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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Incomplete Participant Data Affect Reliability Of Values Placed By Actuaries On Multiemployer Pension Plans

Pension plan participant data (age, years of service, and gender) are crucial in determining the actuarial value of pension plans GAO found, however, that many multiemployer pension plans lack complete participant data, causing liabilities and costs of some plans to be under- or over-stated by millions of dollars Accordingly, GAO recommends that the Secretary of Labor issue regulations providing guidance for the maintenance of participant data by pension plans and expand its enforcement program, in cooperation with the Internal Revenue Service, to ensure that participant data are obtained

Actuaries usually disclose the extent of missing participant data, but few indicate whether such omissions affect the accuracy of the actuarial valuations GAO recommends that the Joint Board for the Enrollment of Actuaries--a board appointed by the Secretaries of Labor and the Treasury which establishes standards and qualifications of actuaries who certify pension plan data--promote action by and work in cooperation with the actuarial profession to develop criteria and standards for disclosing the potential effect of material amounts of missing participant data on the reliability of actuarial valuations.

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UNITED STATES GENERAL ACCOUNTING OFFICE

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

This is the third in a series of reports in response to the requirement in the Multiemployer Pension Plan Amendments Act of 1980 that GAO study the effect of the act on employers, participants, and others. It focuses on the development and reporting of actuarial information.

Copies of this report are being sent to the Director, Office of Management and Budget; Secretaries of Labor and the Treasury; Chairwoman, Joint Board for the Enrollment of Actuaries; Commissioner of Internal Revenue; Board of Directors and Executive Director of the Pension Benefit Guaranty Corporation; American Academy of Actuaries; Conference of Actuaries in Public Practice; American Society of Pension Actuaries; Society of Actuaries; and other interested parties.

Charles A. Bowsher
Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

INCOMPLETE PARTICIPANT DATA AFFECT RELIABILITY OF VALUES PLACED BY ACTUARIES ON MULTIEMPLOYER PENSION PLANS

D I G E S T

The Employee Retirement Income Security Act of 1974 (ERISA) was the first comprehensive federal legislation regulating the private pension system. Because of concern that ERISA might not be adequate to prevent many financially troubled multiemployer defined benefit pension plans from terminating, the Congress passed the Multiemployer Pension Plan Amendments Act of 1980 (MPPAA). Multiemployer defined benefit pension plans are those which are established and maintained through collective bargaining agreements between employee representatives and more than one employer, and generally provide benefits based on such factors as years of employment.

The main purposes of MPPAA were to protect participants' and beneficiaries' interests by strengthening the financial condition of multiemployer plans and to encourage their growth and maintenance. More specifically, MPPAA required increased funding for all plans, special funding for financially distressed plans, and continued funding of the plans by certain employers that withdraw. (See p. 1.)

ACTUARIAL INFORMATION IS USED BY PLAN TRUSTEES AND GOVERNMENT AGENCIES

Application of the major financial provisions of MPPAA depends on valuations developed by actuaries, who are individuals expert in the design, financing, and operation of insurance, pension, and other employee benefit plans. These valuations are used by pension plan trustees to manage their plans. Among other things, they help determine the (1) financial condition of the plan, (2) required annual payments by employers to the plan, and (3) affordability of potential benefit increases. (See pp. 2 to 6 and 19 to 21.)

Actuarial valuation results are also included in pension plan annual reports. These reports, which are required by ERISA, are used by government agencies--the Department of Labor, the

Internal Revenue Service (IRS), and the Pension Benefit Guaranty Corporation (PBGC)--to implement, administer, and enforce specific requirements of the acts. The information in the annual reports must be certified by actuaries approved by the Joint Board for the Enrollment of Actuaries, which is appointed by the Secretaries of Labor and the Treasury. The Joint Board was created by ERISA to regulate actuaries who provide services to private pension plans. (See pp. 3, 6, and 21 and 22.)

GAO REQUIRED TO STUDY EFFECTS OF MPPAA

MPPAA requires GAO to study and report on its effects. Because of the complexities of the issues involved, GAO separated the study into segments by major functions and areas of concern which MPPAA was believed to affect. This report, which focuses on the development and reporting of actuarial information, is the third in a series of reports GAO is issuing on multiemployer pension plans. (See p. 7.)

GAO used random selection techniques to select 149 multiemployer pension plans with about 3.5 million participants from a universe of 1,924 plans with 8.3 million participants. GAO reviewed actuarial valuations for 143 of the 149 plans (valuations for 6 plans were not available) to determine the (1) extent to which individual plans included complete participant data, (2) potential and in some instances the actual effect of incomplete data on actuarial calculations, and (3) progress made by plans in obtaining complete data on plan participants.

GAO discussed the ramifications of incomplete participant data with representatives of four firms providing actuarial services to many multiemployer pension plans, the American Academy of Actuaries, the Executive Director of the Joint Board for the Enrollment of Actuaries, and officials of PBGC, the Department of Labor, and IRS. (See pp. 7 to 9.)

INCOMPLETE PARTICIPANT DATA AFFECT THE RELIABILITY OF ACTUARIAL VALUATIONS

Actuarial valuations for pension plans are more reliable when based on complete and accurate participant data. Such data--age, years of service, and gender of each participant--are factual in nature and underlie all actuarial calculations. According to Department of Labor officials, fiduciaries (plan administrators and trustees) have a continuous obligation to maintain those records needed in the management and administration of a plan, including the participant data that an actuary would need to perform an actuarial valuation. Labor is responsible for developing and enforcing pension plan standards for fiduciaries but has not included guidance for the maintenance of participant data in its regulations. (See pp. 10 to 12.)

GAO found that 76 of the 143 plans in its study, or 53 percent, lacked complete data on active participants. For the 76 plans, there were over 330,000 active participants for whom at least one of the three elements of information (age, years of service, and gender) was missing. This was 13 percent of the total participants in the 143 plans, but it ranged from 1 to 75 percent on individual plans. The larger pension plans have the greatest percentage of participants for whom some data were missing. (See pp. 13 to 15.)

Without complete and accurate participant data, the actuary must make assumptions about the unknown participant characteristics. When these missing data are subsequently obtained, actuarial results can differ substantially from previous actuarial valuations. For example, when previously missing birthdates for 12,000 participants were obtained in one plan, the actuarial liability from one valuation to the next increased by about $46 million. This means that this particular plan would need an additional $46 million to meet its projected pension benefit obligations. A similar situation in another plan involving 1,700 participants caused a decrease in the actuarial liability of about $20 million. In this case, the plan would need about $20 million less than anticipated to meet projected pension benefit obligations. (See pp. 17 and 18.)

NEW REGULATIONS ARE NEEDED FOR MAINTENANCE OF PARTICIPANT DATA

As the previous information shows, trustees, as fiduciaries of multiemployer pension plans, need reliable actuarial information to make informed management decisions, such as the feasibility of increasing benefits, and to protect the interests of participants and beneficiaries as required by MPPAA. Further, Labor, IRS, and PBGC are responsible for carrying out ERISA and MPPAA provisions and publish regulations implementing those provisions. Officials of these agencies told GAO that they need accurate information to ensure the financial integrity of pension plans and carry out their other responsibilities under the acts. (See pp. 1, 2, and 19 to 22.)

Due to the constant stream of new employees into pension plans, however, some actuaries and pension plan administrators told GAO that complete data, under the best of circumstances, can probably be obtained for only 90 to 95 percent of the participants in many of the plans. GAO found, however, that the problem goes beyond new employees; much participant data were missing for employees who had been working for years. Also, 67 of the 143 plans GAO reviewed had complete participant data, and another 23 plans had data for at least 95 percent of the participants. This indicates that plans with missing participant data, especially those missing large amounts of data, could obtain more complete participant data. (See pp. 15 and 16.)

Plan administrators for those plans with higher percentages of missing data said that some employers and unions were not cooperating in submitting the requested participant data. Some administrators have tried various methods to obtain the data, e.g., contacting the participants directly, with some success; others have done little to follow up and obtain the missing data. (See p. 16.)

In a draft of this report, we proposed that Labor issue regulations establishing standards for the maintenance of complete participant data by pension plans to assure the adequacy of actuarial valuations. In commenting on this proposal, Labor stated (see app. I) that it did not believe that regulations are necessary. Rather, Labor stated its belief that existing guidelines and procedures for annual audits of plans by certified public accountants, in conjunction with fiduciary standards established under ERISA, are adequate. Labor considers that the fiduciary standards generally call for fiduciaries of multiemployer pension plans to make reasonable and diligent efforts to collect participant data.

In view of the nature of the findings in this report on incomplete participant data, GAO believes Labor should issue regulations to ensure that pension plan trustees maintain sufficiently complete and accurate participant data to aid the actuary in making a reliable actuarial valuation. This would increase the importance of obtaining the data and give plan administrators more leverage in dealing with the employers and unions. (See pp. 25 to 27.)

GAO does agree with Labor that it is not necessary to describe specifically all types of data a plan must maintain. GAO also agrees with the American Academy of Actuaries that a uniform level of data sufficiency should not be applied to all plans and that administrative feasibility and cost-benefit considerations should be part of the regulatory process (see app. II). Accordingly, GAO believes the regulations should establish guidelines for the maintenance of sufficient participant data by pension plans to enable the actuaries to calculate reliable actuarial valuations rather than, as GAO initially proposed, establish standards for the maintenance of complete participant data by pension plans. The regulations GAO envisions would allow the plans flexibility in dealing with varied circumstances and be similar to regulations Labor published for fiduciaries which provide general guidance on fiduciary responsibilities. (See pp. 15, 16, and 27.)

LABOR AND IRS ENFORCEMENT PROGRAMS SHOULD BE EXPANDED TO INCLUDE PARTICIPANT DATA

Labor is concentrating enforcement efforts on the inappropriate use of plan assets and considers the adequacy of participant data to be of low priority. Likewise, IRS' guidelines for reviewing multiemployer plans do not require an examination of the completeness and accuracy of participant data. GAO believes that Labor and IRS enforcement programs should be expanded to include the review of actuarial valuation reports so compliance with the regulations on the maintenance of participant data can be determined. These agencies could easily determine the completeness of participant data during their normal pension plan reviews by obtaining and reviewing actuarial valuation reports. This additional procedure would, in GAO's view, require little additional enforcement effort. (See pp. 23 and 24.)

DISCLOSURE OF POTENTIAL EFFECTS OF INCOMPLETE DATA IN ACTUARIAL REPORTS IS INADEQUATE

The American Academy of Actuaries and the Society of Actuaries recommend that the actuarial reports for pension plans--the formal communication of the actuarial valuation--indicate the extent to which any valuation is based on incomplete participant data and the associated probable effects on the accuracy of actuarial calculations. However, there is no guidance on when and how this should be done. Also, the Joint Board for the Enrollment of Actuaries requires that actuaries certified by the Joint Board clearly identify any "material inadequacies in data and the implications thereof" but does not define or provide criteria as to what is a "material inadequacy in data." (See p. 36.)

GAO found that for those 23 plans lacking complete data for over 20 percent of their active participants, the actuarial reports usually contained a statement to the effect that plan officials should make a greater effort to get the data. However, only 3 of these 23 reports, and only 5 reports on the 76 plans with missing data, included statements by the actuaries that the situation could affect the reliability of actuarial results, and none mentioned the extent of the potential effect in their certifications. The lack of such statements applied even in those instances where large amounts of participant data were missing and large dollar fluctuations in actuarial results occurred when previously missing data became available. (See pp. 34 and 35.)

In addition, report statements regarding the lack of complete participant data were in the body of actuarial reports rather than in a summary or certification statement where material inadequacies would be highlighted. (See pp. 17 and 34 to 36.)

The Executive Director of the Joint Board for the Enrollment of Actuaries expressed concern to GAO over the lack of statements in actuarial reports and certification statements on the potential effect of missing participant data on the reliability of actuarial results. (See p. 37.)

RECOMMENDATIONS TO THE SECRETARIES OF LABOR AND THE TREASURY AND THE COMMISSIONER OF INTERNAL REVENUE

To aid pension plans in obtaining and maintaining complete data on all participants, GAO recommends that

--the Secretary of Labor issue regulations under its ERISA authority to provide guidance for maintaining participant data and

--the Secretary of Labor and the Commissioner of Internal Revenue direct their respective enforcement groups, in reviewing multiemployer plans, to expand the scope of their audits to include a review of actuarial valuation reports to ascertain whether participant data are sufficiently complete to enable the actuaries to make reliable actuarial valuations. (See p. 32.)

GAO also recommends that the Secretaries direct the Joint Board for the Enrollment of Actuaries to promote action by and work in cooperation with the actuarial profession to develop appropriate criteria and standards for the disclosure of the potential effect of material amounts of missing participant data on the reliability of actuarial valuations. (See p. 39.)

AGENCIES' AND ACTUARIAL ASSOCIATIONS' COMMENTS AND GAO'S EVALUATION

GAO received comments on this report from the Departments of Labor and the Treasury, PBGC, IRS, the Joint Board for the Enrollment of Actuaries, the American Academy of Actuaries, and the Conference of Actuaries in Public Practice. (See apps. I through VII.)

There was general agreement among the agencies and associations that participant data are crucial to the reliability of an actuarial valuation for a multiemployer pension plan. Further, they generally agreed that reliable actuarial valuations are necessary for the effective and efficient administration and regulation of multiemployer pension plan activities. There also was general agreement on GAO's recommendation to develop appropriate criteria and standards for the disclosure of the potential effect of material amounts of missing participant data on the reliability of actuarial valuations. Both actuarial associations emphasized the need for prompt implementation of this recommendation. (See pp. 32, 33, and 39 to 41.)

Labor does not concur with GAO's recommendations to issue regulations on participant data and expand its enforcement efforts to review actuarial reports to identify plans lacking participant data. Labor believes that existing guidelines and procedures, in conjunction with the fiduciary standards established under ERISA, are adequate. However, in view of GAO's findings on incomplete participant data which affect the reliability of actuarial valuations, GAO believes that Labor should issue regulations and, in cooperation with IRS, expand its enforcement efforts. IRS indicated (see app. III) a willingness to assist Labor in identifying plans where participant data are inadequate. (See pp. 25 to 27 and 28 to 30.)

