LOUISIANA STATE EMPLOYEES RETIREMENT SYSTEM

2023 ACTUARIAL STANDARDS OF PRACTICE DISCLOSURE COMPLIANCE REVIEW

ACTUARIAL SERVICES

Presented to the Public Retirement Systems' Actuarial Committee
December 14, 2023

LOUISIANA LEGISLATIVE AUDITOR

LOUISIANA LEGISLATIVE AUDITOR

MICHAEL J. "MIKE" WAGUESPACK, CPA
LOUISIANA LEGISLATIVE AUDITOR

December 8, 2023

The Honorable Edward J. Price
Chairman, Public Retirement Systems' Actuarial Committee
Louisiana State Senate
Post Office Box 94183
Baton Rouge, Louisiana 70804

Re: ASOP Disclosure Compliance Review of LASERS's 2023 Actuarial Valuation

Dear Chairman Price and PRSAC Members:

In accordance with La. R.S. 24:513(C)(1), the Louisiana Legislative Auditor has conducted an Actuarial Standards of Practice (ASOP) Disclosure Compliance Review for the Louisiana State Employees' Retirement System (LASERS or System).

The following presents the results of our ASOP Disclosure Compliance Review of LASERS' June 30, 2023 Actuarial Valuation, prepared by Foster & Foster Actuaries and Consultants and dated September 28, 2023. In doing so, we have reviewed the report for compliance with ASOP disclosure requirements.

I would like to thank LASERS's executive director, staff, and actuary for the cooperation and assistance provided for this review.

Respectfully submitted,

Michael J. "Mike" Waguespack, CPA
Legislative Auditor

MJW:kjh

cc: Mr. Trey Boudreaux, Director
Louisiana State Employees' Retirement System

Ms. Shelly Johnson, ASA, MAAA
Foster & Foster Actuaries & Consultants

1600 NORTH 3RD STREET P.O. BOX 94397 BATON ROUGE, LA 70804-9397
PHONE 225-339-3800 | FAX 225-339-3870 | LLA.LA.GOV

TABLE OF CONTENTS

Page

Scope of Review

The 2023 Actuarial Valuation Report (Actuarial Report) for the Louisiana State Employees' Retirement System (LASERS) for funding purposes was prepared by Foster & Foster Actuaries and Consultants, and dated September 28, 2023.

This ASOP Disclosure Compliance Review (Review) is not a review of compliance with ASOPs, in general, but is limited to compliance with *disclosure requirements* of ASOPs. This Review presents our evaluation of whether the Actuarial Report is compliant with the disclosure requirements outlined in ASOP No. 41 *Actuarial Communications* and section 4 of all other relevant ASOPs. In addition, we evaluate whether, in our opinion, the actuary has "state[d] the actuarial findings, and identif[ied] the methods, procedures, assumptions, and data used by the actuary with sufficient clarity that another actuary qualified in the same practice area could make an objective appraisal of the reasonableness of the actuary's work as presented in the actuarial report."[1]

This review does not express an opinion with regard to the reasonableness of the actuarial assumptions or methods employed, or of the work as a whole. Nor does it express an opinion about compliance with section 3 of any relevant ASOP, which provides an analyses of issues and recommended practices[2] for the actuary's work product.

[1] Actuarial Standards Board, "Actuarial Standard of Practice No. 41: Actuarial Communications," ASB, December 2010, https://www.actuarialstandardsboard.org/asops/actuarial-communications/

[2] Actuarial Standards Board, "Actuarial Standard of Practice No. 1: Introductory Actuarial Standard of Practice," ASB, March 2013, https://www.actuarialstandardsboard.org/asops/introductoryactuarialstandardpractice/

Findings and Recommendations

Summary

We performed a comprehensive review of the LASERS' 2023 Actuarial Report for compliance with ASOP disclosure requirements, i.e. to verify all of the information the ASOPs require to be disclosed in this type of Actuarial Communication is included.

The review distinguishes between findings that are likely to affect the conclusion or understanding of a user of the Actuarial Report (material violations) and findings that are not likely to affect the conclusion or understanding of users, but are a) nonetheless required by the ASOPs (immaterial violations) or b) suggested changes that do not stem from ASOP violations but we believe could improve clarity and ease of use by stakeholders (additional recommendations).

