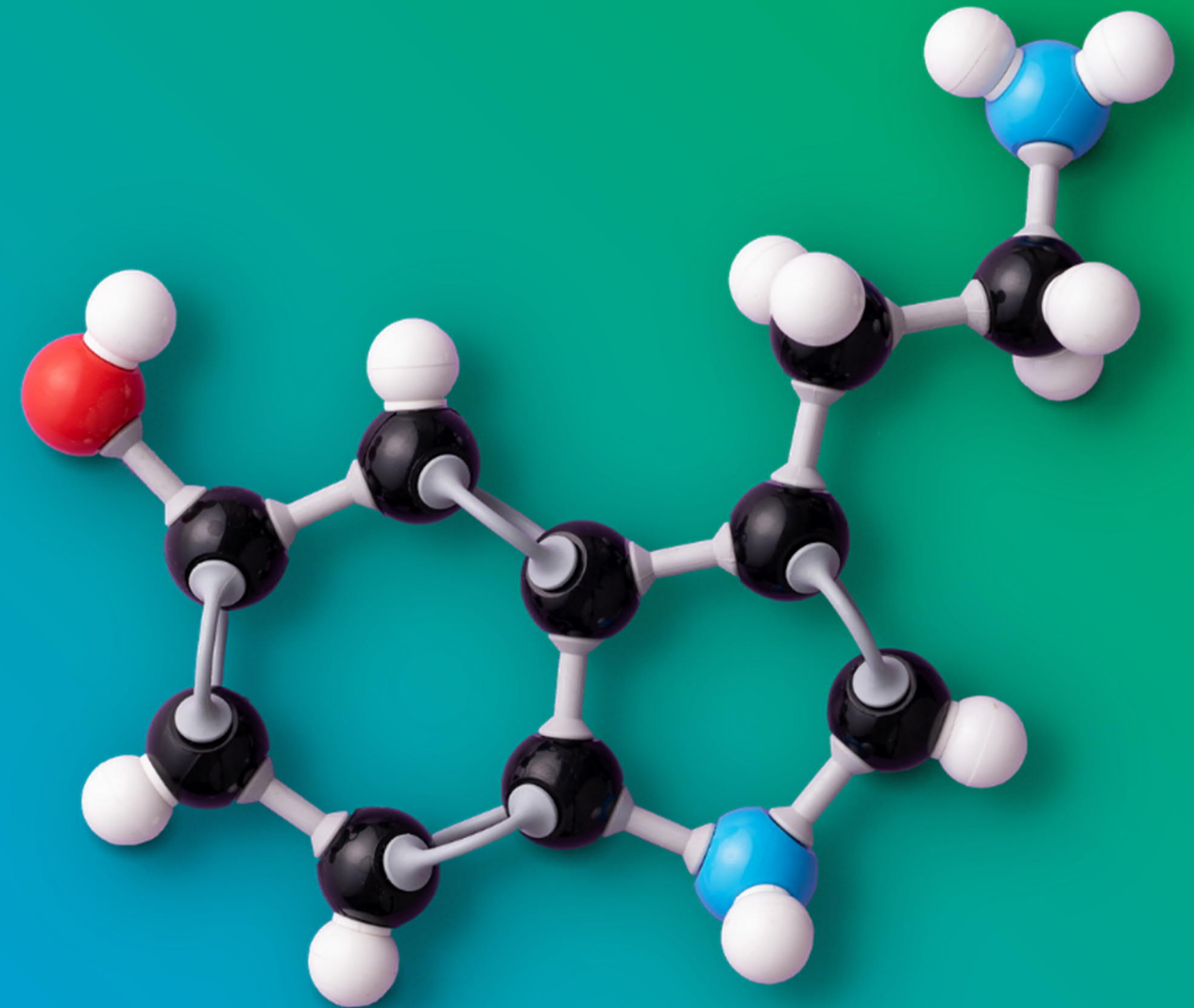


Ready for year end accounting?