Contents

ABBREVIATIONS

ERISA	Employee Retirement Income Security Act of 1974
GAO	General Accounting Office
IRS	Internal Revenue Service
MPPAA	Multiemployer Pension Plan Amendments Act of 1980
PBGC	Pension Benefit Guaranty Corporation

CHAPTER 1

INTRODUCTION

The Multiemployer Pension Plan Amendments Act of 1980 (MPPAA) was enacted on September 26, 1980, to amend the Employee Retirement Income Security Act of 1974 (ERISA). ERISA was the first comprehensive federal legislation regulating the private pension system. MPPAA made extensive changes to the ERISA provisions relating to multiemployer defined benefit pension plans[1] (hereafter referred to as multiemployer plans). It was enacted because of congressional concern over the potential inadequacy of ERISA to prevent many multiemployer plans with potential financial problems from terminating.

MPPAA's main purposes were to protect participants' and beneficiaries' interests by strengthening the financial condition of multiemployer plans and to encourage their growth and maintenance. The major financial features of MPPAA were requirements to increase funding for all plans, provide special funding for financially distressed plans, and provide continued funding of the plans by certain employers that withdraw from particular plans.

Responsibility for carrying out ERISA and MPPAA provisions is assigned to the Department of Labor, the Internal Revenue Service (IRS), and the Pension Benefit Guaranty Corporation (PBGC). Each organization publishes regulations implementing provisions of the acts, and Labor and IRS have programs of enforcement to ensure compliance.

Labor deals primarily with protecting employee and beneficiary benefit rights. Among other things, Labor requires that plan trustees fully disclose the financial condition of the plan and use plan assets solely for the benefit of plan participants and their beneficiaries. IRS deals with those provisions of the Internal Revenue Code embodied in the acts. These provisions include minimum funding standards, determining the tax status of plans, and appropriateness of the employers' deductions for contributions to the plans. PBGC is a government corporation which

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[1]Defined benefit pension plans generally provide specifically determinable benefits based on such factors as years of employment and compensation received. They include plans which are sponsored by single employers (referred to as single employer defined benefit pension plans) and those which are established and maintained through collective bargaining between employee representatives and more than one employer (referred to as multiemployer defined benefit pension plans).

maintains an insurance program to protect benefits of plan participants and their beneficiaries in the event that multiemployer pension plans become insolvent.

Multiemployer plans subject to ERISA and MPPAA are required to report voluminous data to the government annually. The types of data include plan types, participants, mergers, terminations, assets, liabilities, expenses, and actuarial data. These annual reports are filed with IRS. IRS processes the reports, incorporates them into its computer system, and provides copies of the computer tapes to Labor and PBGC.

MPPAA requires GAO to (1) study the effects of its provisions on participants, beneficiaries, employers, and others and (2) report the results of the study to the Congress by June 30, 1985. This report is part of the required study and deals with the development and reporting of actuarial information. Such development and reporting is done by an actuary who is an expert in the design, financing, and operation of insurance, pension, and other employee benefit plans. Application of the major provisions of MPPAA depends on actuarial information.

TRUSTEES ARE RESPONSIBLE FOR MANAGEMENT OF MULTIEMPLOYER PLANS

Multiemployer plans are generally governed by trust fund agreements executed between a union(s) and certain employers operating within the geographical jurisdiction of the associated union(s). Each plan is generally managed by a board of trustees composed of an equal number of employer and employee representatives. The boards establish all rules and regulations for administration of the plans. The rules and regulations normally apply to such things as (1) eligibility requirements for plan participation, (2) type of benefits which usually include normal, early, and disability retirement and preretirement death benefits, (3) benefit amounts, (4) benefit eligibility requirements, and (5) benefit annuity options.

Pension plans are generally financed through employer contributions made on behalf of its employees. Employer contributions are established through the collective bargaining process, and the manner in which the contributions are to be made is set forth in the applicable labor contract. Contributions are used to pay current pension benefits and administrative expenses, with any remainder being invested in various types of marketable securities, such as common and preferred stock and fixed income securities. These securities generate additional income for the pension plan in the form of interest, dividends, and appreciation in asset value.

Because trustees are involved in the many duties associated with being either an employer, employer association official, or labor union official, the day-to-day administration of the plan is entrusted to an administrator. The administrator's responsibilities include collecting employer contributions (payments to the plan), processing retirement applications, and paying benefits. Also, the administrator is responsible for developing, implementing, and maintaining the necessary records systems to administer the plan. In addition to employing an administrator, a plan's trustees buy professional services from outside firms--legal, investment, actuarial, and public accounting--to assist them in the management and administration of the plan.

While many purchased services are needed by the trustees in the management and operation of a pension plan, perhaps none is more important than the services provided by the actuary. The actuary is usually involved in the initial design of the pension plan, periodically values the plan to determine its financial status, and is frequently called on to render advice to the board of trustees on matters that could financially affect the plan.

ACTUARIES ARE HIGHLY TRAINED PROFESSIONALS

Actuaries traditionally have educational backgrounds that emphasize mathematics. In this work, they often use knowledge of algebra, probability, and statistics to define, analyze, and solve problems involving financial risk. The financing of a pension plan, for example, can require estimates and calculations of future income and outgo for several decades and for thousands of participants. In those calculations, the actuary uses probabilities of death, disability, and retirement with algebraic formulas to determine employers' required annual plan contributions.

To be eligible to perform actuarial services for a multiemployer plan, an actuary must be what is referred to as an enrolled actuary. Specifically, an enrolled actuary is an individual who has satisfied the standards and qualifications set forth by the Joint Board for the Enrollment of Actuaries. The Joint Board was established by the Secretaries of Labor and the Treasury--as required by ERISA--to regulate those actuaries providing services to private pension plans covered by the act.

Under the regulations established by the Joint Board to be an enrolled actuary, an individual must have (1) qualifying experience, (2) basic actuarial knowledge, and (3) pension actuarial knowledge. To meet the experience requirement, an individual within a 10-year period immediately preceding application for enrollment must have completed either

--a minimum of 36 months of responsible pension actuarial experience or

--a minimum of 60 months of responsible actuarial experience, including at least 18 months of responsible pension actuarial experience.

To meet the basic actuarial knowledge requirement, an applicant must either

--successfully complete an examination prescribed by the Joint Board in basic actuarial mathematics and methodology including compound interest and principles of life contingencies;

--successfully complete one or more proctored examinations given by an actuarial organization which the Joint Board has determined cover substantially the same subject areas, have at least a comparable level of difficulty, and require at least the same competence as the Joint Board basic examination; or

--receive a bachelor's or higher degree from an accredited college or university after the satisfactory completion of a course of study in which the major area of concentration was actuarial mathematics or its equivalent.

To meet the pension actuarial knowledge requirement, an applicant must either

--successfully complete an examination prescribed by the Joint Board in actuarial mathematics and methodology relating to pension plans including the provisions of ERISA relating to the minimum funding requirements and allocation of assets on plan termination or

--successfully complete one or more proctored examinations given by an actuarial organization which the Joint Board has determined cover substantially the same subject areas, have at least a comparable level of difficulty, and require at least the same competence as the Joint Board pension examination.

ACTUARIES ARE INVOLVED IN DESIGNING PENSION PLANS

Plan trustees look to the actuary for assistance in designing the basic provisions of the plan. The actuary, being involved in evaluating pension plans, possesses the knowledge, experience, and understanding of the various components and provisions that comprise a pension plan and is the person most capable of estimating the potential cost of the many provisions that could be adopted.

Some of the basic factors in plan design include

--benefit formula for normal retirement,

--service and age requirements for participation,

--retirement annuity options and eligibility requirements,

--contribution rate structure,

--pension credit requirements,

--disability provisions, and

--death provisions.

These provisions are fundamental to pension plans and are formalized in the collective bargaining agreement and pension plan document. These documents provide the operating framework for the pension plan at the time it is initially designed as well as during its operation over the ensuing years.

ACTUARIES PERIODICALLY VALUE PENSION PLANS

Under ERISA, an actuarial valuation must be made of each plan at least once every 3 years. Actuarial valuations, among other things, are intended to determine (1) the financial condition of the plan, (2) the required annual employer contributions, and (3) if a pension plan is on track toward the goal of having sufficient assets to meet benefit payments as they fall due. This determination is performed by comparing estimated future benefit payments with available assets and future anticipated contributions. The basic mathematical technique that the actuary uses to make calculations is called an actuarial cost method. There are several such cost methods used for multiemployer pension plans, and each produces a different pattern of annual payments to pay for the promised benefits.

The results of these periodic valuations are presented in formal reports submitted to the pension plan board of trustees. According to generally accepted actuarial practices, an actuarial report should present results showing the current financial status and projections that give an insight into the future. Also, it should include suggestions/recommendations for timely action whenever needed. Generally, actuarial reports are used to:

--Provide information concerning the adequacy of employer contributions and substantiate their tax deductibility.

--Provide a description of emerging plan experience since the date of the prior valuation. Such experience will be used, in part, to justify changes in actuarial assumptions pertaining to future expected plan experience.

--Serve as a reference source for discussions throughout the year relating to the plan.

--Provide enough statistical information and other details to enable other knowledgeable independent persons to determine the reasonableness of the valuation results and the reasonableness of any recommendations made.

Since the passage of ERISA, the information presented in the actuarial valuation report has been expanded to meet various statutory requirements imposed by ERISA and MPPAA. For example, ERISA requires enrolled actuaries to certify to the actuarial information included in the plan's annual report to the government. The required certification follows.

> "To the best of my knowledge, the information supplied in this schedule and on the accompanying statement, if any, is complete and accurate, and in my opinion the assumptions used in the aggregate (a) are reasonably related to the experience of the plan and to reasonable expectations, and (b) represent my best estimate of anticipated experience under the plan."

Although the above certification is required pursuant to ERISA to be included in the annual report to the government, the actuary is not required to certify in the actuarial valuation report to the plan trustees that the actuarial information or results are complete and accurate. However, many actuaries employed by firms providing actuarial services to multiemployer pension plans include the above or a similar certification statement in their reports.

ACTUARIES PROVIDE TRUSTEES WITH ADVISORY SERVICES

In addition to their involvement in a plan's initial design and the preparation of a valuation report, many actuaries attend board of trustees meetings. Generally, at these meetings, the actuary discusses not only the valuation results but also such matters as the (1) feasibility of adopting benefit increases and the resulting financial effect on the plan, (2) financial strategies to be considered to assure an orderly accumulation of assets in the fund, (3) employment trends in the industry, and (4) potential consequences of a plan merger.

OBJECTIVES, SCOPE, AND METHODOLOGY

Generally, our legislatively mandated study objectives were to determine MPPAA's effects on parties associated with multiemployer plans. Because of the broad objectives and complexities of the issues involved, we separated the study into segments by major functions and areas of concern which MPPAA was believed to affect. This report, which focuses on the development and reporting of actuarial information, is the third in a series of reports[2] we are issuing on multiemployer plans.

To have a common frame of reference and basis for overall analysis and to minimize the effect of our study on multiemployer plans and associated parties, we (1) focused our study on 149 multiemployer pension plans with 100 or more participants and (2) used the data collected as the primary data source for all segments of our study.

We used random selection techniques to select the 149 plans from the total plans being administered in 14 states and the District of Columbia. For the selection process, we used plans that were recorded by PBGC in July 1981 as having paid premiums for plan year 1979. The selected plans had about 3.5 million participants.

We chose the 14 states and the District of Columbia because the multiemployer pension plans in those areas covered a diversity of plans by industry, all geographical regions of the country, large nationwide plans, and about 70 percent of the participants in all multiemployer plans.

In plan year 1979, the 149 sample plans and their participants represented about

--11.7 percent of the 1,276 multiemployer plans with 100 or more participants being administered in the 14 states and the District of Columbia and about 56 percent of the 6.2 million participants reported by the 1,276 plans and

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[2] Multiemployer Pension Plan Data Are Inaccurate and Incomplete (GAO/HRD-83-7, Oct. 25, 1982) and Assessment of Special Rules Exempting Employers Withdrawing from Multiemployer Pension Plans from Withdrawal Liability (GAO/HRD-84-1, May 14, 1984).

--7.7 percent of the 1,924 total multiemployer plans with 100 or more participants and about 42 percent of the 8.3 million participants reported by the 1,924 plans.

We compared the sample plans, stratified by size and primary industry represented by the plans, with the similarly stratified total of 1,276 plans with 100 or more participants administered in the 14 states and the District of Columbia covered by the review. Based on this comparison, we believe that the 149 plans reasonably represent the sizes and industries common to multiemployer plans listed in PBGC's files as being administered in the geographic areas of the sample plans.

We concentrated our efforts on about one-third of the 149 randomly selected plans to obtain an understanding of what services the actuary provided and how actuarial information was used to help the trustees in managing the plans. These plans constituted a cross section of the 149 plans by industry, size, geographical location, as well as firms providing actuarial services. We interviewed plan administrators, trustees representing both the employers and employees, and the actuaries. Also, we reviewed minutes of trustees' meetings and correspondence between plan officials and the actuary.

We researched technical publications, articles in professional journals, and textbooks on the basic concepts underlying the various actuarial cost methods and the differences in actuarial calculations under each cost method. We supplemented this textbook approach by reviewing the more current actuarial valuations which were available for 143 of the 149 selected plans--actuarial valuations were not available for 6 of the plans. Depending upon the particular plan, the actuarial valuations ranged from plan year 1976 to plan year 1982. We also reviewed the actuarial calculations and assumptions supporting the actuarial valuation for five specific plans with the appropriate actuary. Our fieldwork was performed from March 1982 through July 1983.

The actuarial valuations for the 143 plans were also used to determine (1) the extent to which the individual plans lacked complete participant data, (2) the potential and in some instances the actual effect of incomplete data on actuarial calculations when missing data eventually become available, and (3) the progress or lack of progress made by the plans in obtaining complete data on plan participants. We contacted plan administrators for some of the plans having the more significant amounts of missing data to determine the reasons for incomplete data.