We did not find any material violations of the ASOP disclosure requirements. We identified three immaterial violations and make recommendations for correcting these items. In addition, we make three additional recommendations.

Background

ASOPs

"The Actuarial Standards Board (ASB) promulgates actuarial standards of practice (ASOPs) for use by actuaries when rendering actuarial services in the United States."[3] The ASOPs do not prescribe instructions or specific rules regarding how to provide these services. Rather, ASOPs provide guidance that generally requires professional judgement to apply to a specific situation.

The ASB issued ASOP No. 41 Actuarial Communication which provides general guidance with respect to all actuarial communications and identifies certain disclosures that must be included in a given actuarial communication. Also, each ASOP specifically includes a Communications and Disclosures section to provide guidance regarding what information specific to that ASOP should be communicated. Rightly so, how actuaries communicate the work they are providing is considered extremely important by the ASB.

Further, while the ASOPs are guidance and not "rules", they do include "Terms of Construction"[4], specifically the words *must*, *should*, or *may*, to express which items within the guidance are, or are not, optional. "Failure to follow a course of action denoted by either the term 'must' or 'should' constitutes a deviation from the

[3] ASOP No. 1
[4] ASOP No. 1

guidance of the ASOP."[1] This includes many items found in ASOP 41 and the disclosure section of relevant ASOPs.

Most items within an ASOP that are preceded by *must* or *should* include a corresponding *must* or *should* disclosure requirement. However, that is not always the case. In addition, when an actuary *should consider* something, or *may* (or may not) follow specific guidance within an ASOP, the consideration or decision process does not always include a *must* or *should* disclosure requirement. However, for clarities sake, it is frequently best practice to include this information to ensure "another actuary qualified in the same practice area could make an objective appraisal of the reasonableness of the actuary's work as presented in the actuarial report"[5], particularly in the public plan space where transparency is of the utmost importance.

Finally, the following ASOPs are relevant in the preparation and communication of the Actuarial Report, and were therefore considered in this Review. In addition, ASOP No. 4 recently underwent significant changes and is first effective for LASERS with the June 30, 2023 Actuarial Valuation Report.

(1) ASOP No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*
(2) ASOP No. 23, Data Quality
(3) ASOP No. 25, Credibility Procedures
(4) ASOP No. 27, Selection of Economic Assumptions for Measuring Pension Obligations
(5) ASOP No. 35, Selection of Demographic Assumptions for Measuring Pension Obligations
(6) ASOP No. 41, Actuarial Communications
(7) ASOP No. 44, Selection and Use of Asset Valuation Methods for Pension Valuations
(8) ASOP No. 51, Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions
(9) ASOP No. 56, Modeling

Classifications within this Review

Five U.S.-based actuarial organizations developed and adopted the Code of Professional Conduct, which sets forth what it means for an actuary to act as a professional. It identifies the responsibilities that actuaries have to the public, to their clients and employers, and to the actuarial profession.

"The purpose of [the] Code of Professional Conduct ("Code") is to require Actuaries to adhere to the high standards of conduct, practice, and qualifications of the

[5] ASOP No. 41

actuarial profession, thereby supporting the actuarial profession in fulfilling its responsibility to the public. … The Precepts of the Code identify the professional and ethical standards with which an Actuary must comply in order to fulfill the Actuary's responsibility to the public and to the actuarial profession."[6]

Precept 3 of the Code (Standards of Practice) states "An Actuary shall ensure that Actuarial Services performed by or under the direction of the Actuary satisfy applicable standards of practice." Precept 13 of the Code (Violations of the Code of Professional Conduct), <u>obligates</u> an "Actuary with knowledge of an apparent, unresolved, <u>material</u> [emphasis added] violation of the Code by another Actuary" to act to address that violation. However, the key phrase above is a "material violation."

