



# Cavanaugh Macdonald

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March 8, 2024

Mr. Richard Bendall  
Chief, Internal Audit  
Los Angeles County Employees Retirement Association  
300 North Lake Avenue, Suite 820  
Pasadena, CA 91101

**Subject: Review of GASB 68 Report for June 30, 2024 Reporting Date**

Dear Mr. Bendall:

Under our contract with the Los Angeles County Employees Retirement Association (LACERA), Cavanaugh Macdonald Consulting, LLC provides various actuarial auditing services, as requested by LACERA. One of the specific items included in the contract for the current fiscal year is an audit of the report prepared under Governmental Accounting Standards Board Statement Number 68 (GASB 68) for LACERA's Financial Statement Disclosure Reporting. This report is prepared annually by LACERA's retained actuary, Milliman, Inc. Audits have generally been performed every two years with the last audit performed on the June 30, 2022 GASB 68 report.

Cavanaugh Macdonald was asked to provide an actuarial audit of the GASB 68 disclosure report for the June 30, 2024 reporting date, which is based on a June 30, 2023 measurement date and a June 30, 2022 actuarial valuation date. The objective of the audit is to review the work of the retained actuary, Milliman, Inc., and provide an opinion as to whether or not the results presented in the report are actuarially sound, reasonable, and consistent with industry standards and the requirements of GASB 68. Because the information included in the GASB 68 report relies heavily on the information presented in the GASB 67 report, our review and analysis extended to the reasonableness of the information in GASB 67 report, prepared as of the measurement date of June 30, 2023. Typically, a review of the underlying actuarial valuation used to produce the liability results for the GASB 67 report (the June 30, 2022 actuarial valuation) is not included in the scope of this project and, thus, we rely upon its accuracy as part of our review of the GASB 67 and 68 reports. However, we did review the June 30, 2022 actuarial valuation as part of a separate project, and so we are able to reiterate our opinion of the reasonableness of the results of that valuation.



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### **Review Methodology**

In order to complete our audit, the following information was provided by LACERA:

- (1) Milliman's GASB 68 report for the reporting date of June 30, 2024, dated February 22, 2024.
- (2) Milliman's GASB 67 report for the measurement date of June 30, 2023, dated September 15, 2023.
- (3) Milliman's Actuarial Valuation report, as of June 30, 2022, dated February 16, 2023.

In addition, we utilized our replication work of the June 30, 2022 valuation to assess the reasonableness of various calculations in the June 30, 2024 GASB 68 report.

Our review process included the following:

- Review of the Total Pension Liability (TPL) as of June 30, 2023 for reasonableness;
- Independent review of the roll forward of the TPL from the valuation date of June 30, 2022 to the measurement date of June 30, 2023, including the methodology used;
- Review of the Projection of Fiduciary Net Position used in the depletion date analysis;
- Review of the methodology and assumptions used in the determination of the discount rate;
- Review of the methodology and calculation of the proportionate share of Net Pension Liability (NPL);
- Review of the sensitivity analysis in the GASB 68 report;
- Review of the calculation of pension expense, deferred inflows/outflows and the determination of each participating employer's proportionate share; and
- Review of the GASB 68 report for reasonableness and completeness, along with compliance with actuarial standards based on Cavanaugh Macdonald's understanding of GASB Standards 67 and 68.

In conducting our review, our focus was to determine whether the results presented in the GASB 67 and 68 reports, prepared by Milliman, are reasonable and sound based on the underlying actuarial valuation and the asset and financial information provided by LACERA. Generally, we have attempted to replicate calculations, wherever possible, and to determine the reasonableness



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of calculated values where we do not have sufficient information to replicate the values. We have especially focused on those areas where our background and expertise as actuaries is relevant to confirming the accuracy of the results.

### **Current Audit Findings**

Our key findings and observations are summarized below. We do not believe it is useful to note stylistic differences, so our comments are limited to issues we believe are most important and more critical to LACERA.

#### *Review of Prior Audit Findings*

There were no recommendations or major findings in the prior audit report that needed to be addressed.

#### *Current Findings and Observations*

Many of the calculations in Milliman's GASB 68 report are based on results from their GASB 67 report and funding valuation report. While a complete review of these reports was outside the scope of our assignment, we did sufficiently review them to ascertain that the liability results leading to the Total Pension Liability in the GASB 68 report were reasonable. The assumptions used for the underlying June 30, 2022 Actuarial Valuation were developed in the 2022 experience study, for which we conducted a replication audit. We also prepared a replication of the liabilities in the June 30, 2022 actuarial valuation. As a result, we were able to use those replications along with our expectations and professional judgment to determine that the liability calculations in the June 30, 2024 GASB 68 disclosure are reasonable.

