Pension Risk Analysis

Understanding your agency's pension risk data

VAN IWAARDEN

Each year CalPERS provides member agencies with pension risk information buried in the annual valuation reports. Unfortunately, this important material may not get the attention it deserves. It can be difficult to understand … and even harder to interpret.

Now there's a cost-effective solution to unlock the meaning of your pension risk data.

The consulting actuaries at Van Iwaarden Associates transform your CalPERS valuation from a jumble of numbers into a useful analysis that is understandable by all stakeholders. This helps agencies harness the full power of their pension risk data

Pension Risk Assessments are becoming a best practice among public sector pension plans. These analyses can help uncover hidden pension risks.

CalPERS agencies often don't have the ability or resources to conduct a full pension risk assessment. Fortunately, a qualified actuary can help you unlock the information contained in your annual valuation report and help you understand what it all means.

Pension risk analysis process

CalPERS agency valuations include the following pension risk information:
- Future investment return scenarios
- Discount rate sensitivity
- Volatility ratios
- Hypothetical termination liability

Each risk measure can provide employers with valuable information about their pension plan obligations. And, with proper analysis and interpretation, they can deliver advance warning of upcoming contribution volatility. Our risk analysis process includes:

1. Call with agency to discuss their primary pension concerns and guide the risk analysis

2. Analysis of pension risk information and preparation of report interpreting those risks, including commentary on potential pension pitfalls

3. Meeting with agency staff to review pension risk report and explain in layman's terms what it all means

Investment risks	Discount rate sensitivity
Pension Risk Analysis	
Volatility ratios	Solvency liability

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Below is a brief discussion of each risk measure and how their insight can be unlocked.

Analysis of future investment return scenarios

Annual investment returns are one of the leading sources of pension contribution volatility. How likely is it that future contributions will be in a particular range?
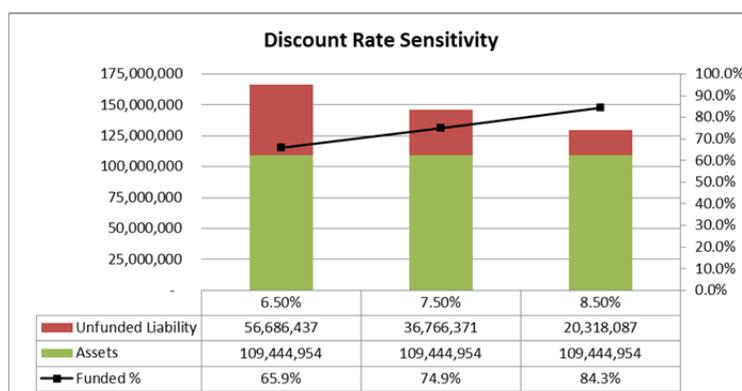
Using the information in you valuation report, we can provide a visual representation of your plans' investment risk and how it might affect future contributions.
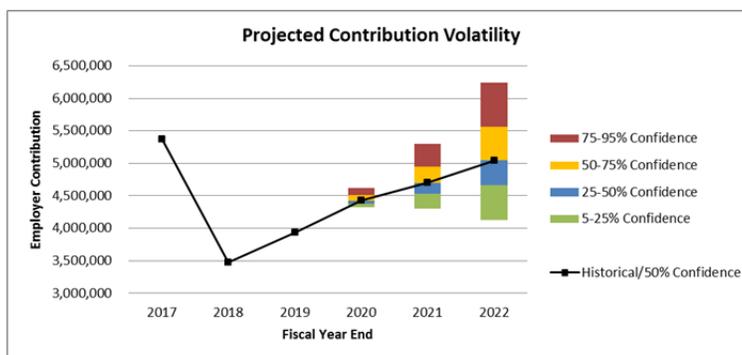
Discount rate sensitivity

CalPERS is in the process of lowering the discount rate from 7.5% to 7.0% over the next three years. What will this mean for your plans' funded status? What if CalPERS continues to lower the discount rate below 7.0%?

We'll provide a high-level discussion of the lower discount rate's effect on your unfunded liability, along with a chart depicting the sensitivity.

	6.50%	7.50%	8.50%
Unfunded Liability	56,686,437	36,766,371	20,318,087
Assets	109,444,954	109,444,954	109,444,954
Funded %	65.9%	74.9%	84.3%

Volatility ratios

Volatility ratios are some of the most misunderstood risk metrics. They're useful on their own, but even more powerful when compared to historical averages and to other agencies' numbers. Our pension risk analysis will explain Asset Volatility Ratios (AVR) and Liability Volatility Ratios (LVR) in layman's terms so you know what they mean. Plus, we'll interpret your plans' results and show how the volatility ratios affect contribution affordability.

Plan termination/solvency liability

A plan termination or solvency measurement of pension liability is a controversial topic in public plan community. Some believe it is useless or misleading information; others believe it's a good gauge of a plan's investment risk. We'll explain how to interpret solvency liabilities and provide background on the debate. This topic is particularly important since there are several current proposals advocating mandatory disclosure of a solvency liability in employers' financial statements.

What's next? A pension risk analysis of your CalPERS valuation report is just the start of managing your pension plans' risks. Other analyses (requiring additional data) include long-term contribution projections and evaluation of establishing a pension stabilization trust. Van Iwaarden Associates has the expertise to help.

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