We discussed the ramifications of incomplete participant data with representatives of four firms providing actuarial services to many multiemployer pension plans as well as the American Academy of Actuaries and the Joint Board for the Enrollment of Actuaries. We also discussed the effects of incomplete participant data with officials of PBGC, the Department of Labor, and IRS.

To help us conduct the mandated study, MPPAA gave us the right to examine any information in the possession or control of the plan administrator or sponsors that we believe was pertinent to the study. MPPAA, however, prohibited us from publicly disclosing the identity of any individual in presenting the information obtained. Although this report includes individual comments, illustrations, and case studies, the information is presented in a fashion to prevent indirect disclosure.

We made our review in accordance with generally accepted government audit standards. The work was planned and carried out and the conclusions and recommendations developed in cooperation with GAO actuaries who are fellows of the Society of Actuaries.

CHAPTER 2

INCOMPLETE DATA AFFECT RELIABILITY

OF ACTUARIAL VALUATIONS

The results of actuarial valuations are more reliable when based on complete and accurate participant data. Participant data are just about the only factual information that is used during the valuation; the remainder are estimates based on projections of future events. Pension plan fiduciaries--persons, such as trustees, who exercise discretionary control or authority over plan management or assets--have an obligation to maintain sufficiently complete participant data to enable the actuary to make a reliable actuarial valuation.

Yet, we found 76 of the 143 multiemployer pension plans (53 percent) lacked complete data for over 330,000 active participants. This represented about 13 percent of the active participants in the 143 plans. The missing data, which ranged from 1 to 75 percent for the individual plans, included dates of birth, dates of employment, and gender. In some instances, dates of birth were also missing for other participants, such as beneficiaries.

When actuaries receive incomplete participant data, they make assumptions about the unknown data so that all participants are included in the actuarial calculations. When all or a portion of the incomplete data becomes available, the valuations can produce large dollar differences from those previously arrived at through use of assumptions. On one plan, for example, the actuarial liability (pension costs allocated to prior years) was reduced by about $20 million when previously missing dates of birth for almost 1,700 participants were obtained. For another plan, more complete and accurate data increased the actuarial liability by over $27 million.

Trustees of multiemployer pension plans use the results of actuarial valuations, among other things, to implement MPPAA's main financial features (e.g., the amount of continued funding needed from certain employers who have withdrawn from the pension plans) and to determine the financial condition of the plans and the affordability of benefit increases. Actuarial results are also included in annual reports which are used by IRS, Labor, and PBGC to administer and enforce ERISA and MPPAA. Thus, in order to effectively and efficiently administer pension plans, it is important to have reliable actuarial valuations based on sufficient participant data.

Plan trustees are responsible for the completeness and accuracy of participant data. In carrying out the responsibilities, however, plan administrators have encountered a lack of cooperation on the part of some employers and unions in submitting participant data. Regulations providing guidance on the maintenance of participant data and adequate enforcement by Labor and IRS would, in our opinion, provide the impetus for plan trustees to obtain adequate data for use in actuarial valuations.

PARTICIPANT DATA ARE CRUCIAL TO ACTUARIAL VALUATIONS

The determination of the present value of future benefits is central to the actuarial valuation of a pension plan. This calculation for normal retirement benefits is based on benefit provisions, participant data, and assumptions about future events involving the participants and the rate of return on the investment of plan assets. An example of such a present value calculation follows. For each participant, the actuary estimates (1) the individual participant's monthly benefit at normal retirement age, (2) the probability that the individual will survive to collect the retirement benefit, and (3) an annuity factor which is the amount of money needed at retirement to provide $1 in monthly benefits for life. Combining these three estimates for an individual and discounting the result to the present produces the present value of future benefits. Present value calculations must be made for each type of benefit currently provided under the plan, i.e., disability and death, and for each participant in the plan. Summing of these individual amounts yields the present value of future benefits for the plan as a whole as of the valuation date.

Participant data--age, years of service, and gender--comprise most of the factual data used by the actuary for calculations of the present value of future benefits. In our example, age and service are used to determine the monthly benefit. The probability of working to retirement age is based on actuarial assumptions (estimates) about the frequency of mortality, disablement, and termination of employment--events directly related to an individual's age and, in some instances, gender. The discount period used to calculate the present value is from current age to retirement age, and the discount rate reflects the plan's expected future rate of return on investments. Clearly, it is important that participant data are available and accurate.

Participant data are also used to determine how much of the present value of future benefits is applicable and payable in the current year and how much is applicable to preceding and subsequent years. For most of the pension plans we reviewed, this determination involves allocating the present value of future benefits on a relatively even basis over a participant's anticipated work life. The age of each participant is a factor in this allocation procedure. All other related actuarial figures, such as the unpaid portion of the present value of future benefits allocated to prior years (unfunded actuarial liability) flow from these calculations. The actuarial information resulting from these calculations is used to assess the financial condition of a pension plan. As a result, participant data, especially age, are fundamental for performing actuarial valuations.

MAINTAINING GOOD RECORDS IS A FIDUCIARY RESPONSIBILITY

An important feature of ERISA, designed to prevent abuse and misuse of plan funds, is the stringent requirements placed on fiduciaries. Specifically, section 404(a)(1)(A) and (B) states that:

> "A fiduciary shall discharge his duties with respect to a plan solely in the interest of the participants and beneficiaries and . . . for the exclusive purpose of . . . providing benefits to participants and their beneficiaries . . . with the care, skill, prudence, and diligence under the circumstances then prevailing that a <u>prudent man</u> acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims . . . ." (emphasis added)

Labor has primary responsibility for administering and enforcing the fiduciary provisions of ERISA. Officials of Labor's Office of Fiduciary Standards advised us that Labor considers that the maintenance of records needed in the management and administration of a plan is a continuous responsibility of the plan fiduciary. For multiemployer pension plans, these records normally would include the type of data on plan participants that an actuary would need to perform those actuarial valuations required under ERISA. Labor further considers that the prudent person requirement of ERISA generally calls for fiduciaries of multiemployer pension plans to make reasonable and diligent efforts to collect participant data. In Labor's view, matters of fiduciary conduct can be considered only case by case and are not appropriate for the imposition of specific rules by regulation. Accordingly, Labor has not issued regulations for the maintenance of participant data by pension plans.

MANY MULTIEMPLOYER PENSION PLANS LACK COMPLETE PARTICIPANT DATA

Actuarial valuations for the 143 multiemployer pension plans we reviewed show that about 53 percent lacked complete data for active participants, i.e., current workers. Some actuaries and plan administrators believe that obtaining complete data on all participants is impractical due to the constant stream of new employees. This may be true for some new employees, but 47 percent of the plans we reviewed had the data on all active participants. Further, the actuarial valuations indicate that many of the participants involved are other than new employees.

Over half of the plans reviewed are missing some participant data

We reviewed the most recent actuarial valuations for 143 multiemployers plans having over 3.5 million participants--2.5 million active participants, and 1 million participants who are inactive but will receive or were receiving benefits. As shown below, 76 of the 143 plans lacked complete data on active participants. For the 76 individual plans, the number of active participants missing at least one element of information--date of birth, date of service, or gender--ranged up to 75 percent.

NUMBER OF PLANS MISSING DATA ON ACTIVE PARTICIPANTS

Percent of missing data	Number of plans	Percent of total plans
50 - 75%	5	3
31 - 49%	8	6
21 - 30%	10	7
11 - 20%	16	11
6 - 10%	14	10
1 - 5%	23	16
Subtotal	76	53
No missing data	67	47
Total	143	100

Most of the over 330,000 participants in the 76 multiemployer plans for which participant data were missing belong to the larger plans, and as shown below, the larger plans have the greater percentage of the active participants for whom some data are missing. This schedule also shows that the most common missing characteristic is date of birth which can have a great effect on actuarial calculations. In addition, though not shown in the schedule, five plans lacked the date of birth for over 48,000 inactive participants.

EXTENT AND TYPE OF MISSING DATA BY PLAN SIZE

Plan size/ participants	Actives--primary missing characteristics				
	Date of birth	Service date	Gender	Total[a]	Percent of active participants in 143 plans
Over 50,000	145,858	62,289	63,800	226,792	13
20,001 - 50,000	50,984	484	26,283	65,941	13
10,001 - 20,000	22,599	5,384	0	26,852	19
5,001 - 10,000	4,076	68	173	4,317	6
1,001 - 5,000	4,850	1,263	0	5,630	9
501 - 1,000	376	196	0	377	4
101 - 500	369	13	0	369	7
Total	229,112	69,697	90,256	330,278	13

[a]If a plan lacked more than one of the three data elements for any one participant, the participant was only counted as one for purposes of this column. Two data elements were lacking for 58,787 participants; none lacked all three elements.

The following schedule shows that the larger the plan, the greater the likelihood that there are missing data for active participants. More importantly, it shows that regardless of plan size, complete data can be obtained.

FREQUENCY OF MISSING DATA BY PLAN SIZE				
	Number of plans			Percent of plans missing data
Plan size/ participants	Missing data	Not missing data	Total	
Over 50,000	13	3	16	81
20,001 - 50,000	13	8	21	62
10,001 - 20,000	9	5	14	64
5,001 - 10,000	8	6	14	57
1,001 - 5,000	18	18	36	50
501 - 1,000	6	9	15	40
101 - 500	9	18	27	33
Total	76	67	143	53

It may be impossible to have data on all participants, but the current situation could be improved

According to some actuaries and plan administrators, most pension plans have some incomplete participant data at any point in time due to the number of people entering and, in some instances, leaving plans before the information can be obtained and/or verified as correct. They stated that these participants have minimal effect on the actuarial values of a pension plan since they have little or no service time. They also stated there is a natural delay in obtaining data on new and transitory participants, and obtaining complete data on 90 to 95 percent of the participants is probably the maximum achievable for many multiemployer plans.

We agree that data for all new participants may not be available at the actuarial valuation date. But, the problem goes beyond new participants. For instance, we found that many of the 330,000 participants with missing data were not new employees because actuaries frequently excluded employees with less than 1 year of service from their actuarial valuations. In fact, many participants with missing dates of birth had over 4 years of service.

The American Academy of Actuaries in commenting on a draft of this report (see app. II) noted that industry workforce distribution, such as frequency of turnover and mobility, varies widely in multiemployer plans and may make the achievement of higher levels of participant data more difficult in different industries. The Academy also noted that geographical differences in plan coverage would make institution of a uniform measure of participant data sufficiency much more burdensome on some plans than on others.

We generally agree that these factors could cause delays for some plans in obtaining participant data in a timely fashion. However, as previously shown, 67 of the 143 plans we examined had complete data, and another 23 had the required data for at least 95 percent of the participants. These plans, some of which were quite large, apparently overcame the difficulties cited by the Academy. This indicates to us that plans with missing participant data, especially those with large amounts of missing data, could obtain more complete participant data.

Plan administrators' comments on missing data

We discussed the participant data problem with administrators of 15 pension plans that have experienced high percentages of missing data over the last several years. In general, the administrators stated that they and the trustees were concerned with the magnitude of missing data and were aware of the potential effect this situation may have on actuarial valuation results. They cited the lack of cooperation from employers and unions as the main problem. Participant enrollment cards requesting data, such as date of birth, beginning service date, and gender, are sent to the participants through the employer or union and are to be returned through the same channel. Many cards are not returned, according to the plan administrators, and many that are returned do not contain complete and accurate data. Some administrators follow up with additional requests when the cards are not returned, but others do not.

Some administrators have resorted to other means to obtain the data. One mailed the enrollment cards directly to the participants with return postage guaranteed. A few have used records from employee health and welfare plans. Another is attempting to require employees to fill out cards when they visit the office to collect their vacation pay. Other plans are using the trustees to convince the unions to help the plans get the data. Most have been successful to some degree but not completely. These plans were still among those lacking the most data.

ASSUMPTIONS FOR MISSING PARTICIPANT DATA AFFECT THE RESULTS OF ACTUARIAL VALUATIONS

Actuaries, when confronted with incomplete or inconsistent data on plan participants, make assumptions about these unknowns so the applicable participants can be included in the actuarial valuation. They may assume that participants with unknown dates of birth are distributed the same as those for whom dates are known or are equal in age to the average of the active participants for whom ages are known. The assumption of age may be asserted based on other known participant data, such as years of service.

Use of assumptions for unknown participant data can affect the reliability of the results of actuarial valuations. For example, in one instance where the plan lacked complete data for 41 percent of the active participants, the actuary stated in the body of the actuarial report that

> "the effect on the valuation of these employees without complete data is such that it is nearly impossible to certify the actuarial valuation results with any certainty that the costs and funding period are realistic."

In another instance where the completeness of data on active participants was deteriorating, the actuary recommended collecting missing data on a year-to-year basis and stated "otherwise, the reliability of the actuarial cost projections will be highly impaired."

The subsequent availability of previously missing participant data and their use to value the plan may cause large dollar differences from those previously reported. Changes in participant data affect many of the actuarial calculations, e.g., the present value of future benefits, the value of these benefits allocated to prior years (commonly referred to as costs allocated to prior years), and the present value of vested benefits. When viewed strictly in terms of the financial condition of a plan, changes are favorable when costs allocated to prior years are reduced. Conversely, changes increasing prior costs are unfavorable.

Actuarial valuation reports normally include a statement of changes in the actuarial results from the prior period. However, only 15 of the 76 plans with missing participant data indicated that the changes to some extent resulted from previously missing data becoming available. In the other 61 plans, the effect of changes in participant data, if any, was combined with other factors and could not be determined. The following examples of changes in valuations from the actuarial reports, which did disclose the effect of missing participant data, show that, when missing participant data are made available to the actuary, large dollar changes in the actuarial valuation can result.

