



## SERS Board Governance Policy Manual

---

<b>Policy Name:</b>	<b>Independent Actuary Replication Audit Policy</b>
<b>Policy Number:</b>	2023-POL-BD-03
<b>Effective Date:</b>	May 7, 2024
<b>Reviewed Date:</b>	December 5, 2023, April 30, 2024
<b>Applies To:</b>	SERS Board and Designees
<b>Contact Person:</b>	SERS Internal Audit Director

### Purpose

The Board is required to act prudently in management of the Pennsylvania State Employees' Retirement Fund (the "Fund") and to exercise its responsibilities for the exclusive benefit of the members of the Pennsylvania State Employees' Retirement System ("SERS"). Under the State Employees' Retirement Code, the Board is charged with overseeing actuarial valuations for the Fund and the Benefits Completion Plan (the "BCP"), which is established for members that are receiving benefit payments from the Fund that would otherwise be limited by IRC Section 415(b), and making calculations for contributions, annuities, and other benefits for the Fund and the BCP.

The Board is authorized to contract for the services of actuaries and such other professional personnel as it deems advisable to assist with these tasks, which includes a qualified and independent examination of the services performed by SERS actuary. This policy describes the Board's process for performing its actuarial and funding duties. For purposes of this policy, "Board" and "Board member(s)" include designee(s).

### Actuarial Audit

Every five (5) years, the Audit, Risk and Compliance Committee shall oversee a Level 1 replication audit of SERS' funding actuarial valuation performed by an independent actuarial firm.<sup>1</sup> In compliance with the Commonwealth of Pennsylvania's procurement code, the Committee shall conduct the search (using any of the methods of source selection defined in the Procurement Code) for the independent Level 1 Replication Audit, with the assistance of staff, and make recommendations to the Board.

---

<sup>1</sup> A Level One audit is a complete actuarial valuation of the plan based on the same census data, assumptions and actuarial methods used by the plan's actuary. The goal is to replicate the results of the most recent valuation, which is sometimes called a replication audit. Generally, there is some testing of plan experience as part of the review, and also dialogue among the retirement plan representatives, the retained actuary, and the reviewing actuary. A detailed report and presentation of the findings in a meeting with plan representatives is standard.

## **SERS Board Governance Policy Manual**

---

The selected firm shall be separate and independent from the firm which has provided the actuarial services being audited.

The actuarial audit shall include an evaluation of the reasonableness and accuracy of valuation results, actuarial assumptions, and application of actuarial methodologies. The selected firm shall issue an opinion and present an in-depth report to the Committee on whether the valuations, methods, assumptions, and procedures reviewed were performed in accordance with Actuarial Standards Board standards of practice. In addition, the opinion and report should address whether the methods and assumptions used by the current actuary are appropriate for the Plan structure and funding objectives and that they are appropriately applied according to the actuarial assumptions adopted by the plan.

The contracted firm should also provide any observations, recommendations, and explanations of variances with the methodologies it uses, if different from the current actuary's methodologies. Finally, the selected firm should indicate if it would recommend any changes to SERS existing methods or practices and the basis for such recommendations.

### Website Posting

Transparency of actuarial information is an important component of accountability to beneficiaries and stakeholders. In addition to other reporting requirements, SERS shall post the results of the actuarial replication audit on its public website.

## SERS Board Governance Policy Manual

---

### Document Properties

- a. **Document Owner:** Executive Office
- b. **Document Author:** SERS Internal Audit Director
- c. **Summary of Changes:**

Date	Version	Author	Summary
05/07/ 2024	2023- POL- BD-03	SERS Internal Audit Director	As part of the 2023 Biennial review removed the Actuarial Audit responsibilities from the <i>Actuarial Services Policy, 2018-POL-BD-02</i> , as amended by the Board on July 25, 2023. Created a new Board Policy, <i>Independent Actuary Replication Audit, 2023-POL-BD-03</i> , under the oversight of the Audit, Risk and Compliance Committee. The new policy sets forth the process the Board has established for performing its actuarial and funding oversight duties through an independent third-party replication audit of SERS' actuary.