



Public Company Accounting Oversight Board ("PCAOB")

Standing Advisory Group ("SAG") Meeting on June 18, 2015

Panelist Remarks for Company's Specialist & Comments to Questions in Staff Consultation Paper by:

Ken Lining, FCA, MAAA, EA, MBA; Consulting Actuary (Pensions & OPEB's)

The views expressed in these slides are solely the views of the presenters and do not necessarily reflect the views of the PCAOB, the members of the Board, or the Board's staff. The PCAOB makes no representation as to the accuracy or completeness of this information.

Prepared by Aon Hewitt

Consulting | Retirement and Investment

AON
Empower Results®

Outline for (Pension) Actuary Specialist Remarks

Work That Actuaries Perform

- What are the typical projects that actuaries perform?
- What other types of work do actuaries perform?
- Who are the principal stakeholders for the work performed by actuaries?

Education, Skills, Certifications, & Quality Controls

- What education, skills, and certifications are needed by an actuary serving as a Company specialist?
- How do employers supervise and maintain quality controls on their actuaries?

Role of Actuary as Company Specialist

- How does a Company utilize their actuary?
- What processes and controls does a Company employ to review the work performed by their actuary?
- How do the Company & the actuary avoid conflicts-of-interest?

Work That Pension Actuaries Perform

- What are the typical projects that actuaries perform?
 - Preparation of annual valuations for ERISA funding and accounting expense & disclosure (balance sheet) reporting under applicable standards (FASB / IAS / SSAP)
 - Supporting clients in connection with their annual corporate & plan audits
 - Preparation of information for SEC reporting, government filings, & plan certifications
 - Benefit calculations for plan participants including pension values for proxy reporting
- What other types of work do actuaries perform?
 - Providing support for corporate transactions (e.g., M&A due diligence, purchase price negotiations & “opening balance” calculations, divestitures & spinoffs)
 - Preparing internal allocations of contributions, expense, & balance sheet disclosures
 - Determining the cost impact of changes to plan provisions on funding & expense
 - Calculation of multi-year projections of contributions, expense, & balance sheet items
- Who are the principal stakeholders for the work performed by actuaries?
 - Plan participants
 - Employers and plan fiduciaries
 - Stock & bond holders of the Company’s equity & debt instruments
 - Regulators (e.g., SEC, DOL, PBGC)

Education, Skills, Certifications, & Quality Controls

- What education, skills, and certifications are needed by an actuary serving as a Company specialist?
 - Most actuaries possess college degrees in actuarial science or in a related field of study (e.g., mathematics, computer science, probability, statistics)
 - Actuarial skills & certification are then acquired over several years through supervised experience combined with successful completion of an in-depth testing regimen under one of the sponsoring actuarial organizations (e.g., Society of Actuaries, Joint Board for the Enrollment of Actuaries, Casualty Actuarial Society)
 - To be qualified to issue a “Statement of Actuarial Opinion” (“SAO”), actuaries must possess the needed experience in the applicable practice area & be able to certify that they are up-to-date with their continuing education requirements (30 hours/year)
- How do employers supervise and maintain quality controls on their actuaries?
 - Requiring peer review on work products, including committee review where needed
 - Providing and documenting continuing education (“CE”) courses & other training
 - Performing “random” internal audits & quality reviews on completed deliverables
 - Requiring annual attestations from actuaries to document they are current with their CE requirements & qualified to issue SAO’s

Role of Actuary as Company Specialist

- How does a Company utilize their actuary?
 - ERISA requires companies to hire an Enrolled Actuary to perform funding valuations
 - The same actuary generally performs the other needed work for the plan(s), e.g., the year-end accounting disclosure reporting where the actuaries interact with auditors
 - Actuaries are also frequently utilized by companies on other special projects (e.g., M&A due diligence, lump sum window calculations, Union negotiations, SERP's)
 - In general, an actuary specialist is engaged when a present value of benefits needs to be determined since this work involves calculating discounts using multiple factors
- What processes and controls does a Company employ to review the work performed by their actuary?
 - Requesting the actuary to provide adequate documentation of the data used, interpretation of main plan provisions, and principal actuarial assumptions & methods
 - Preparing reconciliations of actual vs. expected results (i.e., identify variance factors)
 - Reviewing projected cashflow streams from the actuary to confirm present values
 - Hiring auditors to perform sample testing & high-level reviews of processes & results
- How do the Company & the actuary avoid conflicts-of-interest?
 - Disclose potential conflicts (e.g., same firm on both sides of a deal, personal ownership in a company for which the actuary performs services)
 - Maintain confidentiality & do not use insider information inappropriately

Comments to Questions in Staff Consultation Paper

- Q-6b: Does Figure 1 in Section II.A accurately describe the activities for which an auditor uses the work of a company specialist?
 - Yes, agree that a qualified actuary should calculate the pension & OPEB obligations
- Q-8a: If auditor has access to specialist's methods (or models), is the access sufficiently detailed for auditor to obtain sufficient evidence?
 - Actuaries generally utilize proprietary valuation systems; however, they may provide illustrative models to auditors in some instances
- Q-8b: If auditor does not have such access, how does auditor obtain sufficient appropriate audit evidence...?
 - More typical situation so the auditors will generally review selected items, e.g., data counts, asset statements, year-to-year reconciliations of benefit obligations & assets, variances in actual vs. expected benefits paid, present value of projected cashflows
- Q-14: Is it appropriate for an auditor to consider the knowledge, skill, and objectivity of a company's specialist...?
 - Yes, and note that actuaries frequently are requested to certify to this information
- Q-15: How do auditors obtain understanding of assumptions & methods used by a company specialist?
 - Company specialist actuaries typically invest time helping auditors understand the material effects of various assumptions/methods & sensitivities to changes
 - Many of the large auditing firms employ in-house actuaries (i.e., specialists)