EXAMPLES OF CHANGES IN ACTUARIAL VALUATIONS WHEN MISSING PARTICIPANT DATA ARE OBTAINED	
Change in prior years' costs	Reasons for change
$27,416,000 - increase	Missing age and service data for 26% of plan participants were obtained. As a result, over 2,000 participants were reclassified in the current valuation. Also, the new data resulted in some active employees being shifted between benefit groups. Most of this increase was attributable to these two events.
$45,638,000 - increase	Dates of birth for 12,000 of the 19,000 participants previously lacking such data became available. The increase was primarily attributed to this event.
$19,717,000 - decrease	Dates of birth for 1,700 of the 9,100 participants previously lacking such data became available. The decrease was primarily attributed to this event.
$4,348,000 - decrease	Dates of birth for over 2,500 of the 13,000 participants previously lacking such data became available. The largest portion of the decrease was attributed to this event.
$2,058,000 - decrease	The decrease resulted from corrections made in dates of birth and expected vesting dates previously missing.
$15,900,000 - decrease	The decrease resulted from the calculation of the value of future benefits for active participants based on the actual credited years of services. Previously, the data provided the actuary were estimated.

In commenting on this report (see app. IV), PBGC stated that it would be helpful to have a sense of materiality of the cost increase, for example, the percentage of the prior years' costs represented by the dollar increases could be shown. Also, the Joint Board for the Enrollment of Actuaries (see app. V) stated that it is more appropriate to express the effect as a percentage of the described item rather than in dollars.

We agree that showing the percentage of change in prior years' costs would normally be appropriate in determining whether the change was significant for a particular pension plan. However, of the plans in our sample that indicated adjustments in actuarial valuations resulted from missing participant data, only one plan obtained all of the missing data. Thus, citing either percentages or dollar values in relation to prior years' costs would not show the true relationship between missing data and prior years' costs and could be misleading because they are applicable to only a portion of the previously missing participant data. In the one case in our sample where the plan obtained all of the missing participant data, it resulted in an 8.2-percent change in costs charged to prior years which, in our opinion, is a material change.

Representatives of several firms providing actuarial services to a number of multiemployer plans stated that the completeness of participant data is but one of several factors affecting the accuracy of actuarial valuations. We agree that many factors used in an actuarial valuation are estimates and can be expected to vary from actual experience and usually do. On the other hand, participant data are factual. Consequently, actuarial valuations are more accurate when participant data are complete and accurate. It is only when participant data become an estimate that such data can affect the accuracy of the valuation.

ACTUARIAL RESULTS ARE USED TO MANAGE PENSION PLANS

Actuarial valuations are the source for determining the financial condition and funding status of pension plans. Consequently, they are relied on heavily by trustees to make management decisions, such as the plan's funding policy and increases in benefits. Actuarial information is also used by the plans to implement major provisions of MPPAA, e.g., continued funding of the plan by certain employers that withdraw from the plan. In addition, actuarial information is used for the annual report to IRS on the plan's operations and financing. Therefore, trustees need reliable actuarial information.

The use of unreliable actuarial information by plan officials could have certain adverse effects. If a plan's value of future benefits is overstated, the annual contribution required from employers would likewise be overstated. This situation may indicate to the trustees that it is presently not feasible to improve pension plan benefits. Younger participants might not be affected by this type of situation because they could eventually receive a benefit increase when sufficient participant data are subsequently obtained to enable the actuary to make more reliable valuations. However, those participants nearing retirement may be denied an increase in benefits. This situation is described in the following excerpts from an actuarial valuation.

> "More than 25% of all participants were missing either dates of birth or dates of hire or both. We made certain conservative assumptions about this missing information in order to perform the valuation and it is not likely that our assumptions are accurate . . . . It is necessary to make such conservative assumptions to insure that all liabilities are fully included and no underfunding will occur. However, this also could be preventing increases in benefits to current participants . . . ., it may be construed by a plan participant that the plan administrator is preventing benefit improvements by keeping incomplete records."

An overstatement of this nature could possibly require an increase in the employer contribution rate when, in fact, it is not necessary. Conversely, an understatement could result in the trustees increasing benefits when they cannot afford to do so.

Actuarial information is used to implement the withdrawal liability provisions of MPPAA. Specifically, employers that cease their participation in a multiemployer pension plan are generally liable to the plan if the value of vested benefits exceeds assets. The value of vested benefits is the portion of the present value of future benefits that is payable regardless of whether the participants continue in the plan. Overstated vested benefits could cause employers withdrawing from a plan being assessed and paying amounts greater than amounts that they would pay if the valuation was based on sufficient participant data. On the other hand, understated vested benefits could result in lower payments than required, which would be to the detriment of the plan and remaining employers. An example of this type of situation is contained in the following excerpt from an actuarial valuation.

"The employee data provided by the Plan Manager as of May 1, 1981 had significantly fewer records with incomplete or inconsistent data than did the employee data provided for the previous valuation and represents a significant improvement in the quality of the data. The May 31, 1981 employee data contained 1,406 inactive, vested records compared to 686 reported as of May 31, 1980. This increase is too large to be attributable solely to terminations in the 1980-81 plan year and must be in part attributable to an improvement in the data. A review of a sample of terminated vested employees who, according to the data in their records, should have been listed as terminated vested as of May 31, 1980, revealed that many had been listed as terminated nonvested as of May 31, 1980 and confirmed that the large increase in the number of terminated vested employees was mostly attributable to an improvement in the quality of the data."[1]

The value of vested benefits and pension costs allocated to the current year are used in determining whether a plan is financially distressed. MPPAA requires that plans considered in financial distress take certain actions to improve their financial condition. Over- and under-statements of these two actuarial amounts could distort the determination and, in some cases, defeat the intent of applicable provisions of MPPAA.

Annual reports required to be submitted to IRS on pension plan operations and financing include much of the information from the actuarial valuation. Such information includes the present value of vested benefits, pension costs allocated to prior years, actuarial gains or losses, unfunded prior years' cost and the annual amortization thereof, and the current year cost allocation. These entries disclose the financial status of the plan, and some are used to show compliance with requirements established by ERISA and MPPAA.

FEDERAL AGENCIES NEED ACCURATE INFORMATION TO ADMINISTER AND ENFORCE MPPAA

To effectively monitor and enforce multiemployer plan compliance with ERISA's participant protection and insurance program provisions and study the effects of current ERISA provisions, IRS, PBGC, and Labor need accurate and complete

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[1]Vested benefits for this group of participants went from $9.8 million to $17.0 million during that year, an increase of $7.2 million.

information on the plans covered by the provisions and annual and multiyear information on the plans' characteristics, operations, and financing. As previously discussed, the information submitted to these agencies based on actuarial valuations may not be as reliable as it could be because of missing participant data. IRS was aware that many plans were missing participant data when ERISA was enacted. At that time, however, IRS believed that regulations requiring complete data would have imposed additional administrative expense on the plans to the detriment of employee benefits.

Data reporting and use

Form 5500 "Annual Return/Report of Employee Benefit Plan" is the primary report required annually of pension plans to meet ERISA reporting requirements and implementing regulations. The report is filed with IRS and is supposed to serve the informational needs of IRS, PBGC, and Labor. IRS has responsibility for processing the reports and shares the information with the other agencies. The types of information the plans have to report include information on plan types, participants, mergers, terminations, assets, liabilities, income, and expenses.

Pension plans also provide substantial actuarial information regarding their estimated funding status on Form 5500. The actuary certifies that the information is complete and accurate and the assumptions used in the aggregate (1) are reasonably related to the experience of the plan and to reasonable expectations and (2) represent the best estimate of anticipated experience under the plan.

According to the agencies, most of the information required by Form 5500 is critical for administration and enforcement purposes. For example, IRS advised us that it uses the information to help monitor the year-to-year operations of plans and direct its enforcement resources to plans needing attention. PBGC advised us that it has used the information for research purposes and is planning to use it in conjunction with other information to assure that plans pay insurance premiums and plan terminations are reported. Labor advised us that it uses the information to identify potential violators of those ERISA provisions, such as the fiduciary provisions, it is required to enforce.

In our October 19, 1981, report,[2] we addressed the adequacy and effectiveness of IRS' and PBGC's efforts to make sure that all types of pension plans, single and multiemployer, annually filed the Form 5500. We also discussed IRS' efforts to assure that annual reports filed by plan administrators were complete. A follow-on report[3] addressed the completeness of the individual data items reported for multiemployer plans. At that time we reported that (1) there was no assurance all multiemployer plans were reporting as required and (2) when they did report, information was often missing. Neither of those reports dealt with the reliability of the information being reported.

Enforcement by Labor is concentrated on use of plan assets

According to Labor officials, its Office of Enforcement is responsible for reviewing employee health and welfare plans as well as the many types of pension plans such as multiemployer. It has about 175 staff members to review about 700,000 health, welfare, and pension plans. Due to the large number of plans and small staff, they said that Labor reviews few multiemployer pension plans in any one year.

Of the 2,000 audits conducted annually, Labor officials stated that about 98 percent are concerned with alleged fiduciary violations, primarily wasteful use or improper expenditure of plan assets. Because of the limited resources for enforcement, they stated Labor attempts to direct its efforts toward alleged violations of ERISA affecting the greatest number of participants, plans, or plan assets. Therefore, they stated, participant data are considered a low priority item. It is normal, we believe, for agencies such as Labor to concentrate their enforcement efforts on compliance with regulations as opposed to reviewing something for which regulations do not exist.

Under an April 1983 coordination agreement, Labor and IRS share certain information acquired in their respective enforcement processes. As part of the agreement, IRS is required to notify Labor of those pension plans it examines where there are indications that the plans do not maintain adequate records concerning participants, assets, or financial transactions. Any actions taken by Labor as a result of these referrals are coordinated with IRS.

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[2] Better Management of Private Pension Plan Data Can Reduce Costs and Improve ERISA Administration (HRD-82-12, Oct. 19, 1981).

[3] Multiemployer Pension Plan Data Are Inaccurate and Incomplete (HRD-83-7, Oct. 25, 1982).

IRS is increasing its enforcement activities

Beginning in fiscal year 1983, according to IRS officials, the agency has selectively begun to review multiemployer pension plans to verify that the data reported on Form 5500 are consistent with plan records, e.g., financial reports and actuarial valuations. Because of the nature of the reviews, they do not examine the records to ascertain whether participant data are complete.

As part of its overall strategy to more effectively monitor and enforce multiemployer plan compliance with ERISA and MPPAA requirements, IRS officials stated the agency is currently testing a pilot program to evaluate the reasonableness of actuarial assumptions. Such an evaluation is intended to enhance the agency's ability to determine, among other things, a plan's compliance with the minimum funding standards, the deductibility of employer contributions, and whether the plan is funding for all participants. After the current test, IRS plans to formalize the program and annually review a reasonable sample of single and multiemployer pension plans. IRS officials stated that eventually all large pension plans may be reviewed on a 5- or 6-year cycle. While the pilot program guidelines do not include any tests to ascertain the completeness of participant data, we believe such tests could be easily added to this program.

IRS has been aware of the incomplete participant data

The Director of the Actuarial Division[4] of IRS stated that IRS was aware when ERISA was enacted that many multiemployer plans had incomplete records on plan participants. IRS, according to the Director, believed that government regulations requiring complete participant data would have been very costly for some plans, especially the larger ones that lacked data on many terminated but vested participants and, therefore, would have adversely affected the many positive changes from ERISA.

The Director stated that in essence multiemployer plans were allowed to take the most desirable approach cost-wise, i.e., obtain data on new employees, slowly acquire the data on the older active participants, and catch the terminated but vested persons when they applied for benefits. This approach,

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[4]As of March 1984, the Actuarial Division became a part of the newly organized Employee Plans Technical and Actuarial Division. The Director of the former Actuarial Division became the Director of the new division.

according to the Director, spread the administrative cost and workload associated with accumulating participant data over many years and still provided for the proper payment of benefits to eligible participants. The Director stated that he understands the completeness of participant data under these plans has improved over the last several years but cannot document that fact. While this approach was probably reasonable at the time, we believe it may have contributed to complacency on the part of some plan officials. This is demonstrated by the high percentages of missing data on certain plans we reviewed and the fact that some plan administrators are not attempting to collect the missing data.

The Director agreed that complete and accurate participant data would result in more accurate and reliable actuarial results. However, he said that with some turnover of participants annually, maybe only 90 to 95 percent completeness can be achieved under the best circumstances. Further, if actuaries are making conservative assumptions about missing data, he stated, the plans would be better funded than is being reported, which is good. As previously shown, 67 of the 143 plans we reviewed had complete data, which shows that, regardless of plan size, complete data can be obtained. Also, use of conservative assumptions should result in decreases in prior costs when actuarial results change due to collection of missing data. As shown on page 18, however, we found that increases as well as decreases occurred. Thus, in effect, not all assumptions were conservative.

LABOR DOES NOT BELIEVE REGULATIONS ON PARTICIPANT DATA ARE NECESSARY

We initially proposed that Labor issue regulations establishing standards for the maintenance of complete participant data by pension plans to assure the accuracy of actuarial valuations. In commenting on this report, Labor stated (see app. I) that it too is concerned about improper valuations, but it does not believe that regulations are necessary or appropriate in assuring the accuracy of plan valuations. Rather, Labor believes that existing guidelines and procedures for annual audits by certified public accountants, in conjunction with the prudence rule, are adequate. However, in view of our findings on incomplete participant data which affect the reliability of actuarial valuations, we do not believe that the guidelines, procedures, and standards referred to by Labor are adequate.

Regarding the prudence rule, Labor stated that:

"The collection and maintenance of appropriate records (including participant data) needed for the management and administration of a plan is a continuing responsibility of the plan fiduciary. Whether the fiduciary has made reasonable and diligent efforts to collect participant data should be a case by case consideration. The determination of the extent to which a fiduciary should endeavor to collect and maintain participant data that are current, accurate and complete depends, for purposes of the fiduciary requirements, on the facts and circumstances of the particular plan. This approach is consistent with the 'prudence' rule under ERISA adopted by the Department which provides general guidance on the overall management and administration of plans. Under the prudence rule, it is not necessary to describe specifically the amount or type of data a plan must maintain."

