What is Stress Testing?

Stress testing is an exercise designed to analyze a wide variety of economic scenarios, both good and bad, normal and abnormal, in order to understand how the pension plan may be impacted under each of those scenarios. Understanding in particular how both investments (assets) and benefits owed (liability) might be impacted by negative scenarios allows for better, pro-active, long-term management of the pension plan.

PSERS’ annual asset-liability study utilizes 5,000 unique economic scenarios

PSERS Conducts a Detailed Asset-Liability Study Every Year

The Society of Actuaries commissioned the Blue Ribbon Panel in April 2013 to address growing concerns about the financial health of public sector pension plans. In contrast to the Blue Ribbon Panel which focused on three investment return scenarios, PSERS’ annual asset-liability study generates 5,000 unique economic scenarios over a 30-year horizon with each individual scenario exhibiting a non-uniform pattern of results. The robustness of PSERS’ asset-liability study allows for a deeper understanding of potential pension risks and provides PSERS with more data to leverage in selecting the optimal asset allocation strategy for the pension plan.