

## Things To Ask your LDI Manager

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LDI is the acronym for Liability Driven Investment. It is better explained as Asset Liability Management which we promote at Ryan ALM. It has developed into two main strategies either to fund liabilities through cash flow matching or to immunize the interest rate sensitivity of liabilities through duration matching. Below is a short list of questions we urge plan sponsors and pension consultants to ask to any LDI prospective asset manager. Please call us for more LDI guidance.

### **Are you a Duration Matching (DM) or a Cash Flow Matching (CFM) manager?**

#### **If Duration Matching... ask these questions:**

1. What is the source of your liability duration calculation?  
(Actuaries usually do not provide such calculation)
2. What is the discount rate(s) you use for your duration calculation? Is it a single rate?  
(ASC 715 is best for accurate market value calculation which is a AA corporate yield curve)
3. Are you using an average duration, key rates, or matches along the yield curve?  
(Liabilities are a term structure or yield curve of monthly benefit payments. You need to match or fund every monthly payment = 360 durations over a 30-year liability cash flow)
4. Do you match total liabilities including those past 30 years?  
(Requires derivatives past 30 years which may create leverage and risk)
5. How often do you rebalance?  
(Duration is a PV calculation that changes daily if not continuously)
6. Do you make or fund the liability payments (benefits + expenses)?  
(Most DM managers are not term structure matched so not aligned to pay liabilities)

#### **If Cash Flow Matching... ask these questions:**

1. What liabilities are you funding? Gross or Net?  
(Assets need to fund NET liabilities... benefits + expenses after contributions =  $(B+E) - C$ )
2. How are you funding the annual actuarial projected liability cash flows?  
(Net liabilities are monthly payments so CFM should match monthly liability cash flows)
3. How much of a funding cost savings do you expect to realize?  
(Major CFM benefit is the funding cost savings:  $FV \text{ of liabilities} - PV \text{ of CFM} = \text{about } 2\% \text{ per year}$  which is achieved as soon as the CFM portfolio is built)
4. How do you fund liabilities past 30 years?  
(CFM is best for funding liabilities up to 30 years)
5. How many years of experience do you have with CFM?  
(CFM may be the oldest LDI strategy starting with Dedication in the 1970s)

As our name implies, Ryan ALM Advisers is dedicated to Asset Liability Management specializing in Cash Flow Matching... our only LDI product. We strongly feel that CFM best fits any liability objective including Pensions, OPEB, Lotteries, NDA, and E&F. Our team has over 168 years of experience dating back to the 1970s with Dedication models. Our CFM product is called the **Liability Beta Portfolio™** which will fully fund monthly net liabilities at a funding cost savings of about 2% per year (40% on 1-20 years of liabilities). We can fully fund and CFM up to 30 years with certainty. This term structure monthly cash flow matching approach also provides the best duration matching as each monthly liability payment is fully funded and duration matched. After 30 years we are compatible and synergistic with any derivative strategy a plan sponsor may want to use.

Please email or call Russ Kamp (Managing Director) for more info.

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