

Attachment 1 – Current State

COMPARISON OF CURRENT RISK MEASURES IF A RISK MITIGATION STRATEGY IS ADOPTED

Using data for a sample miscellaneous plan, the tables illustrate how the **current** risk measures will change if the Board adopts either of the risk mitigation strategies discussed at the May Board workshop. These scenarios are designed to assist in answering the question “How would the current measures of risk change” upon adoption of a risk mitigation strategy. The question of “Where do we want to be in the future” is addressed in Attachment 2.

The tables below provides various risk measures based on **today’s** funding levels for a sample miscellaneous plan and looks at the next 30 years under the two risk mitigation strategies, including how they would impact the risk measures as risk mitigation progresses over the next 30 years assuming the target volatility was 8%. The results would be similar although the changes would be smaller if the target volatility was 10% instead of 8%.

The table below shows the probabilities of the funded status for a sample miscellaneous plan falling below various levels at any point in the next 30 years.

Note that these measures are not directly comparable to the measures shown in the May workshop (See Attachment 2 for results that are directly comparable.)

The three risk measures are:

Table 1.1: Probability of falling below a given funding level (at any point in the next 30 years)

Table 1.2: Probability of employer contribution rates exceeding a given level (at any point in the next 30 years)

Table 1.3: Probability of employer contribution rates increasing by more than a given level in a single year (in any of the next 30 years)

Analysis and Conclusions:

- The probability of falling below 40% or 50% funded (Table 1.1) decreases significantly if either risk mitigation strategy is adopted. However, due to the current funded status and the impact of lowering the discount rate, the probability of falling below 60% funded does not decrease.
- The probability of high employer contributions increases modestly if either risk mitigation strategy is adopted (Table 1.2). The increase is slightly greater with a Blended Glide Path than it is with a Flexible Glide Path.
- The risk mitigation strategy (Blended Glide Path vs. Flexible Glide Path) decreases the risk measure for employer contribution rates increasing by more than a certain level (Table 1.3).

Table 1.1			
Risk Mitigation Strategy	Probability of Falling Below Given Funding Level (at any point in next 30 years)		
	40%	50%	60%
No Risk Mitigation	14%	32%	55%
Flexible Glide Path	9%	28%	52%
Blended Glide Path	9%	28%	53%

Table 1.2			
Risk Mitigation Strategy	Probability of Employer Contribution Rates Exceeding Given Level (at any point in next 30 years)		
	30% of Payroll	35% of Payroll	40% of Payroll
No Risk Mitigation	66%	49%	33%
Flexible Glide Path	69%	52%	34%
Blended Glide Path	70%	52%	35%

Table 1.3			
Risk Mitigation Strategy	Probability of Employer Contribution Rates Increasing by More Than a Given Level (at any point in next 30 years)		
	3% of Payroll	5% of Payroll	7% of Payroll
No Risk Mitigation	60%	16%	2%
Flexible Glide Path	50%	6%	0%
Blended Glide Path	50%	6%	0%