We agree with the basic principle underlying the prudence rule as it relates to fiduciaries, i.e., plan officials who exercise discretionary control or authority over plan management or assets. Acceptance of the prudence rule means that compliance with the rule should be determined, as Labor stated, on a case-by-case basis. Further, we agree that under the prudence rule, as it relates to the issue of participant data, it is not necessary to describe specifically the amount or type of data a plan must maintain. For example, although there are certain types of participant data that are needed by all plans, such as dates of birth, gender, and years of service, there are other participant data needed that will vary for different plans, such as payroll and contributions data.

We recognize, however, that even for those types of participant data that are needed by all plans to enable the actuary to make reliable actuarial valuations, there are circumstances where it would not be practical to require the plans to have complete data at a given point in time. For those plans with large amounts of missing participant data, it may be too costly or time consuming to obtain all the missing data with one effort. We believe that regulations should give recognition to this type of situation but should also provide guidance to plans on acceptable alternatives or interim measures the plans could take to assure that the actuary is provided with sufficient data to arrive at a reliable actuarial valuation. In this type of interim situation, the guidance may be the procedures to be followed, such as obtaining the data on a statistical sample of the participants for whom the data are missing so that a reasonably sound actuarial assumption can be made about the missing data.

Over time, however, we believe a prudent fiduciary would ensure that the plan obtain sufficient data for actuarial purposes.

The regulations that we envision in this instance would be similar to those already published by Labor for fiduciaries. Those regulations provide the basis for general guidance.

Labor's comments pertaining to the requirements for pension plans to be audited by certified public accountants follow:

> "ERISA also requires most pension plans to be audited every year by a certified public accountant. The Financial Accounting Standards Board has established generally accepted accounting principles for defined benefit pension plans. In addition, the American Institute of Certified Public Accountants has developed detailed guidelines for auditing pension plans. These guidelines include tracing information and testing the reliability of the basic data used by actuaries. An auditor must qualify a final report if the data used in a valuation are inadequate."

Section 103(a)(3)(B) of ERISA provides that, when rendering an opinion on financial statements of pension plans, the accountant may rely on the correctness of any actuarial matter certified to by an enrolled actuary. Accounting profession auditing practices provide that participants' data should be tested, and data tested may include demographic data, such as dates of birth as well as payroll and benefit data. Therefore, the accountant has the latitude to exercise professional judgment as to the data to be tested and the extent of the test. Accordingly, the accountant's opinion may not disclose whether the plan is missing significant amounts of participant data.

AMERICAN ACADEMY OF ACTUARIES ENCOURAGES REASONABLE EFFORTS TO IMPROVE PARTICIPANT DATA

In commenting on a draft of this report, the American Academy of Actuaries stated (see app. II) that it encourages reasonable efforts to improve the quality of the participant data provided to the actuary. According to the Academy, all parties at interest in multiemployer plans--participants, unions, employers, and federal regulatory officials--are well served if uncertainty over the validity of actuarial valuations arising from inadequate data can be eliminated. It concurs that plan fiduciaries have the legal responsibility for maintaining current, accurate, and complete data. While the Academy believes that fiduciaries should provide actuaries with as complete participant data as is reasonably possible, it believes that administrative feasibility and a cost-benefit analysis must be part of any regulatory process used in determining the level at which participant data would be considered complete.

We generally agree with the Academy that administrative feasibility and a cost-benefit analysis should be considered in developing general guidance on obtaining and maintaining participant data. However, we believe that the guidance should provide a minimum level and that that level should be scaled upward over time. Eventually, however, the additional effort and cost to obtain the last few percentage points of participant data may outweigh the benefit of an increase in reliability of the actuarial valuation.

LABOR DOES NOT AGREE ON NEED TO REVIEW ACTUARIAL VALUATION REPORTS

In a draft of this report submitted to the Department of Labor, IRS, and others for comment, we proposed that Labor expand the scope of its audits on fiduciary standards to include a review of actuarial valuation reports so enforcement personnel can ascertain whether participant data on multiemployer plans are complete. We also proposed that IRS assist Labor by expanding its enforcement efforts in a similar manner.

In commenting on this proposal, IRS stated (see app. III) that it would cooperate with Labor in applying any regulations or guidelines Labor develops in the participant data area. Labor advised us that it did not concur with our proposal.

Regarding its enforcement program, Labor stated that it has established a policy of conducting limited investigations--that is, investigators do not audit all the records of each plan, but rather focus on the decisionmaking process of plan trustees. We do not disagree with Labor's policy of conducting limited investigations that focus on a pension plan's decisionmaking process as a means to identify problem areas requiring detailed audits. Labor's policy appears to be an effective and efficient approach to enforcement. We believe that the review of actuarial valuation reports coincides with the spirit of Labor's enforcement policy of focusing on the decisionmaking process because the data in such reports are used by plan trustees to manage their plans. Also, we believe that little enforcement effort would be required to identify the extent of incomplete participant data. Actuaries disclose the extent of missing data in their actuarial valuation reports. Therefore, enforcement groups would not have to perform a detailed audit of plan records.

Labor also stated that its field enforcement personnel are not qualified to determine whether the data are sufficient or reasonable for plan valuation purposes. Therefore, these issues often will require referral to the national office, where the program has an extremely limited actuarial staff.

This statement implies that only actuaries can determine the adequacy of data for valuation purposes. It is true that actuaries have an educational background that emphasizes mathematics as they often use knowledge of algebra, probability, and statistics to define, analyze, and solve problems involving financial risk. This background is necessary to properly develop and understand the algebraic formulas used in the estimates and calculations to arrive at the actuarial results. However, this type of technical background is not necessary, in our opinion, to determine the sufficiency of factual participant data used in actuarial calculations. The valuation reports frequently disclose the type of data required of and provided by plan officials to the actuary and the extent to which such data are missing. Further, during our review, we found that the plan actuary could be easily consulted.

Whether the participant data are sufficient or reasonable for actuarial valuation purposes relates to more than just the extent of its completeness. It also involves whether the various elements of data on the individual participants are adequate to make reasonably logical and reliable assumptions regarding the missing data. For example, we believe the participant data would be considered inadequate for the one plan in our sample where dates of birth were missing for 75 percent of the active participants because there would be a low probability that the known data for 25 percent of the participants is representative of all participants. On the other hand, participant data would probably be considered adequate for a plan with complete data on 99 percent of the participants.

The regulations that we envision under our recommendation would provide sufficient guidance for enforcement personnel to determine whether a significant data problem existed to the extent that it would warrant further investigation. Such capability by field enforcement personnel would, in our opinion, restrict the involvement of Labor's actuarial staff at the national office to just those cases with significant problems.

In addition Labor noted that as part of the initial review of the trustees' decisionmaking process, an investigator examines the independent accountant's opinion of the plan. If the opinion is qualified, whether because of inadequate participant data or some other reason, the plan is generally not found to be in compliance and must take corrective action. Labor believes that the review of the accountant's opinion is an appropriate and effective means for addressing participant data problems.

As discussed previously, the accountant, in exercising independent judgment in applying professional standards and generally accepted auditing procedures, may not necessarily include validity tests of participant data records, for either completeness or accuracy. Also, the accountant, as allowed by ERISA, may rely on the correctness of any actuarial matter certified to by an enrolled actuary. Therefore, the accountant's unqualified opinion on a plan's financial statement may not necessarily address whether there are participant data problems.

We agree that use of accountants' qualified opinions because of the lack of complete participant data to trigger more detailed audits of pension plans is appropriate. However, since the lack of participant data may not be disclosed in an accountant's opinion and since Labor is responsible for enforcing the fiduciary provisions of ERISA, we believe Labor should augment the review of accountants' opinions with a review of actuary reports which do disclose the extent of missing data. We believe this would enable Labor to more fully fulfill its enforcement responsibilities. As previously stated, we believe little enforcement effort would be required to do this. Accordingly, we have not changed our initial recommendation.

CONCLUSIONS

The availability and use of sufficiently complete and accurate participant data are essential to reliable actuarial valuations. However, many multiemployer pension plans are missing large quantities of participant data, especially dates of birth. Actuarial valuations show that, when there are improvements in the completeness and accuracy of such data, there can be large dollar changes in the previously reported actuarial results that were based in part on assumptions about missing data. When much data are lacking for use in actuarial valuations, the reliability of actuarial results may be questionable. Yet, plan officials are using actuarial information to manage and operate multiemployer pension plans. This information is also being reported to government agencies for their use in administering and enforcing ERISA and MPPAA.

Some actuaries and plan administrators believe it is impractical to have data on all participants due to new employees. Our analysis indicates, however, that the lack of data relates to more than just new employees. Also, 67 of the 143 plans we reviewed had complete data. Some of these 67 plans are quite large, which indicates plan size is not necessarily a detriment to obtaining the data.

Plan administrators place much of the blame for the lack of participant data on some employers and unions that do not honor the plan's requests for the data. At the same time, some administrators do not follow up on the data requests. We believe that new federal regulations providing guidance on the maintenance of participant data and adequate enforcement programs by Labor and IRS would encourage plan administrators to put more emphasis on collecting the data. In addition, we believe regulations could provide plan administrators with additional leverage to gain the cooperation of reluctant employers and unions.

Notwithstanding the importance of participant data, Labor has not provided guidance for the development and maintenance of such data by pension plans. Rather, Labor prefers to rely on the prudence rule and on the accountants' testing of the reliability of the basic data used by actuaries and qualification of opinion if data used are inadequate. We do not believe that the practices followed by Labor are adequate because (1) the prudence rule is broad in nature and (2) the accountant in exercising professional judgment may not test the validity of participant data.

In view of our findings on incomplete participant data, we continue to believe Labor should issue regulations. However, we do agree with Labor that it is not necessary to describe specifically all types of data a plan must maintain. We also agree with the American Academy of Actuaries that a uniform level of data sufficiency should not be applied to all plans and that administrative feasibility and cost-benefit considerations should be part of the regulatory process. Accordingly, we believe the regulations should establish guidelines for the maintenance of sufficient participant data by pension plans to enable the actuary to arrive at reliable actuarial valuations rather than, as we initially proposed, establish standards for the maintenance of complete participant data by pension plans.

Labor believes that maintenance of participant data is a continuous fiduciary obligation of pension plan officials. Labor officials told us, however, that they attempt to direct most of their enforcement efforts toward other alleged fiduciary violations, such as improper expenditures, which affect the greatest number of participants, plans, or plan assets. Because of the importance of participant data in determining a plan's financial condition and effects of fiduciaries' decisions on a plan's operations, we believe that Labor and IRS enforcement programs should be expanded to include the review of actuarial reports so that compliance with the regulations on maintenance of participant data can be ascertained. We also believe that little enforcement effort would be required to monitor compliance with regulations on participant data. Since actuaries disclose the extent of missing data in their actuarial reports, enforcement groups would not have to perform a detailed examination of plan records, unless special circumstances warranted.

RECOMMENDATIONS TO THE SECRETARY OF LABOR AND THE COMMISSIONER OF INTERNAL REVENUE

We recommend that the Secretary of Labor issue regulations, under its ERISA authority, to provide guidance for the maintenance of participant data by pension plans. We also recommend that the Secretary expand the scope of Labor's audits of compliance with fiduciary standards to include a review of actuarial valuation reports so enforcement personnel can ascertain whether participant data on multiemployer pension plans are sufficiently complete to enable the actuaries to make reliable actuarial valuations.

To assist the Department of Labor in enforcing this regulation, we further recommend that the Commissioner of Internal Revenue expand IRS enforcement efforts to include examinations of actuarial valuation reports to identify multiemployer pension plans lacking sufficient participant data.

AGENCIES' AND ACTUARIAL ASSOCIATIONS' COMMENTS AND OUR EVALUATION

Copies of a draft of this report were provided for review and comment to PBGC, IRS, the Joint Board for the Enrollment of Actuaries, the Departments of Labor and the Treasury, and four professional associations for actuaries. These associations were the American Academy of Actuaries, the American Society of Pension Actuaries, the Conference of Actuaries in Public Practice, and the Society of Actuaries. We received comments from all of the government agencies, the American Academy of Actuaries, and the Conference of Actuaries in Public Practice. The other two associations advised us that they would not be providing comments on the draft report. The comments received are included in appendixes I to VII of this report.

There is general agreement among the agencies and associations that participant data are crucial to the reliability of an actuarial valuation for a multiemployer pension plan. Further, they generally agree that reliable actuarial valuations are necessary for the effective and efficient administration and regulation of multiemployer pension plan activities. However, Labor does not concur with our recommendations to issue regulations on participant data and expand its enforcement efforts to review actuarial reports to identify those plans lacking much participant data.

Comments of the agencies and associations relating to our findings in this chapter on incomplete participant data and its effects on actuarial valuations and our evaluation of such comments are incorporated in the chapter.

CHAPTER 3

DISCLOSURE OF POTENTIAL EFFECTS OF INCOMPLETE DATA

IN ACTUARIAL REPORTS IS INADEQUATE

The previous chapter shows that the actuary is the source for much of the information needed and used by trustees in managing and operating multiemployer plans. Further, this information is necessary for government agencies to monitor plan compliance with federal statutes. Because of the importance of actuarial information, it needs to be reliable. When its reliability may be brought into question, such as when substantial participant data are missing, the actuary should disclose the probable effect on the accuracy of actuarial results. We found that, while actuaries generally disclosed the extent of missing participant data in their reports, few indicated that incomplete data could affect the accuracy of the actuarial results. Further, none of the actuaries for the 76 plans with missing data disclosed the potential extent of the effect in their certifications.

ACTUARIES DISCLOSE EXTENT OF MISSING DATA BUT NOT THE POTENTIAL EFFECT

Actuarial reports--the formal communication of the actuarial valuation--generally contained information on the extent of incomplete participant data. We found that for those 23 plans lacking complete data for over 20 percent of their active participants, the actuarial reports usually contained a statement to the effect that plan officials should make a greater effort to get the data. However, only 3 of these 23 reports and only 5 reports on the 76 plans with missing data contained statements to caution the reader that the missing data may affect the reliability of the actuarial results. In no instance, however, did the actuaries' certifications show or indicate the probable effect that missing data had on the accuracy of the actuarial calculations.

