

## Employee Benefit Plans Alert

# Actuarial Considerations for Sponsors of Defined Benefit Plans

By Matthew J. Corona, CPA, Partner and Noor Rajah, Senior Actuarial Consultant

Plan sponsors typically engage a qualified actuary to provide actuarial services for defined benefit plans which they sponsor. This service typically includes providing management with a valuation for a plan in accordance with FASB ASC Topic 960 for determining plan accounting requirements. The valuation ultimately determines the amount a plan sponsor needs to contribute to a plan, and the actuary typically assists the plan sponsor with the determination of the PBGC premium payment they are required to make on an annual basis.

### Auditor's Responsibility and the Importance of Quality Review

When auditing a defined benefit plan, auditors have certain responsibilities they are required to perform in order to gain comfort around the work of an actuary. Audit teams spend a significant amount of time auditing the participant data and benefit obligations related to a defined benefit plan. Any issues identified during the testing of these areas could have a significant or material impact on a plan's financial statements (i.e., disclosures around the actuarial present value of accumulated plan benefits, disclosure of assumptions, and/or funded status).

Accounting firms that specialize in employee benefits typically employ their own actuaries to provide guidance to the audit team since they have the appropriate level of knowledge and expertise to oversee these services. In addition, data analytics is often used to compare the census information used by the actuary from year-to-year. This is extremely useful to the auditor in that it identifies any changes from the prior year. These changes are reviewed with management and the actuary for appropriateness.

When reviewing the work of an actuary, an auditor's responsibilities include:

- Reviewing the competency (level of expertise), capabilities (ability to exercise that competence), and objectivity (bias, conflicts of interest, influence from others) of the actuary;
- Obtaining and reviewing the complete valuation prepared by the actuary;
- Reviewing and testing the underlying census data used in calculating the valuation for reliability and completeness;
- Reviewing the actuarial assumptions for reasonableness in relation to a plan's provisions and experience and determining if any plan amendments would have an impact on the assumptions selected;
- Reviewing the actuarial present value of accumulated plan benefits (components and changes) as determined by the actuary and disclosed in the financial statements for reasonableness (any unusual fluctuations need to be investigated and resolved); and
- Determining that the contributions meet the minimum funding requirements of ERISA by reviewing the Schedule SB or MB.

### Recommendations to Plan Sponsors when Selecting an Actuary

Plan fiduciaries (anyone who exercises discretionary authority of control over management or the administration of a plan) are responsible for selecting a plan actuary and should establish a process to oversee those services. We recommend that plan sponsors employ actuaries with the appropriate skills, knowledge, and expertise to perform these services. Many plan sponsors typically engage Enrolled Actuaries who are approved by the Joint Board for the Enrollment of Actuaries to perform actuarial services required under ERISA. Selecting the appropriate actuary could have a significant impact on the operation of a plan and a plan's ability to meet its future obligations.

## Contact Us

The Employee Benefit Services Group at PKF O'Connor Davies is available to assist plan sponsors with understanding their responsibilities to oversee the services an actuary provides for them. In addition, we also offer a full spectrum of actuarial services including discount rate optimization, performing/reviewing pension or retiree medical valuations under GASB or FASB, non-qualified plan valuation, expert witness testimony, multi-employer plan withdrawal liability analysis, etc.

For more information on actuarial services, please contact your client service partner or either of the following:

Matthew J. Corona, CPA, Partner  
Employee Benefit Services Group  
[mcorona@pkfod.com](mailto:mcorona@pkfod.com) | 914.341.7032

Noor Rajah, Senior Actuarial Consultant  
Employee Benefit Services Group  
[nraja@pkfod.com](mailto:nraja@pkfod.com) | 917.275.3802

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