

☞ 05hr_JC-Au_Misc_pt75



☞ Details: Legislative Audit Bureau Report: Actuarial Audit of the Wisconsin Retirement System

(FORM UPDATED: 08/11/2010)

WISCONSIN STATE LEGISLATURE ... PUBLIC HEARING - COMMITTEE RECORDS

2005-06

(session year)

Joint

(Assembly, Senate or Joint)

Committee on Audit...

COMMITTEE NOTICES ...

- Committee Reports ... **CR**
- Executive Sessions ... **ES**
- Public Hearings ... **PH**

INFORMATION COLLECTED BY COMMITTEE FOR AND AGAINST PROPOSAL

- Appointments ... **Appt** (w/Record of Comm. Proceedings)
- Clearinghouse Rules ... **CRule** (w/Record of Comm. Proceedings)
- Hearing Records ... bills and resolutions (w/Record of Comm. Proceedings)
(**ab** = Assembly Bill) (**ar** = Assembly Resolution) (**ajr** = Assembly Joint Resolution)
(**sb** = Senate Bill) (**sr** = Senate Resolution) (**sjr** = Senate Joint Resolution)
- Miscellaneous ... **Misc**



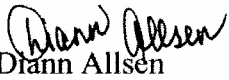
STATE OF WISCONSIN
Legislative Audit Bureau

22 E. Mifflin St., Ste. 500
Madison, Wisconsin 53703
(608) 266-2818
Fax (608) 267-0410
Leg.Audit.Info@legis.state.wi.us

Janice Mueller
State Auditor

DATE: May 31, 2006

TO: Karen Asbjornson and Pamela Matthews
Aides to the Joint Legislative Audit Committee

FROM: 
Drann Allsen
Audit Director

SUBJECT: Actuarial Audit of the Wisconsin Retirement System

Enclosed is a report for an actuarial audit of the Wisconsin Retirement System (WRS). As required by statute, we are responsible for contracting for an actuarial audit every five years. This is our fourth such audit. We contracted with the actuarial firm, Milliman, Inc. The report includes the actuary's report and responses from the Department of Employee Trust Funds (ETF) and its consulting actuary.

Overall, Milliman found the WRS' actuarial method appropriate and the consulting actuary's work for the WRS acceptable. Milliman does offer suggested improvements for the consulting actuary to consider in its actuarial work for the WRS. However, none of the suggestions represent significant concerns. The Department and consulting actuary plan to consider these suggestions when completing future actuarial valuations for the WRS.

Milliman will provide a briefing on the report to the various ETF boards at their June meeting. As part of the contract, Milliman is also willing to discuss the report at a briefing with the Joint Survey Committee on Retirement Systems.

The report will be released on Thursday, June 1, 2006, at 9:00 a.m. Please let us know if you have any questions regarding this report.

DA/bm

Enclosures



STATE OF WISCONSIN

Legislative Audit Bureau

22 E. Mifflin St., Ste. 500
Madison, Wisconsin 53703
(608) 266-2818
Fax (608) 267-0410
Leg.Audit.Info@legis.state.wi.us

Janice Mueller
State Auditor

June 1, 2006

Senator Carol A. Roessler and
Representative Suzanne Jeskewitz, Co-Chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Roessler and Representative Jeskewitz:

The Legislative Audit Bureau is required by statute to contract for the performance of an actuarial audit of the Wisconsin Retirement System (WRS) at least once every five years. An actuarial audit requires a high level of expertise in a technical area in which Audit Bureau staff do not have specialized technical skills.

After a formal request-for-proposal process, the Audit Bureau awarded a contract to an actuarial firm, Milliman, Inc., to perform the audit. Milliman has had experience conducting audits and performing other actuarial services for other public retirement systems. It also conducted the actuarial audits of the WRS in 1991 and 2001. The scope of audit services provided in this contract primarily focused on an independent verification and analysis of actuarial assumptions and valuations of the WRS. As part of this analysis, Milliman reviewed whether the provisions of 1999 Wisconsin Act 11 had been correctly incorporated into the WRS' actuarial valuations. The firm also reviewed the creation of the WRS market recognition account and the related phase-out of the transaction amortization account.

Enclosed is the actuary's audit report, much of which is quite technical, and a response from the Department of Employee Trust Funds and its consulting actuary, Gabriel, Roeder, Smith and Company (GRS). The findings, conclusions, and recommendations in the report are those of Milliman. Although we managed the audit contract, Audit Bureau staff were not involved in the fieldwork, analysis, or writing of the audit report.

Milliman found the statutorily required actuarial method used to determine WRS liabilities and funding requirements to be reasonable and appropriate. Further, Milliman concluded that the WRS' actuarial functions were being adequately performed by GRS and that the WRS actuarial assumptions are reasonable. However, Milliman does offer suggested improvements, ranging from projecting improvements in future mortality rates in the actuarial valuation for current employees to more fully describing benefit plan provisions in the actuarial reports.

