

# ACTUARIAL AUDIT PROCESS



**PUBLIC PENSION OVERSIGHT BOARD**

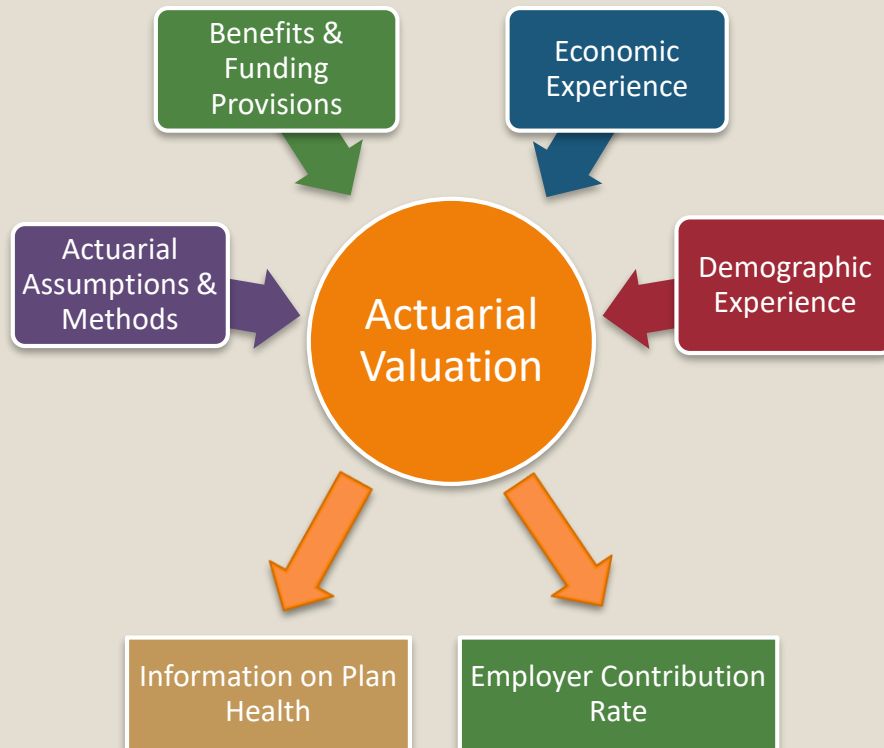
LRC STAFF

JUNE 1, 2026

# ACTUARIAL AUDIT → Actuarial Processes

2

## Actuarial Valuation\*



\*KPPA systems and TRS perform an annual actuarial valuation. JFRS performs an actuarial valuation once every 2 years.

## Actuarial Experience Study

- An actuarial review of assumptions/methods against experience/future expectations with recommendations for adjustments.
- Per statute, performed by the system consulting actuary at least once every 2 years for economic assumptions and once every 5 years for demographic assumptions.
- Note: Asset/Liability Modeling Studies are typically performed following the experience study and evaluate various asset allocations against projected system liabilities with the ultimate goal of selecting a target asset allocation for the investment portfolio.

## Actuarial Audit

- A secondary review by another actuary to review the work performed by the actuaries retained by the systems.
- Per statute, performed once every 5 years.
- The LRC engages the services of an actuary on behalf of the PPOB to perform the audit.
- The cost is reimbursed to LRC by the systems.

# ACTUARIAL AUDIT → *Purpose/Process*

3



# ACTUARIAL AUDIT → *Purpose*

4

- House Bill 238 (RS 2016) codified as KRS 7A.250
  - Actuarial Audit
    - ✦ Mandatory
    - ✦ Every 5 years
    - ✦ Evaluate the reliability of each system's actuarial assumptions and methods
  - Funding/procurement pursuant to KRS 7A.240
    - ✦ To be paid by the state-administered retirement systems to the LRC
    - ✦ Included in administrative budget of the systems
- Government Finance Officers Association (GFOA) recommends performing an actuarial audit at least once every 5 years.

# ACTUARIAL AUDIT → Purpose

5

- Each system retains a **consulting actuary** to perform an actuarial valuation each fiscal year and to perform experience studies to review assumptions/methods.
- An actuarial audit involves engaging an outside actuary or **reviewing actuary** to evaluate the work of the retirement system's **consulting actuary**.
- An actuarial audit is **NOT**:
  - A financial statement audit, as conducted by a CPA or the Auditor of Public Accounts
  - A forensic audit, such as those conducted to investigate public companies, probe investments, bank statements, etc.
  - An operational or management audit to analyze administrative expenses

# ACTUARIAL AUDIT → *Purpose*

6

**Actuarial Assumptions**  
(Economic/Demographic)

**Actuarial Methods**  
(i.e. amortization method)

**REASONABLE  
CONSISTENT  
ACCURATE  
CALCULATION MATCH\***

**Valuation Replication**  
(i.e. outputs like UL, depends on  
Level of Audit)

**Actuarial Process**  
(i.e. Standards of  
Practice/reporting)

# ACTUARIAL AUDIT → 3 Levels

7

SCOPE OF REVIEW	LEVEL 1 Full Scope	LEVEL 2 Limited Scope	LEVEL 3 Basic
Examines consulting actuary's valuation reports, experience studies, annual financial reports, other data, and may dialogue with actuary and staff	✓	✓	✓
Examines actuarial methods, procedures, and assumptions	✓	✓	✓
Offers opinion on whether valuation is reasonable consistent, and accurate	✓	✓	✓
Uses same data, assumptions, methods, calculations, and experience used by consulting actuary	✓	✓	
Uses system's member data to test valuation	Full Replication	Sample data	
Demonstrates degree to which audit deviates from valuation	✓	✓	

# ACTUARIAL AUDIT → *Recent Audits*

8

- 2016 legislative changes established process for PPOB to request LRC to contract for actuarial audit.
  - PPOB Contracted Audits (KPPA, TRS, JFRS)
    - ✦ As of 2021 valuation
    - ✦ Milliman Consulting
    - ✦ Level 1 (Full Scope Audit)
    - ✦ \$190 K
    - ✦ [Link to Audit](#)
- Actuarial audits performed by secondary actuary retained by the systems
  - KPPA
    - ✦ As of 2019 Valuation
    - ✦ The Segal Group
    - ✦ Level 2 (Limited Scope Audit)
    - ✦ \$97.5 K
    - ✦ [Link to Audit](#)
  - TRS
    - ✦ As of 2014 valuation
    - ✦ The Segal Group
    - ✦ Level 1 (Full Scope Audit)
    - ✦ \$95 K
    - ✦ [Link to Audit](#)

# ACTUARIAL AUDIT → *Potential Process*

9

- July/August 2026
  - PPOB requests LRC start process to contract with a firm (Reviewing Actuary) to conduct an actuarial audit of the state systems as of the June 30, 2026 actuarial valuation cycle.
    - ✦ Request would include Audit Level (1, 2, or 3) and scope of audit
- December 2026/January 2027
  - Contract awarded and reviewing actuary begins process to perform audit.
- May/June 2027
  - Reviewing Actuary submits preliminary report to LRC/retirement system staff for review.
- June/July 2027
  - Reviewing Actuary presents final report to Public Pension Oversight Board.
  - Systems present to respond to audit findings.