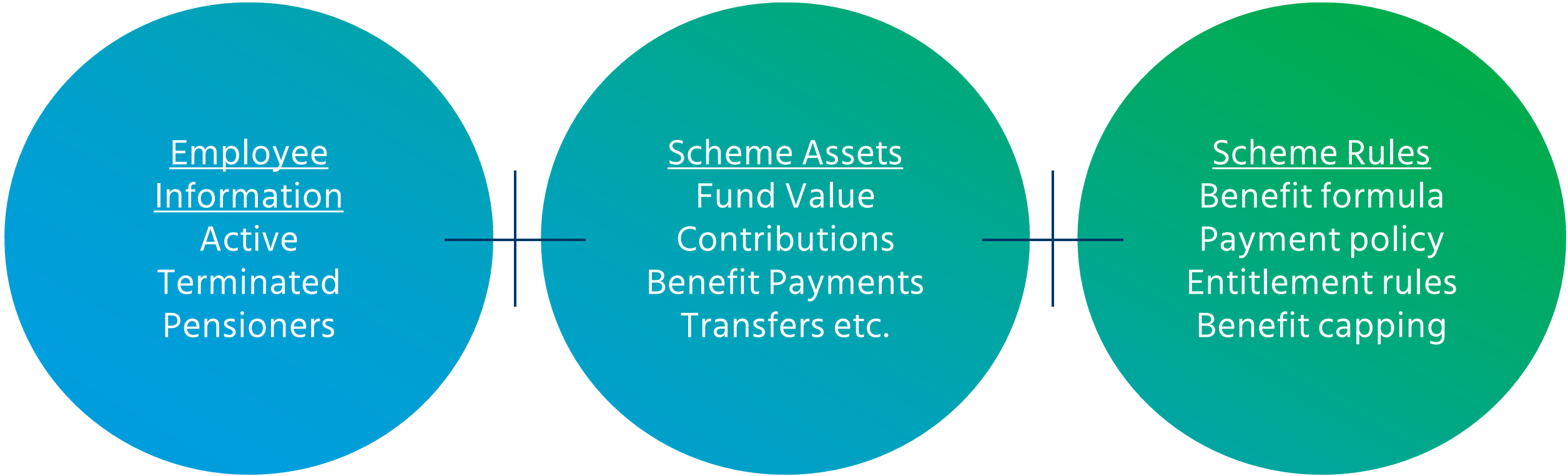
Working with Scheme Data

March 2020



Background

Actuarial valuation of DB schemes has a variety of data requirements, which can be broadly classified as hereunder:



Data review & resolution of query anomalies is an important part of Actuarial valuation process. Quality of data has a direct impact on actuarial estimates and minimizes observations from auditors. We spend about 30% of our project time on data review to ensure its quality.

Potential Pitfalls in Employee Data



Category	Description	Likely oversights	Impact on Liability
Missing Employee data	Active employees not reported to Actuary	Employees hired close to valuation date	Low - as service is less
		Employees on notice period	High - depending on tenure
		Certain category or division of employees like expats, executive directors etc.	High - depending on tenure & benefits offered
Mismatch in employee headcount in company internal records and actuarial report could be a concern for Auditors. It could lead to significant rework in valuation.			



Category	Description	Likely oversights	Impact on Liability
Terminated employees	Missing or partial details of terminated employees	Ex-employees yet to be settled in F&F	High – outstanding payments should be added as a liability due.
		Ex-employees not eligible for Gratuity benefit but for some other benefit like Leave	High – outstanding payments should be added as a liability due.
By providing terminated employees details, company can expect Actuary to reconcile it with last years employee base and identify any mismatch of unreported employee(s).			

Potential Pitfalls in Employee Data

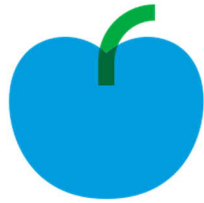


Category	Description	Likely oversights	Impact on Liability
Salary	Incorrect salary information provided to Actuary	Same salary reported for different benefits like Gratuity, Leave when actual company policy consider different components of salary	High – benefits dependent on salary will be calculated wrong due to incorrect salary.
		Incorrect salary components included in reported salary. E.g. variable pay, bonus components are usually excluded.	High – benefits dependent on salary will be calculated wrong due to incorrect salary.
	Actuary can compare reported salary this year with prior to see any significant increase or decrease. If company has undergone a salary restructuring cycle, do inform the Actuary. Then in review of data, Actuary would appropriately build this information.		