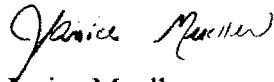
Senator Carol A. Roessler and
Representative Suzanne Jeskewitz, Co-Chairpersons

Page 2

June 1, 2006

We would like to acknowledge the professional manner in which Milliman staff carried out the audit, as well as the cooperation provided by the staff of the Department of Employee Trust Funds and GRS to Milliman staff.

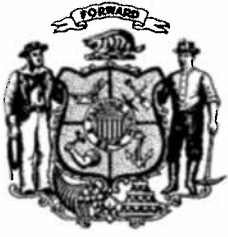
Respectfully submitted,



Janice Mueller
State Auditor

JM/DA/bm

Enclosures

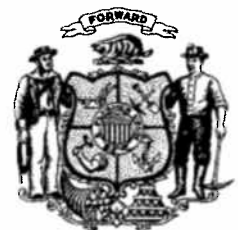


The following document was too large to scan into the committee record. The cover and table of contents, if available, have been scanned for your convenience.

Most large publications have been added to the Theoblod Legislative Library's collections. Search LRBCat (<http://lrbcats.wisconsin.gov/>) for availability.

For further assistance, contact the reference desk at (608) 266-0341 or lrb.reference@legis.wisconsin.gov.

State of Wisconsin - Legislative Reference Bureau
1 East Main Street, Suite 200
Madison, WI 53703



**Actuarial Audit
of the
Wisconsin Retirement System**

May 22, 2006

Prepared by:

MILLIMAN, INC.

**William V. Hogan, F.S.A.
Consulting Actuary**

**Timothy J. Herman, F.S.A.
Consulting Actuary**



Milliman

Consultants and Actuaries

Fax: (402) 393-1037
www.milliman.com

May 22, 2006

State of Wisconsin Legislative Audit Bureau
c/o Diann Allsen
Suite 500
22 E. Mifflin Street
Madison, Wisconsin 53703

RE: WRS Actuarial Audit Report

Ladies and Gentlemen:

The enclosed report presents the findings and comments resulting from a detailed review of the actuarial services being performed by Gabriel, Roeder, Smith & Company (GRS), the actuary retained by Employee Trust Funds for the Wisconsin Retirement System. Milliman, Inc. was requested to undertake this review project in November of 2005. An overview of our major findings is included in the Executive Summary section of the report. More detailed commentary on our review process and some suggested considerations for refinements in actuarial procedures or presentations are included in the latter sections.

We pursued this review with a constructive mindset. We looked to identify any possible suggestions that might improve understanding of or confidence in the actuarial services being provided. Naturally, some of the comments may be viewed as personal preference or nit-picky in nature. While we are not trying to impose our own preferences or biases on the Fund or the retained actuary, neither did we hesitate to make such comments if we believed that some change, however minor, would improve the actuarial functions.

This report is prepared for use by the State of Wisconsin Legislative Audit Bureau in their appropriate oversight role with regard to the Wisconsin Retirement System. It has been prepared using multi-faceted review techniques. These techniques include specific validation of a sampling of calculations. A complete duplication of the December 31, 2004 Actuarial Valuations has not been performed.

In preparing this report, we relied, without audit, on information (some oral and some in writing) supplied by GRS and the WRS staff. This information includes, but is not limited to, statutory provisions, employee data and financial information. It should be noted that if any data or other information provided to us is inaccurate or incomplete, our calculations and recommendations may need to be revised.



We would like to thank Mr. Norman Jones and Mr. Brian Murphy and their staff at Gabriel, Roeder, Smith & Co. as well as Mr. Bob Willett of the Department of Employee Trust Funds and his staff for their cooperation. Their responses to our questions and requests for information made the completion of this project possible.

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 principles prescribed by the Actuarial Standards Board (ASB) and the Code of Professional Conduct and Qualification Standards for Public Statements of Actuarial Opinion of the American Academy of Actuaries.

Any distribution of the enclosed report must be in its entirety including this cover letter, unless prior written consent is obtained from Milliman, Inc.

I, William V. Hogan, F.S.A., 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, Timothy J. Herman, F.S.A., 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.

We look forward to making a personal presentation of our findings in briefings to the Employee Trust Funds Board, the Wisconsin Retirement Board, the Teachers Retirement Board and to the Legislative Joint Survey Committee on Retirement Systems.

Sincerely,

William V. Hogan, F.S.A.
Consulting Actuary

Timothy J. Herman, F.S.A.
Consulting Actuary

Actuarial Audit of the Wisconsin Retirement System

Table of Contents

	Page
Certification Letter	
Section 1 Executive Summary _____	1
Section 2 Data Validity _____	4
Exhibit 2-1 Member Statistics _____	5
Section 3 Actuarial Assumptions _____	6
Section 4 Actuarial Funding Method _____	12
Section 5 Valuation Results _____	14
Section 6 Reports: Contents and Presentation _____	19
Section 7 Act 11 and Reserve Transfers _____	22



This work product was prepared solely for the Wisconsin Legislative Audit Bureau in their appropriate oversight role with regard to the Wisconsin Retirement System. It may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work.