Annotation 13-1 of the Code clarifies what is meant by "material": A violation of the Code is deemed to be material if it is important or affects the outcome of a situation, as opposed to a violation that is trivial, does not affect an outcome, or is one merely of form." The Actuarial Board for Counseling and Discipline (ABCD), the body responsible for investigating complaints about possible violations of the Code provides further insight into what it deems to be material, stating "If an item affects the conclusion or understanding by a client <u>or other user</u> [emphasis added] of an actuarial statement of opinion, that item is generally material. In addition, if something affects a client's confidence in an actuary or in the actuarial profession, it is also generally material."[7]

Emphasis has been added above because while the client may be sophisticated and intimately familiar with the workings of the System, most Statements of Actuarial Opinion (SAOs) issued within the public plan space are public documents, that should be expected to be used by stakeholders with extremely limited knowledge of actuarial science, defined benefit pension plans as a whole, and the specific statutory requirements of the System. Therefore, consideration must be given to how the actuarial communication could impact the understanding and conclusions of these stakeholders.

In addition, while a single instance of violating an ASOP may by itself be deemed immaterial, a series of immaterial violations taken as a whole could be deemed material.

This Review follows similar guidelines and will use the following three classifications:

(1) Material Violations – Violations of ASOPs that are likely to affect the conclusion or understanding by a client or other user of an SAO.

---

[6] American Academy of Actuaries, "Code of Professional Conduct," AAA, January 1, 2001, https://www.actuary.org/sites/default/files/files/code_of_conduct.8_1.pdf

[7] Actuarial Board for Counseling and Discipline, "Materiality", ABCD November/December 2010, https://www.abcdboard.org/materiality/

(2) Immaterial Violations – Violations of ASOPs that are not likely to affect the conclusion or understanding by a client or other user of an SAO, but are nonetheless required by the ASOPs.
(3) Recommendations – Suggestions for improvement to form or function of the actuarial communication without an apparent violation of an ASOP.

Material Violations

We did not find any material violations of the *disclosure requirements* of the ASOPs within the Actuarial Report

Immaterial Violations

We identified the following immaterial violations:

(1) Discount Rate - ASOP No. 27 §4.1.2 states "For each economic assumption that the actuary has not selected … the actuary should disclose the information and analysis used to support the actuary's determination that the assumption does not significantly conflict with what … is reasonable for the purpose of the measurement."

The discussion of the discount rate in the Actuarial Cost Methods and Assumptions Section states "a substantially lower [PBI] gain-sharing margin is now appropriate," and that a "full analysis of the reduced margin has not been completed but is not necessary to determine that the current discount rate is reasonable." Stating the discount rate is reasonable, without additional explanation as to why, is not disclosing any information or analysis used in such a determination.

<u>Recommendation</u>: Provide additional commentary regarding the reasonability of the discount rate , in light of changes enacted by Act 184.

(2) Low-Default-Risk Obligation Measure (LDROM) – ASOP No. 4, Section 4.1(o)(5) states, in addition to the [LDROM], the actuary should disclose "commentary to help the intended user understand the significance of the low-default-risk obligation measure with respect to the funded status of the plan, plan contributions, and the security of participant benefits"

The report does not include any commentary explaining the significance of the LRDOM with respect to the funded status, plan contributions, or the security of participant benefits.

<u>Recommendation</u>: Include commentary specifically speaking to the LDROM's significance with respect to the funded status of the plan, plan contributions, and the security of participant benefits. Even if the actuary believes the LDROM has no significance with respect to these items, a

statement to that effect and the explanation why that would be the case, should be included in an annual funding valuation.

(3) Reasonable Actuarially Determined Contribution (RADC) – ASOP No. 4, Section 4.1(aa) states, an actuarial report *should* contain the following disclosures,

> if applicable, a reasonable actuarially determined contribution, the corresponding funded status, and any material assumptions or methods that were used in the calculation that are not otherwise disclosed. The actuary should include a description of how pertinent conditions discussed in section 3.17 have been taken into account in determining the reasonable actuarially determined contribution (see section 3.21). The disclosure may be brief but should be relevant to the plan's circumstances.