Where applicable, the amount of incomplete participant data identified by the actuary was presented in the body of the actuarial report. Further, the report usually disclosed the assumptions made about the unknown data for the applicable participants. Also, the reports frequently contained statements suggesting in essence that the plans' officials make greater efforts to obtain complete data. The greater the percentage of participants for whom data were lacking, the more frequently the actuary made this statement. For example, the statement was in over 60 percent of the reports for those plans lacking data on over 20 percent of the active participants, but in less than

20 percent of the reports when the missing data were no higher than 20 percent of the participants.

Though apparently concerned with the amount of missing participant data, few actuaries included statements in the reports cautioning that the incomplete participant data could affect the reliability of the actuarial results being presented. Statements to this effect were even lacking in those instances discussed in chapter 2 where there were large changes in prior years' costs due to the collection of previously missing participant data.

Report statements on incomplete participant data usually were included in the body of the reports as opposed to a summary or certification statement where material inadequacies would be highlighted. One firm, however, stated in its certification statements that the actuarial information was complete and accurate except as may be noted in the summary data which showed the extent of missing participant data.

We discussed the effects of incomplete participant data on the reliability of actuarial information with representatives of several firms providing actuarial services to a number of multiemployer plans. They agreed that significant amounts of incomplete participant data can influence the reliability of actuarial results. When those participants for whom data are missing have long periods of service, they stated, the situation could also affect the reliability of information used for withdrawn employer liability assessments and to identify plans in financial distress.

They stressed, however, that an actuarial valuation is only the actuary's best estimate of the plan's current status based on many uncertain future events, such as rate of return on investments and levels of employment. Thus, it is not a precise determination, and the completeness of participant data is but one of several factors affecting the accuracy of a valuation.

During discussions with actuaries, we obtained the impression that they tend to view pension plans over the long term. Specifically, a pension plan usually will span several decades, during which time much of the missing data could become available and then incorporated into actuarial calculations. When missing data may not become known for participants prior to retirement, they will apply for and receive entitled benefits when eligible. New actuarial calculations will then adequately provide for funding the benefits. Assumptions are made in the interim about participants for whom data are incomplete or missing, presumably conservative assumptions, to protect the participants and beneficiaries against the plan being inadequately funded. Thus, actuarial valuations over time provide for funding of all potential future benefits.

This does not, however, diminish the need to provide actuarial valuations based on sufficiently complete and accurate participant data. These valuations are used by pension plan officials to negotiate new benefit agreements, manage plan assets, and report periodically to the federal agencies responsible for ensuring that pension plans remain financially viable. The uses of actuarial valuations are continuous, and full disclosure of not only the extent but the potential effect that missing participant data might have on actuarial information is needed.

ACTUARIES SHOULD DISCLOSE EFFECT OF MISSING PARTICIPANT DATA

In interpreting and amplifying the guides of professional conduct for actuaries, the actuarial profession recognizes that the actuary's responsibilities in the pension field to a high degree involve considerations affecting the public interest. As such, the American Academy of Actuaries and the Society of Actuaries recommend the actuary give consideration to adequate and clear disclosure of pertinent facts and findings in actuarial reports. Regarding incomplete participant data, it is specifically recommended that the report indicate the extent to which a present value calculation is based on incomplete or unreported data, the probable effect on the accuracy of the calculation, and the adjustment made to correct for such incomplete or unreported data. The recommendations, however, are silent on when missing data are significant enough to warrant disclosing the potential effect and what constitutes adequate disclosure of the effect of missing data. Thus, it appears that disclosure is left to the professional judgment of the actuary.

The Joint Board for the Enrollment of Actuaries, established by the Secretaries of Labor and the Treasury as required by section 3041 of ERISA, has published standards of performance for enrolled actuaries. One of the standards requires an enrolled actuary to include, in any report or certificate stating actuarial costs or liabilities, a statement or reference describing or clearly identifying any "material inadequacies in data and the implications thereof." This standard closely parallels the above recommendation of the actuarial associations. However, the standards do not define or provide any criteria as to what is a "material inadequacy in data" and how the implications are to be disclosed.

COMMENTS OF THE JOINT BOARD FOR THE ENROLLMENT OF ACTUARIES

The Executive Director of the Joint Board for the Enrollment of Actuaries informed us that the nature of various provisions of ERISA elevated the importance of the actuary and actuarial valuations. He also informed us that the Congress established the Joint Board to regulate the competency of actuaries with respect to pension plans subject to ERISA. Accordingly, the Joint Board established standards and qualifications for persons performing such actuarial services.

When informed of the matters discussed in this report, the Executive Director of the Joint Board expressed concern over the lack of statements in actuarial reports and/or the actuarial certifications regarding the potential effect of missing participant data on the reliability of actuarial information. He stated that possibly performance and/or report standards could be adopted, similar to those of the American Institute of Certified Public Accountants, whereby actuarial reports and certifications would be qualified under specific situations, e.g., large amounts of missing participant data. He said he would favor a joint task force to formulate any such standards because (1) the Joint Board is small with limited resources and (2) experience has shown such an approach as opposed to government regulations to be more effective and readily acceptable by members of any profession. He suggested that any task force could include members of the Joint Board, actuaries employed by IRS, enrolled actuaries from major private firms, and representatives of the various professional actuarial associations and societies.

OBSERVATIONS AND CONCLUSIONS

In the absence of a qualification of the actuary's certification, there is a perception of a high degree of assurance that the actuarial valuation is reasonable. This perception is not necessarily correct. Missing participant data could materially affect the calculation of the actuarial valuation, and this could give a false and misleading picture. We believe that the actuary's report, in the certification, should disclose sufficient information on the effect of missing data on the actuarial valuation.

The American Academy of Actuaries and the Society of Actuaries recommend the disclosure of the effect of the missing participant data, but did not provide guidance on when and how this should be done. Also, the Joint Board for the Enrollment of Actuaries requires that actuaries certified by the Joint Board clearly identify any "material inadequacies in data and the implications thereof" but does not define or provide criteria as to what is a "material inadequacy in data." While such a definition and criteria--in our opinion--are needed, we agree with the Executive Director of the Joint Board that the actuarial profession should have the primary responsibility for developing these standards.

The establishment of professional standards and their enforcement has traditionally been the responsibility of the individual professions through the associations of their members, such as the American Bar Association and American Institute of Certified Public Accountants. Because of the uniqueness of the individual professions resulting from specialized training and experience and varying responsibilities to the public, we believe that it is appropriate for professions--including the actuarial profession--to establish their own standards.

Accordingly, because of the effects of missing participant data on actuarial computations as shown in chapter 2 of this report, we believe the actuarial profession should develop appropriate standards for the disclosure of the potential effect of material inadequacies in participant data on the reliability of actuarial valuations. In the absence of such standards, there is no generally acceptable understanding as to what constitutes appropriate disclosure of the effect of missing participant data. For example, we believe the actuarial profession should consider the degree of disclosure needed. The question should be addressed as to whether

--a general disclosure is adequate, such as a statement in the certification that "If we [the actuary] had complete data instead of having to make assumptions about missing data, the results of this actuarial valuation could have been materially affected causing the pension cost to be higher or lower," or

--a more descriptive disclosure is possible, such as disclosing a range in the cost estimate that could occur as a result of missing participant data.

We recognize that, in the development of standards, absolute certainty is no more attainable a goal by the actuary than it is for any other professional endeavor. What is sought is a reasonable degree of assurance based on professional judgment. For example, materiality is a state of relative importance, and defining and establishing a standard as to what is a material inadequacy will require the exercise of collective professional judgment. Both quantitative and qualitative elements warrant consideration in the determination of materiality. We also recognize that overemphasis on disclosure can detract from the usefulness of an actuarial valuation by obscuring important elements with a mass of details. By utilizing collective experience and judgment, the actuarial profession should be able to develop adequate standards.

Although we believe the Joint Board should not be charged with the development of disclosure standards relating to actuarial valuations, the Joint Board has statutory responsibilities under ERISA which gives it an inherent interest in the development of such standards. Accordingly, we believe the Joint Board should use the information in this report and such other information as can be provided by IRS and the Department of Labor to promote action by and work in cooperation with the actuarial profession to develop actuarial disclosure standards.

RECOMMENDATION TO THE SECRETARIES OF LABOR AND THE TREASURY

We recommend that the Secretaries of Labor and the Treasury direct the Joint Board for the Enrollment of Actuaries to promote action by and work in cooperation with the actuarial profession to develop appropriate criteria and standards for the disclosure of the potential effect of material amounts of missing participant data on the reliability of actuarial valuations.

AGENCIES' AND ACTUARIAL ASSOCIATIONS' COMMENTS AND OUR EVALUATION

There was general agreement on our recommendation to develop appropriate criteria and standards for the disclosure of the potential effect of material amounts of missing data on the reliability of actuarial valuations.

Joint Board for the Enrollment of Actuaries comments

The Executive Director of the Joint Board advised us that it considers its activity to be an important and integral element of the sound administration of ERISA. Consequently, he stated that any manner in which it may augment and/or enhance the activity is desirable. He stated that if directed by the Secretaries of Labor and the Treasury, the Joint Board will be pleased to promote action by and work in cooperation with the actuarial profession to develop appropriate criteria and standards relative to participant data to be used in the valuation of multiemployer pension plans. The Executive Director also stated that copies of his letter would be provided to Labor and the Treasury in order that they know of such willingness.

Department of the Treasury comments

By letter dated May 29, 1984 (see app. VI), Treasury advised us that missing participant data may have a direct bearing on the soundness of an enrolled actuary's valuation process and analysis of a pension plan's funding requirements. Treasury also advised us that it appears there is a direct relationship between the issue raised in our draft report and the responsibility of the Joint Board.

Treasury concluded that the matter should be addressed in the manner set forth in our draft report and assured us that the Executive Director of the Joint Board will be directed to comply with the terms of our recommendation.

Department of Labor comments
and our evaluation

Labor concurred with our recommendation and stated the belief that it is an appropriate issue for resolution by the Joint Board.

Labor suggested that we may want to expand our recommendation to include a review of independent accountants' auditing procedures. As noted earlier, we concluded that it was appropriate for Labor to use disclosures in the accountants' reports as one of its bases for initiating investigations. However, this phase of our overall study focused on the development and reporting of actuarial information and does not provide a basis for us to make any recommendation on the activities of the accounting profession. Further, the audit and accounting guide for "Audits of Employee Benefit Plans" developed by the American Institute of Certified Public Accountants provides procedures for the testing of various types of participants' data and for qualifying or disclaiming an opinion when the accountant is unable to obtain the necessary assurance regarding participants' data. In view of this detailed guidance, we do not believe there is a need to expand the scope of our work to include activities of the accountant.

American Academy of Actuaries and
Conference of Actuaries in
Public Practice comments

Both professional actuarial associations are in general agreement with the recommendation, and both expressed their intent to cooperate in implementing it.

The American Academy of Actuaries concurred with the observation that the development of actuarial disclosure standards with respect to the adequacy of participant data should rest within the profession itself. It believes that it is a part of the actuary's role to make a professional judgment as to the sufficiency of participant data and to properly disclose the effects of data inadequacies. Further, it believes that while the government can establish general regulatory parameters for the exercise of this discretion, such parameters should be established only with the cooperation of the actuarial profession itself. The Academy stated that it is ready and eager to participate in the development of such standards and would be willing to undertake a lead role in this effort.

The Conference of Actuaries in Public Practice stated (see app. VII) that any questions arising regarding the reliability of the actuarial valuation should be answered immediately and any weaknesses should be corrected. The Conference stated that it is very concerned with the public's perception of the consulting actuary, both real and imagined. For this reason, it requested immediate implementation of this recommendation with the intent that all concerns raised in this report be reviewed and dealt with by the appointed committee and its members. The Conference referred to this as a very important matter and assured us of its future cooperation.

The Conference suggested that the committee appointed under the terms of the recommendation in this chapter be given the power to review all data supporting the chapter 2 recommendation before this recommendation is implemented. The Conference stated that this would lead to confirmation and/or qualification of the conclusions in the draft report. It stated that MPPAA has raised many concerns in the minds of those involved with multiemployer pension plans, and it is in the interest of all concerned that there be no further doubts raised as a consequence of this report. The Conference stated that if there are special circumstances relating to certain of the plans examined by us, then the special circumstances ought to be identified and any conclusions drawn therefrom be appropriately qualified. The Conference stated that all stipulations regarding confidentiality would continue to be observed by the committee.

MPPAA prohibits us from publicly disclosing the identity of any individual in presenting the information obtained. Consistent with this prohibition, we provided a pledge of confidentiality to the 149 plans in our sample. Thus, we will not be able to make the specific data supporting this report available for review by a committee of private and government actuaries which may be established to implement our recommendation. We recognize, however, that we have data which could enhance the work of such a committee and, if requested, we would be willing to provide data from plans in our sample in an aggregate fashion that would not violate MPPAA and our pledge of confidentiality.

U.S. Department of Labor

Office of Pension and Welfare Benefit Programs
Washington, D C 20210

JUN 1 1984

Mr. Richard L. Fogel
Director
Human Resources Division
U.S. General Accounting Office
Washington D.C. 20548

Dear Mr. Fogel:

In reply to your letter to Secretary Donovan requesting comments on the draft GAO report entitled "Incomplete Participant Data Affect Reliability of Values Placed by Actuaries on Multiemployer Pension Plans" the Department's response is enclosed.

The Department appreciates the opportunity to comment on this report.

Sincerely,

Robert Monks

Robert A.G. Monks
Administrator

Enclosures

U.S. Department of Labor's Response To
The Draft General Accounting Office Report
Entitled--
Incomplete Participant Data
Affect Reliability of Values Placed by Actuaries
On Multiemployer Pension Plans

Recommendation:

"We recommend that the Secretary of Labor amend regulations implementing ERISA to establish standards for the maintenance of participant data by pension plans."

Response:

The Department does not concur.