Category	Description	Likely oversights	Impact on Liability
Benefit amount	Missing or incorrect benefit payment amounts	Missing any in-service encashment amount on leaves	Low – show mismatch in benefit amounts in disclosures
		Benefit amounts paid by company but yet to be claimed from trust fund	Low – show mismatch in benefit amounts in disclosures
		Other components of F&F added to payments made towards Gratuity and Leave	Low – show mismatch in benefit amounts in disclosures
Review of benefit payments made during the valuation period forms an important part of data review. It many times helps unearth a gap in company actual practice and benefit used for valuation purposes.			

Potential Pitfalls in Other Data



Category	Description	Likely oversights	Impact on Liability
Assets	Missing or partial asset details.	Unreported existing assets like Trust bank balance	High – would understate scheme’s financial position.
		Missing transaction in policy statements like contributions, benefit payments etc.	Low – shows mismatch in benefit amounts in disclosures
		Unreported new investments like purchase of new policy	High – would understate scheme’s financial position.
Most actuarial valuations require Actuary to reflect fair value of assets with scheme without further processing. Sharing trust balance sheets, policy\bank statements, internal transaction records are usually best source for Actuary to finalize assets.			



Category	Description	Likely oversights	Impact on Liability
Scheme rules	Incorrect scheme rules shared with Actuary	Recent changes in company policy about benefit e.g. improvement in Gratuity benefit limit	High – actuarial estimates tend to reflect the understanding from information shared, would do incorrect calculation.
		Discretionary practices like service awards, better benefit in case of death, retirement etc.	High – actuarial estimates tend to reflect the understanding from information shared, would do incorrect calculation
		Different policy for different categories of employees like management vs worker.	High – actuarial estimates tend to reflect the understanding from information shared, would do incorrect calculation.
Actuary should, periodically look to re-validate the understanding of scheme rules with company.			

How can we help

Data checks

Employee data

- Comparison with prior year data for changes in employee date of birth, hire
- Significant change in leaves, salary etc.
- Find new employees with date of hire before prior valuation
- Prior year employees not reported now



Scheme rules

- Review of reported individual benefit payments to detect any gaps in scheme rules understanding
- Review scheme policy document each time for valuation to reflect all provisions
- Detailed Gain\Loss analysis to identify key sources of liability movement. This helps uncover any gap in data.



Assets & transactions

- Analysis of asset gains or losses helps identify any mismatch like missing contributions or assets etc.
- Analysis of scheme's expected benefit payments vs. actual payments can help identify mismatch like missing payment records.



Overview of our Actuarial Valuation process



DATA COLLECTION AND MODELING

Data Collection

- Scheme rules
- Employee data
- Assumptions
- Company practice

Data Validation

- Checks with prior year
- Query gaps
- Review proposed assumptions

Modelling Benefit

- Set up model to reflect plan rules
- Test cases
- Review results



RESULT ANALYSIS AND PREPARATION

Gain\Loss Analysis

- Segregate total G|L to key categories.
- Quantify key reasons for experience G|L.

Liability Runs

- Ordered change of each assumptions.
- Tagging impact in Demographic & Financial category.

Sensitivity Analysis

- Addl. Runs for each key assumption.
- Review of consistency of sensitivity over years.



COMMUNICATION AND SUPPORT

Client Team

- Draft reports for preview of results.
- Con-calls for queries & inquiries
- Signed final reports.

Auditors

- Timely response of auditors queries.
- Con-calls along with client to clarify inquiries.

Ad Hoc Requests

- Support of work with necessary reference material and sample calculations.

welcome to
brighter

Contact us:

Hemanshu.Jain@mercer.com ; Kunal.Bansal@mercer.com