We reviewed and replicated, where possible, the significant calculations presented in the GASB 68 report. We note that many of the numerical exhibits were also presented in the GASB 67 report and are simply repeated in the GASB 68 report. Our specific findings are discussed below:

#### **Total Pension Liability (TPL) and Net Pension Liability (NPL)**

The discount rate of 7.13% used in the GASB reports is different from the 7.00% long-term investment return assumption used in the funding valuation. This is due to the fact the discount rate under GASB 68 is required to be gross of administrative expenses, but LACERA uses an investment return assumption for funding that is net of administrative expenses. In the experience study performed in 2022, Milliman estimated the impact on the expected return of paying administrative expenses out of investment income to be 0.15%, an increase from the prior assumption of 0.13%. The use of a discount rate of 7.15% for GASB calculations would be most consistent with the investment return assumption of 7.00%, net of 0.15% administrative expenses developed in that experience study. However, Milliman developed the TPL using 7.13% as they



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had been using before the updated assumptions. In our opinion, 7.13% is a reasonable assumption and the impact on the TPL is immaterial.

When reviewing the projection of the TPL from June 30, 2022 to June 30, 2023, we were able to verify that the calculations were properly performed, using standard actuarial techniques. In addition, we reviewed the TPL at June 30, 2022 for reasonableness given the differences between the actuarial accrued liability in the June 30, 2022 funding valuation and the TPL (calculated using a 7.13% discount rate and reflecting different treatment of the liabilities for the STAR COLA).

#### Discount Rate/Depletion Date Projection

The June 30, 2024 GASB 68 report includes an exhibit to document Milliman's projection of the fiduciary net position in future years to demonstrate that the fiduciary net position will be sufficient to cover the estimated benefit payments for current members. We reviewed those projections and verified that they are reasonable and consistent with the operation of the plan and with general actuarial principles. We believe that such a demonstration supports their assertion that the projected fiduciary net position will be sufficient to pay all projected benefit payments in future years for the current members, thereby justifying the use of the long-term assumed rate of return on investments as a discount rate.

#### Sensitivity Analysis

We used our replication of the June 30, 2022 actuarial valuation results to verify the reasonableness of the June 30, 2023 TPL. In addition, we were able to directly calculate the liabilities for the sensitivity analysis, using a discount rate +1.00% and -1.00% from the 7.13% discount rate, and determine the percentage change in the actuarial accrued liability. Using the calculated percentage changes in liabilities, we were able to verify the reasonableness of the TPL calculated by Milliman at a discount rate of 6.13% and 8.13%. Based on that work, the results of the sensitivity analysis results in Milliman's report are acceptable and reasonable.

#### Pension Expense and Deferred Inflows/Outflows

We verified the calculation of pension expense and deferred inflows and outflows, based on the TPL, Plan Fiduciary Net Position and service cost shown in Milliman's report. We concur with the calculation of the collective pension expense.

#### Proportionate Share Allocations

Because LACERA is a cost-sharing multiple employer plan, as defined by GASB, there are multiple participating employers, and the reports include several exhibits presenting the allocation of the key results by employer. We examined the methodology used to perform this allocation and verified the calculation of each employer's proportionate share. The employer proportion is



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determined and rounded to seven decimal places, which is consistent with the prior year's report, and reasonable in our professional opinion.

We also reviewed the calculation of each employer's proportionate share of deferred outflows and inflows, as well as the pension expense. We found that all of the work was performed in a manner consistent with our understanding of GASB 68. We note that because most results are rounded, sufficient detail was not available to exactly match all of the detailed allocations. However, we matched Milliman's results within a reasonable level and, therefore, have no concerns with Milliman's approach.

#### Reconciliation of Net Pension Liability

We verified the reconciliation of the prior and current year NPL, by employer, as shown on page 21 of Milliman's report. We agree with the results for each employer and in total.

#### Conclusion

In general, we believe the Milliman report presents a fair and accurate assessment of the information needed from the actuary for the use and presentation of results under GASB 68. We do note that the discount rate used was reasonable, although not consistent with the expected discount rate based on the findings of the 2022 experience study. We found no issues with the presentation of the key GASB results and the related commentary in Milliman's reports. Ultimately, GASB 68 is an accounting standard, and we therefore yield to any alternative opinion that LACERA, its auditors, and the auditors serving other interested parties may have.

In preparing this report, we relied on information (oral and written) supplied by LACERA's staff, which we did not independently verify. This information includes, but is not limited to, statutory provisions, financial information, and previously issued reports. We have not performed a complete audit on the results but have reviewed the results to confirm that they are reasonable based upon the information provided.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Actuarial Standards of Practice promulgated by the Actuarial Standards Board and the applicable Guides to Professional Conduct, amplifying Opinions, and supporting recommendations of the American Academy of Actuaries.

We would like to acknowledge the help in the preparation of the data for this review given by LACERA staff and the Milliman consultants.



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I, Brent A. Banister, FSA, am a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

I, Patrice A. Beckham, FSA, am a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Sincerely,

A handwritten signature in blue ink that reads "Brent A. Banister".

Brent A. Banister, PhD, FSA, FCA, EA, MAAA  
Chief Actuary

A handwritten signature in blue ink that reads "Patrice Beckham".

Patrice A. Beckham, FSA, EA, FCA, MAAA  
Consulting Actuary