

Pension Doctor: Generalist or Specialist

When a person gets sick or has an injury they go see a doctor. Usually, they prefer to see a Specialist who is the recognized expert on the ailment they have rather than a Generalist who has less expertise related to this particular medical condition. Well, the same should be true for pensions. If a pension plan needs a certain strategy to help enhance (cure) the funded status, they call in a specialist for that strategy.

Given that the true objective of a pension is to **fully fund benefits and expenses (liabilities) in a cost-efficient manner with prudent risk** plan sponsors and their advisors should be dialing up a risk mitigation specialist, such as Ryan ALM. For more than 50 years, our cash flow matching (CFM) strategy is the best fit and proven strategy for the pension objective. CFM provides an accurate and timely match of monthly asset cash flows to fully fund monthly liability cash flows. The CFM is a portfolio of investment grade bonds. The intrinsic value in bonds is the certainty of their cash flows (only asset class with such certainty).

Bond math teaches us that the longer the maturity and the higher the yield... the lower the cost. The Ryan ALM cash flow matching product is a cost optimization model that fully funds monthly liability cash flows at a cost savings of about 2% per year in this interest rate environment. We call our CFM model the **Liability Beta Portfolio (LBP)**. The LBP should be the *core portfolio* of any DB pension and replace active fixed income management, which is highly susceptible to changes in rates. By matching and funding liabilities chronologically, the LBP buys time for the Alpha or performance assets (non-bonds) to grow unencumbered. By working in harmony with the Alpha assets the plan can gradually enhance its funded status and stabilize contribution costs. There are numerous benefits to a CFM strategy:

- **No need for cash sweep as LBP provides the liquidity to fully fund liabilities**
- **Secures benefits for time horizon LBP is funding (1-10 years)**
- **Buys time for performance assets to grow unencumbered**
- **Outyields active bond management... enhances ROA**
- **Reduces Volatility of Funded Ratio/Status**
- **Reduces Volatility of Contribution costs**
- **Low Investment Advisory Cost = 15 bps**
- **Reduces Funding costs (2% per year)**
- **Mitigates Interest Rate Risk**

We urge pensions to use CFM as the core portfolio strategy to achieve their true objective. To our knowledge **Ryan ALM is the only firm that specializes in CFM...** our only product.

For more info, contact Russ Kamp, CEO at rkamp@ryanalm.com 201-675-8797.