



The Select Committee on Pension Policy

## **Work Session, Managing Future Health Of Retirement Systems**

*Lisa Won, ASA, MAAA  
Associate Pension Actuary*

*Darren Painter, Senior Policy Analyst*



Office of the State Actuary

*"Securing tomorrow's pensions today."*

### **Strategic Priority Of Executive Committee**

- Managing the future health of the retirement systems is a strategic priority of the Executive Committee
  - Includes a study of health risks faced by the retirement systems
  - Requires building an actuarial risk model
- Work expected to continue through the 2010 Interim



Office of the State Actuary  
*"Securing tomorrow's pensions today."*

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## Purpose Of Today's Briefing

- Not a typical work session
- Check-in on SCPP risk study project
  - Update on new developments
  - Report current status
  - Explain the work currently underway
- Keep members informed and answer questions



## What's In a Name?

- Staff have been calling this project a risk study
  - Received input at last SCPP meeting that it would be better to refer to this as a risk assessment
- Study has certain connotations within Legislature
  - Statutory mandate
  - Appropriation
- SCPP project doesn't fit traditional criteria
  - "Study" label could create misconceptions
- Staff will begin referring to this as a risk assessment
  - Same project
  - Different name

## Work Session In October

- Heard history behind the risk assessment
- Learned about the general process for studying risks
- Reviewed a suggested project plan



## Advisory Group Created

- Executive Committee created an advisory group for the risk assessment in October
  - Group will operate through the 2009 Interim
- Purpose of the group is to advise and assist OSA in conducting the risk assessment
  - Provide input
  - Serve as a sounding board
- Advisory group is not intended to replace the SCPP as primary venue for policy deliberations and decision making
- Meetings are open to the public
- Agendas sent to the SCPP listserv and materials are posted on SCPP web site

## Advisory Group Members

- Representative Conway
- Senator Schoesler
- Representative Bailey
- Representative Seaquist
- Steve Hill
- Glenn Olson
- Pat Thompson



## Current Status

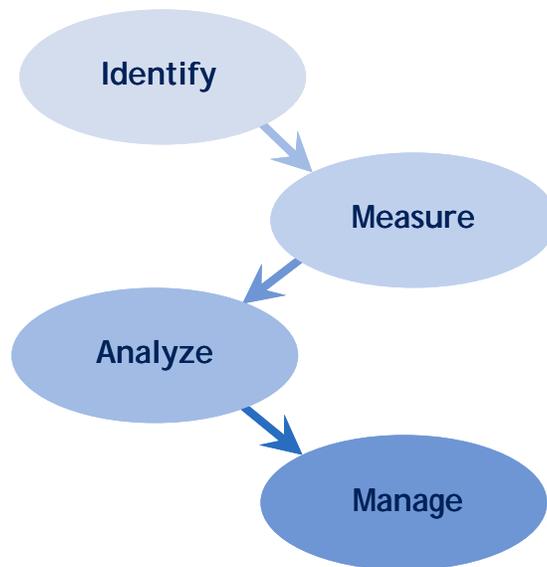
- OSA is working with advisory group
  - Gathering input on project
  - Identifying health and risk factors for the actuarial risk model
- Advisory group held first meeting yesterday
  - Purpose of the group
  - Review of project plan
  - Discussion on risk and health measures



## Questions?



## General Process For A Risk Assessment



## Phase One: Identification

- Identifying health and health risk factors is about asking and answering key questions
  - What is a healthy retirement system?
  - What causes a system's health to decline?
  - What outcomes do you want to achieve?
  - What outcomes do you want to avoid?
- Answering these questions helps uncover important factors in the health of the retirement system



## Identifying Factors Is Not New

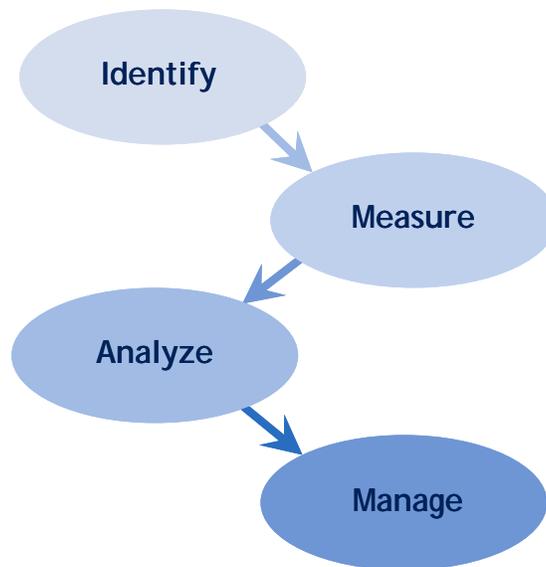
- In the past, factors were identified on an ad-hoc basis
- Policy makers have asked OSA to measure and analyze
  - Chance Plans 1 run out of money
  - Large spikes in future contribution rates
  - Total future contribution rate level
  - Fiscal impact for benefit improvements
- This risk assessment project allows policy makers to
  - Identify health and health risk factors in a comprehensive, focused, and strategic way
  - Analyze interaction among factors

## Process For Identifying Factors

- OSA works with the advisory group to identify health and health risk factors
  - Advisory group answers questions and provides input
  - Input will help OSA to develop actuarial risk model
    - Build in flexibility to measure different risk factors
- OSA reports to the full SCPP on project status and work of the advisory group
- Identification process will run through 2009 Interim



## One Example Through The Risk Assessment Process



## Identification Phase

- What is one characteristic of a healthy retirement system?
  - Well funded
- What causes funded status to decline?
  - Liabilities increase more than assets
  - Assets decrease more than liabilities
- What funded status do you want to achieve?
  - A "healthy" funded status: at least 85 percent?
- What funded status do you want to avoid?
  - An "unhealthy at-risk" funded status: below 60 percent?



## Measurement Phase

- Actuarial risk modeling projects today's funded status into the future
- Thousands of random "economic events" simulated on computer
  - Annual changes in investment income and available revenue for contributions, and level of correlation
  - Each "event" is statistically likely to occur
- Model projects and stores funded status results and resulting contribution requirements
- Model sorts and groups results to determine chance of certain outcomes
- How and why did this occur?

## Analyze – The How And Why Phase

- Why did the funded status decline?
  - Significant annual change in assets and/or liabilities
  - Gradual change in assets and/or liabilities
- Are there underlying factors causing this decline (root causes)?
  - Revenue shortfalls?
  - Investment losses?
  - Funding shortfalls?
- Do these root causes interact to compound the effect?
  - If so, how?



## Management Phase

- Are you comfortable with results of the measurement and analysis?
- Is the chance of an unhealthy funded status too high?
- How can you reduce that risk?
  - Introduce changes in policy?
- Use decision aide to evaluate whether policy change improves health of retirement systems

## How Will The Full Project Be Different?

- Larger scope - several characteristics may be identified
- May identify root causes not measured before
- Interaction of risk factors will be measured
- Decision aide will provide a new way to manage health



## Management Opportunities

- Test new policies in the actuarial risk model before trying them in the real world
- Develop new strategies for managing the future health of the retirement systems
- Managing future health is a primary role of policy makers



## Next Steps

- OSA will continue to gather input on health factors and health risk factors from advisory group
- Advisory group plans to meet prior to next SCPP meeting
- Staff will provide another project update in December
  - Expect to have preliminary health and risk measures to report



## Questions?

