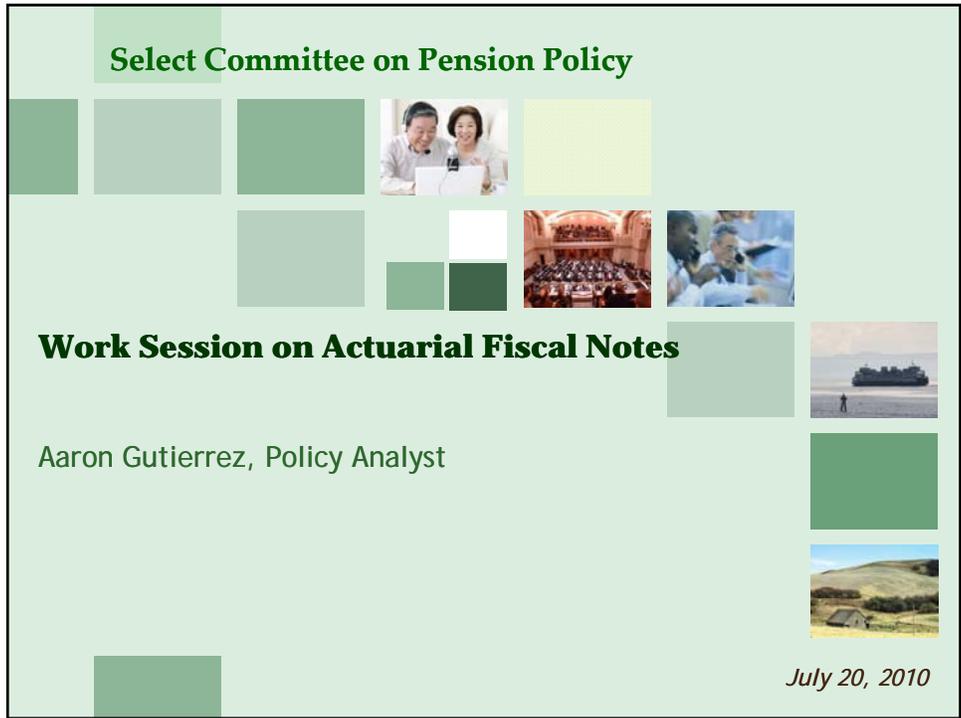


Select Committee on Pension Policy



Work Session on Actuarial Fiscal Notes

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Actuarial Fiscal Notes Are Exciting

"Ooh...a presentation on actuarial fiscal notes!
Can it be *at least* three hours? *Please...?*"
-- Anonymous Senate Staff

"Should I bring my own pillow, or will they be provided?"
-- Anonymous Agency Staff



 Office of the State Actuary
Presenting actuarial information to the legislature

O://SCPP/2010/7-20-10_Full/3.ActuarialFN.pptx

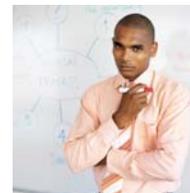
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Common Questions

- Why don't you use the normal fiscal note template?
- Can't I just get one number - how much will it cost?
- Why did you do a fiscal note on this bill when it wasn't requested?
- Why does it take so long to produce an actuarial fiscal note?
- Can't software do it all for you?

Today's Presentation

- How is an Actuarial Fiscal Note (AFN) different from an agency fiscal note?
- Not a technical presentation
 - Almost no numbers
- Purposes for presentation
 - Education
 - Check in



Agency Fiscal Notes Typically Show Impact To Agency Budget

- Typical formats
 - Staffing
 - It will take X amount of staff Y amount of hours to complete
 - Purchasing
 - X items must be purchased at Y cost per item
- Not to imply all agencies fit the same mold
- AFNs are different
 - Cosmetically
 - Substantively



Q: Why don't you use the normal fiscal note template?

- Code of conduct
- Actuarial Standards of Practice (ASOPs)
 - Self-regulatory structure
 - Guidelines, or best practices
 - Topics range from methods to communications
- Require specific information, not format
 - Must identify who prepared analysis
 - Must contain disclosures
 - Data, methods and assumptions
 - Intended use and limitations of use
 - Purpose and audience
 - Etc.

Q: *Can't I just get one number: how much will it cost?*

- Statute requires at least three
 - Long-term pension liabilities of the state
 - Not one-time impact to budget
 - Contribution rate impact
 - Budget impacts
 - State and local
 - Biennium and 25 years
- Q: *Can't I just get three numbers?*
 - Three numbers only part of the story
 - What do those numbers really mean?



AFNs Are A One-Shot Deal

- Nature of actuarial work is cyclical
 - Define the problem
 - Design the solution
 - Monitor the solution
 - Subject to external forces
- Nature of AFNs does not allow for revision based on experience after bill passes
 - Contractual benefits
 - May be difficult or impossible to change or repeal
- Must put results in context
 - Risk management
 - Best-estimate projections have limits

AFNs Are Evolving

- Providing more context
 - What do these numbers really mean?
- Designed for all audiences
 - Plain talk summary on page one of every AFN
- Sensitivity analysis
 - What happens to results if we change assumptions?
- Risk measures from risk assessment
 - Update later today



Q: Why did you do a fiscal note on this bill when it wasn't requested?

- Required by statute
- No request needed to initiate
- All amendments
 - Major milestones
- Reminder -- if it has to do with pensions, you will likely see a actuarial fiscal note

OSA Provides AFNs For Proposed Legislation

- Statutory duty to consult with certain agencies and Legislature
 - Consultation often involves pricing proposals
- Work is the same, whether actual legislation or draft
 - ASOPs apply
- Sometimes confidential



Q: Why do your fiscal notes take so long to produce?

- Three major factors
 - Volume
 - 2010: 46 AFNs
 - 2009: 93 AFNs
 - 2008: 56 AFNs
 - 2007: 126 AFNs
 - Prioritization
 - Consult with legislative staff
 - Always appreciate notice before session
 - Anticipated complexity
 - Scope and complexity of process
- Risk management

Q: Can't software do it all for you?

- Software can't make judgment calls
- Software can't perform research and gather data
- Software can't set assumptions
 - Who will this affect?
 - Approx 500,000 members in 16 retirement plans
 - How will this affect their behavior?
 - How will the change be interpreted?



Assumption Setting Takes Time

- One chance to set for AFN
- Requires reliable data
- Utilized over long term
- Stakes are high
 - Contractual benefits
 - Billion dollar decisions

Bill That Affects Small Population Can Take More Time To Price

- May seem counter-intuitive
- Lack of data
- Law of large numbers
 - Generally easier to set assumptions with larger amount of data
 - Less variation from long-term expectation



Take-Aways

- AFNs must comply with ASOPs
- Three numbers wouldn't tell the whole story
 - Must provide context
- Statute requires AFN for all pension bills
 - Milestone amendments
- All AFNs take time
 - Prioritize
 - A lot at stake
- Small bills can take more time
- Software can't make judgment calls
- Risk management

Feedback

- Are actuarial fiscal notes meeting your needs?
- How can we improve?

