




Employees' Retirement System of Rhode Island

Review of 2011 Asset Liability Study – Decision Factors

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A Brief Discussion of Decision Factors



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Definition:

A Decision Factor is a combination of two components:

- (i) a variable that describes the financial condition of the Plan and*
- (ii) a Board/Investment Committee-determined threshold level (or goal) for that variable*

Purpose:

Decision Factors allow decision makers to define and quantify their tolerance for risk using intuitive metrics, allowing the Board/Investment Committee to establish a consensus risk tolerance



A Brief Discussion of Decision Factors

In general terms, specific decision factors might be characterized as follows:

- *Minimize Contributions* over the next several years
- *Avoid Contribution (Cost)Spikes* (i.e., manage contribution volatility) for the next several years
- *Achieve a Funding Goal* within a certain number of years
- *Avoid a threshold Funding Level* for the next several years
- *Maintain Plan Liquidity* over the next several years

Current Allocation – Client ABC **COST & FUNDING**

Portfolios with the same mean return and standard deviation have a distribution of probable investment results, resulting in distributions for plan cost and funding