It is our understanding that the reason regulations in this area have been suggested by GAO is to assure proper valuations of plans by actuaries. The Department too is concerned about improper valuations, but we do not believe that Department of Labor regulations are necessary or appropriate in assuring the accuracy of plan valuations.

The collection and maintenance of appropriate records (including participant data) needed for the management and administration of a plan is a continuing responsibility of the plan fiduciary. Whether the fiduciary has made reasonable and diligent efforts to collect participant data should be a case by case consideration. The determination of the extent to which a fiduciary should endeavor to collect and maintain participant data that are current, accurate and complete depends, for purposes of the fiduciary requirements, on the facts and circumstances of the particular plan. This approach is consistent with the "prudence" rule under ERISA which provides general guidance on the overall management and administration of plans. Under the prudence rule, it is not necessary to describe specifically the amount or type of data a plan must maintain.

ERISA also requires most pension plans to be audited every year by a certified public accountant. The Financial Accounting Standards Board has established generally accepted accounting principles for defined benefit pension plans. In addition, the American Institute of Certified Public Accountants has developed detailed guidelines for auditing pension plans. These guidelines include tracing information and testing the reliability of the basic data used by actuaries. An auditor must qualify a final report if the data used in a valuation are inadequate.

The Department believes that existing guidelines and procedures for accountants in conjunction with the prudence rule afford meaningful standards for fiduciaries. However, a review of existing guidelines and procedures by the actuarial and accounting profession, in a manner similar to that suggested by GAO in its third recommendation, may be appropriate and would be supported by the Department.

Recommendation:

"We also recommend that the Secretary of Labor expand the scope of Labor's audits on fiduciary standards to include a review of actuarial valuation reports so enforcement personnel can ascertain whether participant data on multiemployer pension plans are complete."

Response:

The Department does not concur.

The Department is currently reassessing its entire ERISA enforcement effort and the resources needed to sustain an effective enforcement program. Under current resource constraints, however, the Department has established a policy of conducting limited investigations. Thus, investigators do not audit all the records of each plan, but rather focus on the decision making process of plan trustees. Investigators then pursue detailed audits of specific areas where they believe problems are most likely to exist.

Although field enforcement personnel can ascertain the extent of available participant data, they are not qualified to determine whether the data are "sufficient" or "reasonable" for plan valuation purposes. Such a determination requires a review of the plan by an actuary or an accountant. Therefore, these issues often will require referral to the national office, where the program has an extremely limited actuarial staff.

It should be noted, however, that as part of the initial review of the trustees' decision making process, an investigator examines the independent accountant's opinion of the plan. If the opinion is qualified, whether because of inadequate participant data or some other reason, the plan is generally not found to be in compliance and must take corrective action. The Department believes that the review of the accountant's opinion is an appropriate and effective means for addressing participant data problems.

Recommendation:

"We recommend that the Secretaries of Labor and the Treasury direct the Joint Board for the Enrollment of Actuaries to promote action by and work in cooperation with the actuarial profession to develop appropriate criteria and standards for the disclosure of the potential effect of material amounts of missing participant data on the reliability of actuarial valuations."

Response:

The Department concurs.

The Department believes that this is an appropriate issue for resolution by the Joint Board. It is our understanding that the Joint Board has informally agreed to work with the actuarial profession to review standards for determining which data and the level of data which must be available to the plan actuary before an unqualified valuation can be given. GAO may want to expand the recommendation to include a review of independent accountants' auditing procedures, as well. The Department believes that the professional boards have the knowledge and experience to analyze and effectively resolve the data problems identified by GAO.

AMERICAN ACADEMY OF ACTUARIES

STEPHEN G KELLISON, M A A A Executive Director

May 25, 1984

Mr. Richard L. Fogel
Director
Human Resources Division
General Accounting Office
Washington, D.C. 20548

Dear Mr. Fogel:

Enclosed are three copies of comments on behalf of the American Academy of Actuaries in reaction to the GAO draft report "Incomplete Participant Data Affect Reliability of Values Placed by Actuaries on Multiemployer Pension Plans."

We appreciate receiving an invitation to provide GAO these comments and further appreciate the extension of the filing deadline which you granted us. We hope that GAO finds these comments useful.

We would be happy to answer any questions you might have about these comments or to provide additional information.

We wish to commend GAO for developing an excellent report in this important area.

Yours truly,

Stephen G. Kellison

Stephen G. Kellison

SGK:dhb

Enclosure

Comments of the American Academy of Actuaries on
The Draft General Accounting Office Report Entitled
"Incomplete Participant Data Affect Reliability of
Values Placed by Actuaries on Multiemployer Pension Plans"
(GAO/HRD-84-38)
May 25, 1984

Background

By letter dated April 16, 1984, Richard L. Fogel, Director of the Human Resources Divison, General Accounting Office (GAO), provided the American Academy of Actuaries ("Academy") with a copy of a draft report to the Congress on the effect of incomplete participant data on the reliability of actuarial valuations for multiemployer pension plans. The Academy was requested to review the draft report and provide comments to the GAO prior to the report's issuance in final form. Having reviewed the document, the comments which appear herein are a compilation of comments received from members of the Academy's Pension Subcommittee on Multiemployer Plans and the Academy's Committee on Pension Actuarial Principles and Practices. While members of these committees are employed by various consulting firms, government agencies, and insurance organizations, the views expressed herein are expressed as members of the Academy, and do not necessarily represent the views of any employer.

Interest of the Academy

The Academy is a professional association of over 7,300 actuaries representing all areas of specialization and types of practice within the actuarial profession. Over 85% of the enrolled actuaries under ERISA are members of the Academy.

The Academy views its role in the government relations arena as offering advice and counsel to the nation's decision-makers, so that when faced with issues of public policy, these decision-makers can proceed with the assistance of an independent and professional actuarial perspective. In this spirit, the following comments and observations regarding the draft report are offered.

Introduction

We commend the GAO for calling attention to the issue of incomplete participant data in multiemployer pension plans. Furthermore, we encourage reasonable efforts to improve the quality of the participant data provided to the actuary. We would note that the quality of the participant data is generally not within the control of the actuary. All parties at interest in multiemployer plans — participants, unions, employers, and federal regulatory officials — are well served if uncertainty over the validity of actuarial valuations arising from inadequate participant data can be eliminated.

Data Sufficiency: A Matter of Professional Judgment

We concur with the general conclusion reached by the GAO, that pension plan participant data are crucial in providing the base for an actuarial valuation of a pension plan. We also concur that plan fiduciaries indeed have the legal responsibility for maintaining current, accurate, and complete participant data.

While the Department of Labor has the authority to prescribe regulations for the enforcement of this requirement, it has to date not issued standards concerning the adequacy of participant data. If such regulations are to be issued, a major factor in shaping the specific requirements thereof must, of necessity, involve a definition of what constitutes "complete" data. While a regulatory framework can provide a general yardstick for this definition, in the final analysis the application of such a yardstick to individual multiemployer plans must provide latitude for the exercise of professional actuarial judgment if the regulation is to be effective.

In our opinion, the actuary who is charged with undertaking plan valuations must come to terms with the sufficiency of data made available by plan fiduciaries, and by using professional training and judgment, ascertain whether such data are indeed sufficient for the purposes at hand. In short, we would reject a notion that a regulation can impose a uniform level of data sufficiency which could be applied to all plans, in all industries, and under all sets of circumstances. The universe of multiemployer plans is too diverse and differentiated to be susceptible to such a simplistic approach.

Disclosure of Potential Effects of Incomplete Data

The GAO draft report (p. vi and p. 37) states that practice standards in the Academy recommend, but do not require, disclosure of the effects of incomplete participant data on actuarial valuations. Although this statement technically may be true in an absolute sense, it does overstate the degree of discretion or flexibility available to the actuary.

The professional standard applicable to this situation is Recommendation C: Pension Actuarial Communications (copy attached). Within the Academy's standards of practice literature, a Recommendation has the force of a Generally Accepted Actuarial Principle and Practice, which members are required to observe in their work unless:

1. In their professional judgment, specific facts and circumstances make an alternate practice more appropriate, and
2. The alternate practice is disclosed as an exception to generally accepted standards of practice.

Thus, we feel some softening of the language "but do not require" in the GAO draft report would more accurately describe our current literature for actuarial disclosure on pension plans.

Also, our Committee on Pension Actuarial Principles and Practices is in the process of revising another Recommendation dealing with the measurement of pension obligations. As part of that review, the committee is considering more explicit guidance for the actuary as to what to do when data elements are missing.

Joint Board / Professional Association Standard Development

The GAO draft report recommends that the Joint Board for the Enrollment of Actuaries ("Joint Board") use the information in the report (and other information it can obtain from the Department of Labor and the Internal Revenue Service) to promote action by and work in cooperation with the actuarial profession to develop actuarial disclosure standards for multiemployer pension plans with respect to the adequacy of participant data.

We concur with the primary observation that the development of such standards should rest within the profession itself, both with respect to the adequacy of data and to disclosure of that fact to recipients of actuarial reports. In this regard, the Academy is prepared to be of assistance in this effort, and in fact to undertake a lead role in the development of such standards.

At the same time, the GAO draft report recommends the adoption of new regulations by the Joint Board and the Internal Revenue Service to define and mandate the utilization of complete participant data. We are not convinced that the current regulatory structure of the Joint Board and the Internal Revenue Service are inadequate to accomplish the goals sought in the GAO report. For example, we cite Section 901.20 (f) of the regulations of the Joint Board:

> "**Report or certificate.** An enrolled actuary shall include in any report or certificate stating actuarial costs or liabilities, a statement or reference describing or clearly identifying the data, any material inadequacies therein and the implications thereof (emphasis added), and the actuarial methods and assumptions employed."

We also note that the enrolled actuary when signing Schedule B of Form 5500 certifies that:

> "...the information supplied in this schedule ... is complete and accurate ..."

and that:

> "...the assumptions used ... represent my best estimate of anticipated experience under the plan."

Further, the Instructions to Schedule B of Form 5500 on line 12 (h) in connection with the statement of actuarial assumptions and methods requires that the enrolled actuary:

> "Include also such other information, if any, needed to fully and fairly disclose the actuarial position of the plan."

Thus, we believe that the Joint Board and the Internal Revenue Service already have a sufficient regulatory apparatus in place, if properly enforced, to achieve the goal of adequate actuarial disclosure.

If it is decided that additional regulations are nevertheless required, we would urge that they be deferred until new professionally developed standards can be formulated, inasmuch as the issuance of regulations without consideration of the professional standards which underlie the regulations would be inappropriate and premature.

Other Comments on the Draft Report

This section contains other comments on the GAO draft report. First, the draft report has not addressed the significant marginal costs which may be associated in increasing participant data levels from, for example, 90% to 95% or higher. In some situations, it may well be that the administrative costs associated with this increase in the data base outweigh any benefit which may arise from more complete data utilization.

Second, more attention might be given in the draft report to the fact that industry workforce distribution (by age, years of service, frequency of turnover, mobility, etc.) varies widely in multiemployer plans, and may make the achievement of higher levels of participant data more difficult in one industry than in another. In addition, the geographical differences in plan coverage (from small local plans to immense multistate or national plans) would make the institution of a uniform measure of participant data sufficiency much more burdensome on some plans than on others.

Third, we note that the draft report provides little detail on the sample of plans used other than for the aggregate size of the sample. Given the great diversity in multiemployer plans by size, nature of industry, characteristics of workforce, geographical spread, and other factors, it is important that the report assure readers that a truly representative sample was used for the study.

Conclusions

We commend the GAO for underlining the fact that inadequate participant data has a direct relationship to the validity of actuarial reports for multiemployer plans. We also note that we are in accord with the GAO view that to the extent that the validity of actuarial reports is questioned, the entire regulatory and administrative processing of plan activities may be called into question. Hence, we strongly support the proposition that fiduciaries be required to make available to actuaries as complete a set of participant data as is reasonably possible. But we also note that considerations of administrative feasibility and a cost-benefit analysis must be part of the process utilized in determining the level at which such data is considered "complete." Finally, we believe that it is part of the actuary's role to make a professional judgment as to the sufficiency of participant data and to properly disclose the effects of data inadequacies. While the government can establish general regulatory parameters for the exercise of this discretion, such parameters should be established only with the cooperation of the actuarial profession itself. We stand ready and eager to fulfill our part in the development of such practice standards.

We thank the GAO for offering us the opportunity to comment on this important draft report, and are prepared to cooperate on this and other matters of actuarial concern in the future.

Respectfuly submitted:

American Academy of Actuaries
Pension Subcommittee on
Multiempoyer Plans

Joseph A. LoCicero, Chairman

American Academy of Actuaries
Committee on Pension Actuarial
Principles and Practices

Thomas M. Malloy, Chairman

GAO note: Page references in this appendix have been changed to correspond to page numbers in the final report.

