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GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

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2025-1 Compliance with Peer Actuarial Audit and Actuarial Experience Study Requirements for Defined Benefit Retirement Health Benefit Systems (OPEB) under Public Act 202 of 2017

Intended Audience: Local governments that offer defined benefit retirement health benefits (OPEB); those local government employees including but not limited to, clerks, treasurers, elected officials, finance directors, city, township, or village managers, accounting staff, and auditing or actuarial professionals.

Summary

Numbered Letter 2025-1 provides guidance and information around requirements for defined benefit retirement health benefit systems (OPEB) found in [Section 4 \(1\)\(c-d\)](#) of the [Protecting Local Government Retirement and Benefits Act, Public Act 202 of 2017](#) (the Act). The Retirement System Annual Report (Form 5572) has annually communicated these general requirements; however, this numbered letter is designed to provide additional guidance and clarity.

Public Act 202 of 2017, Section 4(1)(c-d): Beginning July 1, 2018, if a local unit of government offers or provides an employee of the local unit of government, or a former employee first employed by the local unit of government before the effective date of the Act, with an OPEB benefit, the local government must do all of the following:

- 1) At least every 5-years, the local unit of government shall have an actuarial experience study conducted by the plan actuary for each OPEB system of the local unit of government.
- 2) At least every 8-years, the local unit of government shall do at least one of the following:
 - i. Have a peer actuarial audit conducted by an actuary who is not the plan actuary.
 - ii. Replace the plan actuary.

Compliance Requirements¹

A local government that is eligible to use a specified alternative measurement method for its OPEB system(s) under Governmental Accounting Standards Board (GASB) standards are exempt from the requirements outlined in this numbered letter. Generally speaking, the alternative measurement method is available to OPEB systems that have less than 100 participants, however additional information can be found in GASB Statement No. 75².

Local governments with OPEB systems that are not exempt shall comply with the requirements regarding experience studies and peer-actuarial audits (or replacement of the actuary) as outlined in this numbered letter. Local governments will be required to certify in the annual Form 5572 that the requirements detailed in this numbered letter have been met.

Failure to certify compliance with these requirements may result in a determination of underfunded status pursuant to section 5(4) of the Act.

Experience Study Requirements

All OPEB systems that are not exempt from these requirements shall complete an experience study at least every 5 years. OPEB systems with an experience study performed prior to this date will be required to have its next experience study no more than 5-years following the previous study or valuation measurement period ending December 31, 2023, whichever is later.

An experience study looks back at the actual experience of the OPEB system compared to demographic, and economic assumptions, and recommends changes to current demographic, economic, and capital market assumptions.

In accordance with section 4(1)(c) of the Act, each local government shall conduct an experience study for each eligible OPEB system required to report under the Act that is not exempt from this requirement. A valid experience study should review the actual experience of the assumptions listed below (where applicable and as necessary), consistent with guidance provided by your OPEB system board or actuaries. Experience that is not credible by itself can be supplemented by appropriate industry studies and similar information:

1. Healthcare inflation – initial and ultimate trend rates (review for both Medicare and pre-Medicare, as well as medical and prescription where applicable)
2. Interest rate of return and discount rate (if applicable and to the extent it is not performed during annual/biannual valuations)
3. Age Curve
4. Mortality rates

¹ While only OPEB systems are required to comply with the requirements of this numbered letter, it is recommended that experience studies and peer actuarial audits be considered by Trustees as a fiduciary best practice for defined benefit retirement pension systems as well.

² <https://gasb.org/page/PageContent?pageId=/standards-and-guidance/pronouncements/summary-statement-no-75.html>

5. Disability rates
6. Retirement Rates
7. Termination/withdrawal rates
8. Coverage election rates

Experience studies should be used to determine necessary changes to demographic, and economic actuarial assumptions used to accurately project liabilities and annual payments. Experience studies are recommended to cover an experience study period of a minimum of five (5) years; however, a longer or shorter period can be used if the actuary determined it would produce a more appropriate data set for setting a particular assumption.

Peer Actuarial Audit Requirements

All OPEB systems that are not exempt from these requirements shall have a peer actuarial audit or replace the plan actuary at least every 8 years, beginning with the most recent valuation measurement period ending after December 31, 2026. Retirement systems having replaced its plan actuary or having a peer actuarial audit performed more recently will be required to have its next peer actuarial audit or replace its plan actuary no more than 8-years from the valuation year end of the last peer actuarial audit or replacement of plan actuary, or for the most recent valuation issued for the valuation measurement period ending after December 31, 2026, whichever is later.

Replacement of the plan actuary for local government's OPEB system(s) would involve selecting a primary consulting actuary or actuarial firm that is independent of the plan's current consulting actuary and actuarial firm.

A peer actuarial audit involves engaging the services of an outside actuary (reviewing actuary) to scrutinize the work of the plan's consulting actuary. A reviewing actuary should be independent of the plan's consulting actuary and actuarial firm. Peer audits are helpful for several reasons:

1. They enhance the credibility of the actuarial valuation process by providing independent assurance that it was performed in accordance with actuarial standards of practice.
2. They increase public trust in how the retirement plan is being governed.
3. They help plan fiduciaries to assess whether the retirement plan is meeting its funding objectives.
4. They can lead to the remediation of errors that might otherwise go undiscovered; and
5. They can provide recommendations for improving the actuarial valuation process, including how information is presented in the actuarial valuation report and other communications.

This directive is designed to ensure that more than one actuary has performed or validated the actuarial valuation or it's methods during an eight-year period. Therefore, a peer audit would not be necessary if the consulting actuary had changed during that timeframe.

Peer actuarial audits are distinguished by the types of services performed by the reviewing actuary³:

- Level one or full scope audit – The auditing actuary fully replicates the original actuarial valuation, based on the same census data, assumptions, and actuarial methods used by the plan’s consulting actuary. In addition, the reviewing actuary examines the consulting actuary’s methods and assumptions for reasonableness and internal consistency.
- Level two actuarial audit – The auditing actuary does *not* fully replicate the consulting actuary’s valuation but instead uses a sampling of the plan’s participant data to test the results of the valuation. The reviewing actuary also examines the consulting actuary’s methods and assumptions for reasonableness and internal consistency.
- Level three actuarial audit - The auditing actuary examines the consulting actuary’s methods and assumptions for reasonableness and internal consistency but does not perform actuarial calculations.

Local governments that administer plans offering OPEB benefits that are not exempted, will determine which peer audit will best suit their system’s needs.

When procuring services for a reviewing actuary, plan fiduciaries, and plan sponsors are encouraged to use the same RFP process⁴ as for a consulting actuary.

³ <https://www.gfoa.org/materials/actuarial-audits>

⁴ <https://www.gfoa.org/materials/procuring-actuarial-services>