



Rhode Island State Investment Commission

Discussion of Asset-Liability Modeling

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February 23, 2011



ERS Rhode Island Portfolio

- Last Asset / Liability Study conducted 2003
 - 8 years between Asset / Liability reviews is outside industry best practice standards

- Last Asset Allocation Study conducted 2009

- Investment Markets and Plan Financial Condition have changed since 2003

- Consider conducting an Asset Liability Study

Background

BRIEF REVIEW of A/L PROCESS

- Reasons for conducting an A/L study:
 - Assets exist to fund a stream of liability payments
 - Assets and liabilities need to be evaluated together
 - Maintain an ongoing, documented, prudent level of due diligence of a plan's long-term investment objectives and strategy
 - Provides a framework to guide all other policy / strategy decisions

Background

BRIEF REVIEW of A/L PROCESS

- Other reasons for conducting an A/L study:
 - A change in trustees' tolerance for certain plan risks
 - A change in plan conditions
 - Surge in retirements due to early retirement incentive
 - Large change in plan funding ratio
 - A dramatic change in the investment markets



Background

RECENT MARKET DYNAMICS

- Since 2007, the global investment markets have taken quite a journey, putting plan sponsors in a difficult long-term funding predicament
- In light of the recent past, return volatility remains and future investment prospects remain challenging
- PCA recently revised its capital market assumptions, recognizing significant bond market volatility/valuation dynamics



Review of Asset-Liability Modeling

STANDARD MEAN-VARIANCE-BASED A/L STUDY

- Utilizes PCA's updated capital market assumptions
- Incorporates actuarial projection data from latest valuation
- Places most emphasis on investment return volatility as a proxy for overall plan risk, but does examine key financial metrics
 - Funding Ratio
 - Contribution Level
 - Liquidity
- Project timeline: typically 2-4 months



Appendix

Capital Market Assumptions (10 year)

	Wilshire 2003	PCA 2011
U.S. Equity	8.00%	8.75%
Non-U.S. Equity	8.00%	9.00%
U.S. Fixed Income	5.25%	3.30%
Real Estate	6.75%	7.00%
Private Equity	11.00%	12.00%
Cash Equivalents	3.25%	3.00%
Inflation (CPI)	2.25%	2.75%