

JLBC SUBCOMMITTEE ON ACTUARIAL AUDITS

On October 24, 2006 a JLBC Subcommittee on Actuarial Audits met to hear presentations and recommendations of actuaries contracted by JLBC Staff.

The FY 2006 budget (Laws 2005, Chapter 286) appropriated monies to the JLBC Staff budget to contract with actuarial firms to conduct independent reviews of state-contracted actuarial services. The intent of this appropriation was to provide additional insight to the Legislature regarding state programs where costs are driven in part by actuarial assumptions and rates.

After reviewing the use of actuarial analysis within state government, the JLBC Staff determined that 4 programs had the greatest potential for budgetary impact: the pension systems, the state employee self-funded health insurance program, Title XIX capitation rates, and the state risk management system. Contracts to review existing actuarial assumptions, methods, and conclusions were awarded to 4 companies:

- Pensions: Segal, Inc.
- Employee Health Insurance: Milliman, Inc.
- Title XIX: Lewis and Ellis, Inc.
- Risk Management: ARMTEch, Inc.

In most cases, the findings of the reports were favorable. Only in the case of the Public Safety Personnel Retirement System (PSPRS), which also includes the Correction Officers Retirement Plan (CORP) and Elected Officials' Retirement Plan (EORP), were serious concerns raised. These concerns were of sufficient severity that Segal recommended that PSPRS conduct a parallel audit, or a full replication of the valuations and experience studies for all 3 plans, using an independent, third-party actuary. PSPRS expressed concern with several of these findings. While they agreed with some of the findings, they believe them to be largely immaterial in the overall funding of the systems. Nevertheless, PSPRS indicated that they intend to perform parallel audits to identify the magnitude of the problem and correct any errors, as recommended in the findings.

Findings for the Arizona State Retirement System (ASRS) were favorable, with only minor technical recommendations. ASRS either agreed with each recommendation or, in 2 cases, indicated why they believe the recommendations were not relevant, due to plan changes or other factors.

In the Arizona Department of Administration (ADOA) self-insured employee health program, the findings were generally favorable with some recommendations for improvements to methodology and documentation, as well as setting a 10% contingency reserve target in addition to

the current Incurred But Not Paid (IBNP) claims target. ADOA indicated that they agreed with the findings, with the exception of the of the reserve target.

The Title XIX programs also received a generally favorable review with recommendations for improved data collection and use, and to change administration funding from a flat percent of program costs. The Department of Health Services (DHS) disagreed with the latter finding.

Findings for the ADOA Risk Management System were favorable, with only minor technical recommendations. In ADOA's response, they indicated that they will discuss each of the recommendations with the actuary who conducts the FY 2007 actuarial reports. The only recommendation with which ADOA had significant concerns was setting caps on the fluctuations of agency rates.

The Subcommittee requested that agencies report back to the full Committee by March 1, 2007 on the implementation of the recommendations found in the reports.