

**Legislative Employee Benefits Programs Committee
October 26, 2016**

**Fay Kopp, Chief Retirement Officer and Deputy Executive Director
ND Teachers' Fund for Retirement and ND Retirement & Investment Office**

**Staff Comments related to the Actuarial Audit
conducted by Cavanaugh Macdonald Consulting
for the NDTFFR Board**

Due diligence requires that pension plan fiduciaries exercise prudence in selecting actuarial consultants, and monitor the quality of their work. An actuarial audit is a valuable tool for monitoring the actuarial services performed on behalf of a pension plan. An actuarial audit involves engaging the services of an outside actuary (reviewing actuary) to scrutinize the work of the plan's consulting actuary. Actuarial audits enhance the credibility of the actuarial valuation process by providing independent assurance that work was performed in accordance with actuarial standards of practice. They increase public trust in how the pension plan is being governed and help plan fiduciaries assess whether the pension plan is meeting its funding objectives. Actuarial audits can lead to the remediation of errors that might otherwise go undiscovered and can provide recommendations for improving the actuarial valuation process and report.

NDTFFR Board policy requires an actuarial review or audit of TFFR's actuarial valuation be performed at least every five years by an independent actuary. After a formal RFP process in early 2016, the NDTFFR Board selected Cavanaugh Macdonald Consulting (CMC) to conduct an actuarial audit of the plan's current actuary, Segal Consulting. CMC reviewed the 2015 Valuation and Experience Study including actuarial assumptions, actuarial methods, participant data, valuation results, valuation report, funding projections, and GASB calculations. CMC conducted their work between April – July 2016, and issued their audit report to the TFFR Board on July 13, 2016.

The CMC audit report states: *“We generally find the actuarial valuation results to be reasonable and accurate based on the assumptions and methods used. The valuation was performed by qualified actuaries and was performed in accordance with the principles and practices prescribed by the Actuarial Standards Board.”*

The CMC audit report also noted: *“Because of the complexity of actuarial work, we would not expect to match Segal’s results exactly, nor would we necessarily expect our opinions regarding the selection of assumptions and methods to be the same as the opinions of Segal. While we offer up a number of different ideas, we believe that Segal’s work provides appropriate assessment of the health and funding requirements of the NDTFFR.”*

CMC did note a few issues where they believe there are opportunities for improvement. Segal reviewed the audit report, and provided comments related to the actuarial review in their July 14 letter. Segal has since considered and implemented those suggestions that seem to be in the best interest of TFFR in the July 1, 2016 actuarial valuation report.

The ND TFFR Board and RIO staff were very pleased with the results of the audit, and that the auditing actuary was able to successfully validate the actuarial work performed by Segal.