Audit Process *(continued)*

- Review of reports
 - Appropriate Information and scope?
 - Clarity: easy to understand?
 - Format: easy to find information?
 - Consistent with Actuarial Standards of Practice (ASOPs)?

Where Differences May Occur

- Types of differences
 - Objective
 - Data
 - Benefits not reflected correctly
 - Assumptions not applied correctly
 - Application of cost method or smoothing method
 - Subjective
 - Based on actuary's judgment
 - Most often regarding assumptions
 - Discuss with State Actuary to understand “why?”
 - Explain “why” to Board and put it in perspective

Interactions with OSA so Far

- Very professional
 - Open discussion of issues
 - Schedule set up by OSA and used to track progress
 - Advance notice of any changes
 - All requested information provided in a timely manner

Preliminary Observations

IN PROGRESS

Summary

IN PROGRESS

Your Questions?

