

PAROCHIAL EMPLOYEES' RETIREMENT SYSTEM OF LOUISIANA

2023 ACTUARIAL STANDARDS OF PRACTICE
DISCLOSURE COMPLIANCE REVIEW

ACTUARIAL SERVICES

Presented to the Public Retirement
Systems' Actuarial Committee
August 2024

July 19, 2024

The Honorable Tony Bacala
Chairman, Public Retirement Systems' Actuarial Committee
Louisiana State Senate
Post Office Box 94062
Baton Rouge, Louisiana 70804

**Re: ASOP Disclosure Compliance Review of
PERS' 2023 Actuarial Valuation**

Dear Chairman Bacala 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 Parochial Employees' Retirement System of Louisiana (PERS or System).

The following presents the results of our ASOP Disclosure Compliance Review of PERS' December 31, 2023 Actuarial Valuation, prepared by Curran Actuarial Consulting, Ltd. and dated June 14, 2024. In doing so, we have reviewed the report for compliance with ASOP disclosure requirements.

I would like to thank PERS' 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: Dainna S. Tully, Administrative Director
Parochial Employees' Retirement System of Louisiana

Mr. Gregory Curran, FCA, MAAA, ASA
Curran Actuarial Consulting, Ltd.

PERS 2023 ASOP DISCLOSURE COMPLIANCE REVIEW



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Scope of Review

The 2023 Actuarial Valuation Report (Actuarial Report) for the Parochial Employees' Retirement System of Louisiana (PERS) for funding purposes was prepared by Curran Actuarial Consulting, Ltd., and dated June 14, 2024.

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 provide analyses of issues and recommended practices² for the actuary's work product.

¹ Actuarial Standards Board, "Actuarial Standard of Practice No. 41: Actuarial Communications," December 2010, Section 3.2, <https://www.actuarialstandardsboard.org/asops/actuarial-communications/>

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

Findings and Recommendations

Summary

We performed a comprehensive review of the PERS' 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: (1) findings that are likely to affect the conclusion or understanding of a user of the Actuarial Report (material violations) and (2) 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 and other users of the Report (additional recommendations).

We did not find any, material nor immaterial, violations of the ASOP disclosure requirements. However, we make one recommendation for improvement.

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 in the form of principles 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.

³ ASOP No. 1, Section 1

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 guidance of the ASOP.”⁵ 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 clarity 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,”⁶ 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 PERS with the December 31, 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*

⁴ ASOP No. 1, Section 2.1

⁵ ASOP No. 1, Section 2.1(a)

⁶ ASOP No. 41, Section 3.2

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 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."⁷

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), obligates an "Actuary with knowledge of an apparent, unresolved, material [emphasis added] violation of the Code by another Actuary," to act to address that violation. However, the key phrase above is "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 or other user [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."⁸

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 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.

⁷ American Academy of Actuaries, "Code of Professional Conduct," January 1, 2001, https://www.actuary.org/sites/default/files/files/code_of_conduct.8_1.pdf

⁸ Actuarial Board for Counseling and Discipline, "Materiality", November/December 2010, <https://www.abcdboard.org/materiality/>

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 a SAO.
- (2) Immaterial Violations – Violations of ASOPs that are not likely to affect the conclusion or understanding by a client or other user of a 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 did not find any immaterial violations of the *disclosure requirements* of the ASOPs within the Actuarial Report.

Additional Recommendations

The following is not considered a violation of the ASOPs, nor is it necessarily criticism of what is currently being done, but is primarily a suggestion to improve clarity and ease of use by stakeholders.

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

ASOP No. 4 §4.1(q) requires "a statement that the funded status measure would be different if the measure reflected the market value of assets rather than the actuarial value of asset." The Actuarial Report appears to meet this requirement by incorporating the "system's financial report," by reference with the statement "The Governmental Accounting Standards Board (GASB) specifies that, for financial reporting purposes, the funded ratio is determined by using the market value of assets divided by the entry age normal accrued liability. This value is given in the system's financial report. Alternatively, we have calculated the ratio of the actuarial value of assets to the entry age normal accrued liability based on the funding methodology used to fund the plan;" which implies the funded status measurement is different under these two approaches.

The Actuarial Report also references the 2023 Parochial Employees' Retirement System of Louisiana Experience Study Report, 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 documents, in addition to the Actuarial Valuation, that comprise 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 Revised 2023 Actuarial Valuation Report for the Parochial Employees' Retirement System of Louisiana for funding purposes, prepared by Curran Actuarial Consulting, Ltd. and dated June 14, 2024. We did not review the January 1, 2018 through December 31, 2022 experience study, which was incorporated by reference and therefore comprises part of the "actuarial report."

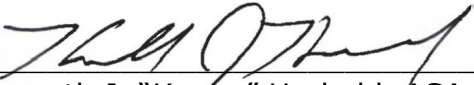
Conflict of Interest

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

July 19, 2024
Date