In this context, "if applicable" means when performing a funding valuation. Therefore, the report must include both a RADC and should include a description of how the following have been taken into account in determining the reasonable actuarially determined contribution:

a. the balance among benefit security, intergenerational equity, and stability or predictability of periodic costs or actuarially determined contributions;
b. the timing and duration of expected benefit payments;
c. the nature and frequency of plan amendments; and
d. relevant input from the principal, for example, a desire to achieve a target funding level within a specified time frame.

The Actuarial Report does not explicitly state the statutorily required actuarial contribution is considered to be an RADC. However, the ASOP does not necessarily require an explicit statement to that effect. But given the ASOP does require an RADC to be included, we are presuming this conclusion is implied. Therefore, the Actuarial Valuation must include the commentary described above.

We are unable to find the required commentary included in the Presentation of Valuation Results, Funding Policy, Discussion of Risk, or Actuarial Cost Methods and Assumptions sections.

Recommendation: Include commentary speaking to the required items outlined above.

Additional Recommendations

The following are not considered violations of the ASOPs, nor are they necessarily criticisms of what is currently being done, but are primarily suggestions to improve clarity and ease of use by stakeholders.

(1) Explicitly state the actuary believes the statutorily required actuarial contribution meets the RADC requirements, assuming this is a true statement.

As noted in Immaterial Violation 2, the Actuarial Report does not explicitly state the actuary believes the statutorily required actuarial contribution meets the RADC requirements. It would improve the clarity of the Actuarial Report if this statement were explicitly made rather than implied via the absence of a stated RADC.

(2) Include a description of the changes in plan provisions within the Plan Provisions section.

The Permanent Benefit Increase (PBI) changes enacted by Act 184 are briefly mentioned under the Legislative/Plan Changes subsection of the Presentation of Valuation Results section. The actual PBI provisions are described in detail within Plan Provisions section. However, the Plan Provisions section does not identify that Act 184 was enacted in 2023 and therefore is a new plan provision. If someone is interested in understanding the current plan provisions as well as recent changes, they are likely to gravitate to reviewing the Plan Provisions section. Therefore, it would improve clarity and provide a better user experience if it was stated within this section that the Act 184 changes are new for this valuation.

(3) Include a comprehensive list of all referenced documents that comprise the actuarial report.

The Actuarial Report references the July 1, 2013 through June 30, 2018 Experience Study, specifically relying on that report to disclose the rationale for certain assumptions used in this valuation. While the LLA is also frequently guilty of this particular lack of clarity, it would be useful to include a comprehensive list of any other document, in addition to the Actuarial Valuation, that comprises the "actuarial report," as required by ASOP No. 4 §4.1.3(j), "[disclose] the documents comprising the actuarial report."

Actuarial Disclosures

Intended Use

This Actuarial Review was prepared in accordance with 24:513(C)(1). This Review is intended for use by PRSAC and those designated or approved by PRSAC. This Actuarial Review may be provided to parties other than PRSAC only in its entirety and only with the permission of PRSAC. The Louisiana Legislative Auditor is not responsible for unauthorized use of this Actuarial Review.

This Actuarial Review should not be construed as providing tax advice, legal advice, or investment advice. It should not be relied on for any purpose other than the purposes described herein.

Actuarial Data, Methods and Assumptions

The findings in this Actuarial Review are based on the 2023 Actuarial Valuation Report for the Louisiana State Employees' Retirement System for funding purposes, prepared by Foster & Foster Actuaries and Consultants and dated September 28, 2023. We did not review the July 1, 2013 through June 30, 2018 Experience Study, which was incorporated by reference and therefore comprises part of the "actuarial report."

Conflict of Interest

There are no known conflicts that would compromise the ability to present an unbiased statement of actuarial opinion.

Certification

All calculations have been made in conformity with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board and with applicable statutes.

Kenneth J. Herbold is an Associate of the Society of Actuaries (ASA), a Member of the American Academy of Actuaries (MAAA), and an Enrolled Actuary (EA) under the Employees Retirement Income Security Act of 1974. Mr. Herbold meets the US Qualification Standards necessary to render the actuarial opinion contained herein.

Kenneth J. "Kenny" Herbold, ASA, EA, MAAA
Director of Actuarial Services
Louisiana Legislative Auditor

December 8, 2023
Date