Becoming Liability Aware

A Strategy For Improved Pension Funding

*The **Objective** in managing a defined benefit plan is to fund benefit payments (liabilities) in a cost effective manner and to reduce risk over the long term.*

*The **Process** to improve funding starts with becoming more liability aware, and it includes the following steps / products to assist the sponsor in meeting the **Objective**.*

Price your liability - ASC 715 Discount Rates

Provide a series of yield curves that conform to ASC 715. Price Waterhouse is a major subscriber. Ryan ALM discount rates consistently out-yield Citigroup's rates.

Measure your liability - Custom Liability Index (CLI)

CLI provides all calculations needed to measure and monitor the PV risk/reward behavior of liabilities including: growth rate, statistical summary (YTM, Duration, etc.) and interest rate sensitivity. We will create both a gross and net CLI (after Contributions). The CLI is the proper ***benchmark*** for pensions.

Monitor your liability - Asset / Liability Summary

Based on the CLI calculations, we will create a summary page to clearly show the difference between gross and net CLI, the present value difference between discount rates, and the growth rate of the plan's liabilities.

Will the plan go broke? - Asset Exhaustion Test (AET)

The AET will calculate when the current assets are exhausted and can no longer fund benefit payments. The AET includes all cash flows from current assets and the projected contributions. We will run a matrix of asset growth rates to calculate the ***proper ROA*** needed to fully fund liabilities.

Set the glide path - Allocation of Assets to Beta (insurance) and alpha (growth)

The output from the CLI and AET will highlight that portion of the assets that can be allocated to beta versus alpha. This bifurcated approach is unique relative to single asset allocation strategies, and it is dynamic in its response to changes in the funded ratio / funded status.

Begin to de-risk the plan - Liability Beta Portfolio (LBP)

The LBP is a fixed income portfolio designed to cash flow match and fund the projected benefit payment schedule at the lowest cost to the plan. The LBP is a cost optimization model that should reduce funding costs versus the ASC discount rates using investment grade bonds.

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