



# Cavanaugh Macdonald

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September 11, 2020

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 75 Report for June 30, 2020 Reporting Date**

Dear Mr. Bendall:

The Los Angeles County Employees Retirement Association (LACERA or Association) retained Cavanaugh Macdonald Consulting, LLC in 2017 to provide actuarial auditing services, as requested by LACERA. One of the specific items included in the contract, as amended, is an audit of the report prepared under Governmental Accounting Standards Board Statement Number 75 (GASB 75) for the LACERA plan sponsor's financial statement disclosure reporting. This report is prepared annually by the Association's retained actuary, Milliman, Inc. Cavanaugh Macdonald was asked to provide an audit of the GASB 75 disclosure report for the June 30, 2020 Reporting Date. Prior GASB 75 reports were prepared under a cost sharing structure, but with some employers beginning to fund benefits through a trust, the decision was made to move to an agent structure. At this time, only three employers are funding the OPEB obligation and reporting under this structure: Los Angeles County, the Superior Court, and LACERA. This is the first GASB 75 report prepared for LACERA under the agent structure and applicable information is only provided for these three. Please note that this report was based on a June 30, 2019 Measurement Date that relied on the actuarial valuation of the Other Post-Employment Benefits (OPEB) prepared as of July 1, 2018.

The objective of the this audit is to review the work of the retained actuary, Milliman, Inc., and provide an opinion as to whether the results presented in their formal GASB 75 report are actuarially sound, reasonable, and consistent with industry standards and the requirements of GASB 75. We previously replicated the July 1, 2018 OPEB actuarial valuation prepared by Milliman and determined that the data processing, actuarial methods and assumptions, and actuarial calculations used in that valuation were appropriate. Because the results in this GASB 75 report rely on much of the same data and assumptions as the July 1, 2018 valuation, we utilized our prior work with corresponding adjustments to confirm the reasonableness of the results presented in the GASB 75 report for the June 30, 2020 Reporting Date.



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### **Review Methodology**

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

- (1) Milliman's GASB 75 report for the Reporting Date of June 30, 2020, issued September 9, 2020.
- (2) Milliman's GASB 75 report for the Reporting Date of June 30, 2019, prepared under the cost sharing structure.
- (3) Milliman's OPEB Actuarial Valuation report, prepared as of July 1, 2018 (dated June 26, 2019).
- (4) Milliman's 2018 Investigation of OPEB Experience report, dated June 25, 2019.
- (5) Employer contribution and benefit payments allocated by employer, along with the Statement of Changes in Fiduciary Net Position for the OPEB Trust and Agency Fund as provided by LACERA.

Our review included the following:

- Review of the Total OPEB Liability (TOL) for each employer as of June 30, 2019 for reasonableness;
- Review of the methodology and assumptions used in the determination of the discount rates for each employer;
- Review of the sensitivity analyses included in the GASB 75 report;
- Review of the calculation of OPEB expense and the deferred inflows/outflows for each employer;
- Review of the GASB 75 report for reasonableness and completeness, along with compliance with actuarial standards and Cavanaugh Macdonald's understanding of GASB Standards 74 and 75.

In conducting our review, we focused on determining whether the results presented in the GASB 75 report, prepared by Milliman, are reasonable and sound based on the underlying actuarial valuation used to develop the liabilities and the asset and financial information provided by LACERA. Generally, we have attempted to replicate calculations, where possible, and to determine the reasonableness 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



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expertise as actuaries is relevant to confirming the accuracy of the results. Please note that we are not accountants or financial statement auditors and are not offering any opinion or advice related to those areas of expertise.

### **Findings and Observations**

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. These are broken into various categories for ease of discussion.

Many of the calculations in Milliman's GASB 75 report are based on the data, assumptions, and methods used in the OPEB funding valuation report prepared as of July 1, 2018. While we previously replicated the underlying valuation, the results needed for this GASB 75 report are not directly derivable from that work because they utilize different discount rates. We were able to sufficiently draw on that work to ascertain that the Total OPEB Liability for each of the three employers in the GASB 75 report were reasonable. We also previously reviewed Milliman's experience studies (both OPEB and Retirement Plan) that were the basis for the underlying assumptions used in the GASB calculations and found the actuarial assumptions to be reasonable and appropriate for use in valuing the OPEB benefits. A complete replication of the calculated liabilities for each employer was not within the scope of this project, but we have concluded that the liabilities are reasonable based upon partial replication, a review of prior results, and our expectations for the impact of different assumptions, based on our professional judgment.

