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Contact for Rockefeller Institute:
Robert Bullock
Deputy Director for Operations
(518) 443-5837
or by email at robert.bullock@rockinst.suny.edu

Rockefeller Institute Analyzes Pension Risk for University of California Retirement Plan Using Pension Simulation Tool

Albany, NY — The Rockefeller Institute of Government of the State University of New York (SUNY) has analyzed the potential consequences of investment return volatility of the University of California Retirement Plan (UCRP) as part of its Pension Simulation Project. The project was created to examine the potential consequences of investment-return risk for public pension plans, governments, and stakeholders in government.

UCRP was selected as one of five plans to analyze in detail, in part because it has many characteristics similar to average plans. Other plans selected for future reports include a deeply underfunded plan, a very well-funded plan, a closed plan, and a public safety plan.

According to report authors Don Boyd, director of fiscal studies for the Rockefeller Institute, and his colleague, Yimeng Yin, the model calculates the annual cash flows and fiscal position of a public pension plan for future years. Typically, the model runs a simulation for 50 years or more, with analysis focused on earlier years. The model calculates beginning and ending asset values, benefits paid, employer and employee contributions (including amortization), investment income, the funded ratio, and employer contributions as a percentage of payroll under different investment return scenarios, funding policies, and plan characteristics.

Among other things, the authors concluded that "there is considerable risk to UCRP funding if the plan maintains the practice of capping employer contributions at 14 percent of payroll" — even if the plan's investment-return assumptions are correct on average over the long run. The authors also noted that the University "may wish to adjust its contribution practice to allow greater responsiveness to investment results; other plans with rigid contribution policies and practices may wish to do the same. In addition, the fund may wish to examine its risk profile carefully, with an eye toward reducing investment return volatility."

To view a copy of the report, go to www.rockinst.org/pdf/government_finance/2016-11-22-Investment_Return_Volatility.pdf.

This report was completed independently of UCRP, and is neither sponsored nor approved by UCRP.

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