C PENSION ACTUARIAL COMMUNICATIONS

(Adopted 1983)

1 1 Opinion A-3 of the Committee on Guides to Professional Conduct applies to all written communications by actuaries on actuarial subjects and, unless clearly inapplicable, to oral communications as well

1 2 Paragraph B of the Opinion states that "The form and content of any actuarial communication should meet the needs of the particular circumstances, taking into account the knowledge and understanding of the users and the actuary's relationship to the users

1.3 A pension actuarial communication provides information directed towards plan sponsors, government bodies, employee groups, or other members of the public in connection with the design, revision, valuation, or pricing of employee retirement plans This Recommendation supplements Opinion A-3 with respect to pension actuarial communications

1 4 Not all of the items of information set forth in this Recommendation need be presented in every pension actuarial communication, what must be included depends upon the situation The communication should include, either directly or by reference to accessible prior communications, sufficient information so that

(a) it would be properly interpreted and applied by the person or persons to whom the communication is directed, and,

(b) another actuary unfamiliar with the situation could form an opinion about the reasonableness of the conclusion

1 5 RECOMMENDATION C(1) The pension actuarial communication, in addition to including the name of the actuary responsible for its content, should contain, either directly or by reference to accessible prior communications, the following elements, where pertinent

(a) The name of the person or firm retaining the actuary and the purposes that the communication is intended to serve

(b) An outline of the benefits being discussed or valued and of any significant benefits not included in the actuarial determinations

(c) A statement as to the effective date of the calculations, the date as of which the participant and financial data were compiled, and the sources of such data The statement should include a full description of any material omissions in the data and any assumptions made with respect thereto

(d) A summary of the participant data, separated into significant categories such as active, retired, and terminated-vested Actuaries are encouraged to include a detailed display of the characteristics of each category and a reconciliation with prior reported data

(e) A summary of assets by financial institution or other reporting source and a derivation of the actuarial value of assets Actuaries are encouraged to include an asset summary by category of investment and a reconciliation with prior reported assets showing total contributions, benefits, investment return, and any other reconciliation items

(f) A description of the actuarial assumptions and cost method and the asset valuation method Changes in assumptions and methods from those used in previous communications should be stated and their effects noted

(g) A statement of the findings, conclusions, or recommendations necessary to satisfy the purpose of the communication and a summary of the actuarial determinations upon which these are based The communication should include applicable actuarial information regarding statutory minimum funding, tax deductibility, and financial reporting Actuaries are encouraged to include derivations of the items underlying these actuarial determinations

(h) A disclosure of (1) any deviations from Generally Accepted Actuarial Principles and Practices in the preparation of the material presented in the communication, and (2) any facts which, if not disclosed, might reasonably be expected to lead to an incomplete understanding of the communication

APPENDIX II

COMMISSIONER OF INTERNAL REVENUE

Washington, DC 20224

MAY 9 1984

Mr. William J. Anderson
Director, General Government Division
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Anderson:

This is in response to your April 16, 1984, letter requesting our comments on the draft of your proposed report to the Congress on the effect of incomplete participant data on the reliability of values placed by actuaries on multiemployer pension plans.

We agree in general to your recommendation that the Internal Revenue Service assist the Department of Labor in enforcing any regulations the Department issues on this matter by expanding our enforcement efforts to include examination of actuarial valuation reports to identify multiemployer pension plans lacking complete participant data.

As you know, we have developed guidelines, including actuarial guidelines, for use by field personnel in examining defined benefit plans, and our field work plans specifically provide for the examination of multiemployer plans. These examinations will be conducted using our current examination procedures including, when applicable, the new actuarial guidelines procedures. We will cooperate with the Department of Labor to the extent our resources permit in applying any regulations or other guidelines they develop in this area. If it will be helpful to the Department, we will also, in applying the actuarial guidelines to the actuarial valuation reports, identify those in which the actuary indicates that participant data is inadequate and provide the Department with this information under our coordinated Compliance Agreement.

Thank you for the opportunity to provide comments on this report.

With kind regards,

Sincerely,

Roscoe Egger

Pension Benefit Guaranty Corporation
10th Anniversary 1974 1984
2020 K Street, N.W., Washington, D.C. 20006

MAY - 3 1984

Mr. Richard L. Fogel
Director, Human Resources Division
General Accounting Office, Room 6864
441 G Street, NW
Washington, DC 20548

Dear Mr. Fogel:

PBGC appreciates the opportunity to comment on your draft report number HRD-84-38. We commend GAO for the thoroughness of your analysis of the extent and the effect on actuarial calculations of incomplete multiemployer participant data. The Corporation agrees completely with the report's findings that maintenance of complete and accurate participant data is vital to the efficient administration of multiemployer plans. It has been our experience at PBGC that on occasion multiemployer plans approaching insolvency have had their financial difficulties exacerbated by bad data. Furthermore, in the stresses of hardship, their records often are ill-maintained or lost.

We do, however, have two suggestions for your consideration. Your report indicates that while many plans have incomplete participant data, some plans succeed in maintaining complete data. Readers might find it useful to know why some plans maintain complete data while others do not. If your investigation uncovered any such underlying causes then a brief discussion could be included in the report.

The second suggestion has reference to the table on page 18. It would be helpful to have a sense of the materiality of the cost increases. For example, the percentage of the prior years' costs represented by the dollar increases could be shown.

If PBGC can be of any further assistance to you, please contact me.

Yours sincerely,

C. C. Tharp
Executive Director

CAPD:APD:VA/CPRD:TV:lml

GAO note: The page reference in this appendix has been changed to correspond to the page number in the final report.

Joint Board for the Enrollment of Actuaries

Department of Labor

Department of the Treasury

c/o Department of the Treasury
Washington, D.C. 20220

Date: MAY 16 1984

Mr. William J. Anderson, Director
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Anderson:

This is in reply to your letter of April 16, 1984, conveying a draft of the General Accounting Office report to the Congress on the effect of incomplete participant data on the reliability of actuarial valuations for multi-employer pension plans. The Joint Board for the Enrollment of Actuaries (Joint Board) is pleased for the opportunity to respond to the draft report and its recommendations.

The Joint Board, established pursuant to section 3041 of the Employee Retirement Income Security Act of 1974 (ERISA), is responsible for the enrollment of individuals who wish to perform actuarial services under ERISA and to take appropriate disciplinary action if there has been a finding of misconduct by an enrolled actuary in the discharge of his or her duties. Regulations to implement the Joint Board's responsibilities can be found at 20 CFR Part 901. The Joint Board considers its activity to be an important and integral element of the sound administration of ERISA. Consequently, any manner in which it may augment and/or enhance that activity is desireable.

If directed by the Secretaries of Labor and the Treasury, the Joint Board will be pleased to promote action by and work in cooperation with the actuarial profession to develop appropriate criteria and standards relative to participant data to be used in the valuation of multi-employer pension plans. Copies of this letter are being provided the Labor and Treasury Departments in order that they know of such willingness.

In responding to this draft report, we also wish to bring to your attention the following observations about the discussion of incomplete data in the draft report (page ii of the Digest and page 13 of the text).

1. The report does not refer to terminated vested employees. Failure to include such employees because of incompleteness of record keeping results in understated liabilities; prevents the plan administrator from taking action when benefits become due; and, conversely, causes an overstatement of liabilities when there is unreported return to work or unreported deaths of terminated vested employees.

2. Reciprocal agreements between multi-employer plans often provide that a participant who moves from one jurisdiction to another will be credited with service under his or her prior plan. Incomplete data concerning such transferees could be significant. Consequently, a discussion of this issue in the report would seem appropriate.

Mr. William J. Anderson
Page

3. During the intervaluation period, various bargaining agreements take effect in the large plan area. The difficulty in keeping abreast of such agreements is an issue that has relevance to the subject of incomplete data since it directly affects the liabilities calculated as of a given valuation date. Consequently, it should be addressed.

4. For plans with schedule benefits, employees become automatically entitled to higher benefits as a result of the adoption of higher contribution rates. It is often difficult to obtain such information. Because of its direct relationship to data impacting on the valuation process, the Joint Board feels the report would be more complete with a recognition of that difficulty.

In addition, the Joint Board has noted that page iii of the Digest refers to the effect of missing birthdates for 12,000 participants as an increase of $46 million in actuarial liability, whereas page 18 of the text refers to such effect as an increase of $45,638,000 in plan costs (emphasis added). The definition of actuarial liability on page 10, i.e. "pension costs allocated to prior years," is ambiguous. An increase in cost (normal cost plus some stated amortization of past service liability) is more significant than an increase in liability (accrued liability or present value of future benefits, whichever is applicable) of the same amount. Consequently, clarification is warranted in this area. We also wish to note that it is more appropriate to express the effect as a percentage of the described item rather than in dollars.

Finally, a matter of concern to the Joint Board is your apparent belief, expressed on page 37 of the draft report, that its membership is without knowledge to formulate the standards you recommend. The Joint Board is comprised of highly trained professionals who are selected to serve on the Board on the basis of their knowledge and skills. While the financial and personnel resources of the Joint Board are too limited to engage in the activity of setting standards, the resources of their knowledge would not be preclusive. Consequently, we urge you to reconsider the reference.

Should there be any question about this response or if you would like additional information, please do not hesitate to contact me. I can be reached by telephone at 535-6787.

Sincerely,

Leslie S. Shapiro
Executive Director

GAO note: Page references in this appendix have been changed to correspond to page numbers in the final report.

THE GENERAL COUNSEL OF THE TREASURY
WASHINGTON D C 20220

MAY 29 1984

Dear Mr. Anderson:

This is in regard to your letter of April 16, 1984, conveying a General Accounting Office (GAO) draft report to the Congress on the effect of inncomplete participant data on the reliability of actuarial valuations for multiemployer pension plans. The matter has been referred to me for reply pursuant to guidelines in Treasury Directive TD 10-04.2. Accordingly, I am pleased to respond to the draft report insofar as it addresses the Secretary of the Treasury.

The pertinent recommendation in the draft report is that the Secretaries of Labor and the Treasury direct the Joint Board for the Enrollment of Actuaries (Joint Board) to promote action by and work in cooperation with the actuarial profession to develeop criteria and standards for the disclosure of the potential effect of material amounts of missing participant data on the reliability of actuarial valuations. It is my understanding that such missing data may have a direct bearing on the soundness of an enrolled actuary's valuation process and analysis of a pension plan's funding requirements. Therefore, it appears there is a direct relationship between the issue raised in the draft report and the responsibility of the Joint Board.

I support GAO's belief that the matter be addressed in the manner set forth in the draft report. Please be assured that the executive director of the Joint Board will be directed to comly with the terms of the recommendation.

Sincerely,

Peter J. Wallison
General Counsel

Mr. William J. Anderson, Director
United States General Accounting Office
Washington, D.C. 20548

APPENDIX VII

Conference
Of Actuaries
In Public
Practice

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Itasca, Illinois
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312/773-8140

Edward H Friend, F C A.
President
% Johnson & Higgins
95 Wall Street
New York, New York 10005
212/701-7500

May 15, 1984

Mr. Richard L. Fogel
Director
Human Resources Division
United States General Accounting Office
Washington, D.C. 20548

Re: Draft of Proposed Report to the Congress on Effect of Incomplete Participant Data on the Reliability of Actuarial Valuations for Multiemployer Pension Plans

Dear Mr. Fogel:

The undersigned has reviewed the draft report and prepared this response on behalf of the Conference of Actuaries in Public Practice. This reply has been reviewed and approved by the President of the Conference and the Conference Pension Committee.

The draft report makes two recommendations to the Secretaries of Labor and Treasury and the Commissioner of Internal Revenue.

1. "We recommend that the Secretaries of Labor and the Treasury direct the Joint Board for the Enrollment of Actuaries to promote action by and work in cooperation with the actuarial profession to develop appropriate criteria and standards for the disclosure of the potential effect of material amounts of missing participant data on the reliability of actuarial valuations."

2. "We recommend that the Secretary of Labor amend regulations implementing ERISA to establish standards for the maintenance of participant data by pension plans. We also recommend that the Secretary of Labor expand on the scope of Labor's audits on fiduciary standards to include a review of actuarial valuation reports so enforcement personnel can ascertain whether participant data on multiemployer pension plans are complete. To assist the Department of Labor in enforcing this regulation, we further recommend

Mr. Richard L. Fogel
May 15, 1984
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that the Commissioner of Internal Revenue expand IRS enforcement efforts to include examinations of actuarial valuation reports to identify multiemployer pension plans lacking complete participant data."

Chapter 2 of the draft report deals with the proposition "INCOMPLETE DATA AFFECT RELIABILITY OF ACTUARIAL VALUATIONS." A review of 143 multiemployer pension plans gives rise to some strong conclusions, especially from the point of view of the concerned public. As a member of the actuarial profession dealing with multiemployer pension plans, I have some questions as to the basis for these conclusions and the impact on the actuary's report and certifications as to the valuation findings. Not being privy to the details of the findings and their implications, I refrain at this point from presenting detailed comments, speculations, and such but, instead, suggest following through on your findings as noted below.

The draft report is also concerned with the "DISCLOSURE OF POTENTIAL EFFECTS OF INCOMPLETE DATA IN ACTUARIAL REPORTS IS INADEQUATE" as discussed extensively in Chapter 3. This chapter and its conclusions are a logical extension of Chapter 2. Given undisputed acceptance of the conclusions in Chapter 2 and the facts and circumstances described in Chapter 3, one is hard pressed to dispute the recommendations. We do, however, have reservations regarding the basis for the conclusions made in Chapter 2 and their implications regarding the actuary's work and the resulting disclosures.

The participant data entered into the actuarial valuation is perhaps the most significant item of the valuation. The continuing review of this data from valuation to valuation is the basis for many conclusions regarding the projected cost of the pension plan. As you note in Chapter 1 actuaries are highly trained professionals. Those actuaries involved in the valuation of pension plans are vitally concerned with the accuracy of the data utilized in the pension valuation. Any questions arising regarding the reliability of the actuarial valuation should be answered immediately and any weaknesses in this regard should be corrected. The Conference of Actuaries in Public Practice is very much concerned with the public's perception of the consulting actuary, both real and imagined. For this reason, we would request immediate implementation of recommendation 1 above with the intent that all concerns raised in your draft report be reviewed and dealt with by the appointed committee and its members.

We further suggest that the committee appointed under the terms of recommendation 1 above be given the power to review all data supporting the second recommendation of the draft report described above before this recommendation is implemented. This would lead to confirmation and/or qualification of the conclusions in the draft report as set out in Chapter 2. The Multiemployer Pension Plan Amendments Act of 1980 has raised many concerns in the minds of those involved with multiemployer pension plans. It is in the interest of all concerned that there be no further doubts raised as a consequence of this draft report. If there are special circumstances relating to certain of the plans

Mr. Richard L. Fogel
May 15, 1984
Page 3

examined by GAO in their study, then the special circumstances ought to be identified and any conclusions drawn therefrom be appropriately qualified. All stipulations regarding confidentiality would continue to be observed by the committee.

We thank you for permitting us to review your draft report and assure you of our future cooperation in this important matter.

Sincerely,

John A. MacDougall, Jr.

John A. MacDougall, Jr., FCA
Reviewer Designate on Behalf of the
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