We reviewed the significant calculations presented in the GASB 75 report. Our specific comments are discussed below:

#### *Discount Rate/Depletion Date Projection*

The GASB 75 standard has specific rules for determining the discount rate to be used. Milliman uses the approach described in GASB 75 to determine the discount rate by applying the long-term expected rate of return (6.30% for 2018, 6.00% for 2019) when the Fiduciary Net Position (FNP) is projected to be greater than \$0, and the 20-year municipal bond yield at the Measurement Date (3.87% for 2018, 3.50% for 2019) after the FNP is projected to be depleted. We reviewed Milliman's calculation for each agent employer included in the report and found them to be reasonable.

#### *Total OPEB Liability (TOL) and Net OPEB Liability (NOL)*

The discount rates used in the GASB 75 reports for June 30, 2018 and June 30, 2019 are different from the long-term investment return assumption used in the underlying July 1, 2018 OPEB funding valuation. However, we were able to rerun our replication of the July 1, 2018 OPEB



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valuation using the appropriate discount rates to verify that the TOL calculations were reasonable. For the June 30, 2019 TOL, this included rolling the results forward from July 1, 2018 using standard actuarial techniques. The NOL calculations are based on the TOL and are, therefore, also reasonable.

#### *Sensitivity Analysis*

We were able to assess the reasonableness of the TOL for each employer, calculated by Milliman at the alternate discount rates and health cost trend rates, using results from our replication of the July 1, 2018 OPEB actuarial valuation. We believe all of the sensitivity analyses shown in the GASB 75 report are reasonable.

#### *OPEB Expense and Deferred Inflows/Outflows*

We verified the calculation of OPEB expense and deferred inflows and outflows, based on the TOL, Fiduciary Net Position information, and the service costs shown in Milliman's report for each of the three employers. We concur with the calculation of the OPEB expense and the deferred inflow/outflow balances, including the recognition of previously deferred changes in proportionate share.

#### *Proportionate Share Allocations*

Because of the change to an agent structure in this GASB 75 report, the proportionate share allocations provided in past reports is no longer needed.

#### *Reconciliation of Net OPEB Liability (NOL)*

We verified the reconciliation of the prior and current year NOL, by employer, as shown in Milliman's report. We agreed with the results for each employer.

#### *General items*

We note that Milliman commented on both the issue of COVID-19 and the legislative changes to the Affordable Care Act that will affect future liability measurements. We believe that both of these comments are valuable for assisting the reader and that they reflect appropriate actuarial practice by Milliman.

Milliman's estimate of the impact of the legislative change is based on changes in anticipated health cost trends. Milliman provided us with their alternate assumption and the rationale for its development. We agree with the rationale and believe the revised assumption to be reasonable. We were able to adequately replicate the estimated impact of the legislative change.



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### **Conclusion**

In general, we believe that 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 75 for each employer contributing to the OPEB trust. We found no issues with the presentation of the key GASB 75 results and the related commentary in Milliman's reports. Ultimately, GASB 75 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 without audit on information (some oral and some in writing) supplied by the Association's staff. This information includes, but is not limited to, statutory provisions, financial information, and previously issued reports. We have not performed a complete audit of the results, but have reviewed the results to confirm that they are reasonable based upon available information.

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 assistance for this review given by LACERA staff and the Milliman consultants.

I, Brent A. Banister, FSA, am a member of the American Academy of Actuaries and 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, Alisa Bennett, FSA, am a member of the American Academy of Actuaries and 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, Ph.D., FSA, EA, MAAA, FCA  
Chief Actuary

A handwritten signature in blue ink that reads "Alisa Bennett".

Alisa Bennett, FSA, EA, MAAA, FCA  
President