

Update On Risk Assessment

Issue

The Executive Committee of the SCPP identified managing the future health of the retirement systems as its strategic priority for the 2009 and 2010 Interims. The Executive Committee further recommended the SCPP undertake an assessment of the health risks facing the state's retirement systems and develop recommendations to the 2011 Legislature for managing those risks. As part of the assessment, the Office of the State Actuary (OSA) committed to building an actuarial risk model to measure and analyze health risks facing the retirement systems.

Background

This issue is the result of a convergence of a strategic planning effort and an actuarial assessment of retirement systems health. In June 2009, the Executive Committee created a strategic planning "subgroup" to further define and clarify a proposal related to strategic planning. At the same time, OSA prepared a report on the financial condition of the retirement systems as part of the statutory process for recommending economic assumptions. In the report, the state actuary noted the declining health of the retirement systems and recommended a risk assessment to several bodies, including the subgroup.

The strategic planning subgroup met during the summer and considered many challenges and risks facing the retirement systems. Ultimately, the subgroup selected managing the future health of the retirement systems as its top strategic priority. The subgroup recommended to the SCPP that an advisory group provide input to the state actuary prior to OSA building a model.

The key goals for the risk assessment include the following:

- ❖ Educate stakeholders and improve understanding of the health risks faced by the retirement systems.
- ❖ Develop new tools to identify and measure risks and evaluate the effects of future changes to the retirement systems.
- ❖ Identify root causes of risks and explore options for managing the future health of the retirement systems.
- ❖ Inform future budget discussions.

Work on the risk assessment spans two interims. The major steps of the process include identifying health risks, measuring the likelihood and severity of those risks, analyzing the causes and interactions of the risks, and managing the risks. OSA staff

is performing the measurement and analysis. The role of the SCPP is to make recommendations to the Legislature on how to best manage those risks.



Project Activity

The 2009 Executive Committee adopted the strategic planning subgroup's proposal and created a risk assessment advisory group to meet during the 2009 Interim. During the 2009 Interim, OSA staff worked with the advisory group to identify risks and set measures for the retirement systems.

During the 2010 Session, OSA began gathering historical data and building the actuarial risk model. The model was completed early in the 2010 Interim. During the first half of the 2010 Interim, OSA used the historical data and the risk model to measure and analyze risks. The model is currently being reviewed by an outside actuary for the Pension Funding Council.

Next Steps

Staff will update the SCPP on the risk assessment in July. This update will include some preliminary findings from OSA's analysis.

In late August, OSA will publish a report detailing analysis and findings from the risk assessment. Staff is available to brief the SCPP on the OSA report at the September meeting.

The SCPP may choose to develop a legislative strategy for the 2011 Session based on the OSA report. This could include recommending funding and/or benefit policy changes to the Legislature. The SCPP may take its cues from the findings in the OSA report or may work with staff to develop strategies unrelated to the report findings.