

Liability Beta Portfolio™ (LBP)

Objective: The primary objective of a pension is to fund the projected benefit payment schedule in a cost efficient manner such that contribution costs as a % of payroll remain low and stable. The secondary objective is to reduce risk (de-risk the plan) over time.

De-Risk: To de-risk a pension requires the installation of a Liability Beta Portfolio whose mission is to match and fund liabilities. This core portfolio is constructed of investment grade bonds (mainly A/BBB) whose cash flows match the actuarial projected liability cash flows.

LBP Model: “Cost Optimization” model whose mission is to find the lowest cost (present value) portfolio from an acceptable universe of bonds that can fund each and every projected annual liability benefit payment. There are two factors at work here to reduce costs: Longer maturities have lower present values and usually higher yields (positive sloping yield curve) which both reduce the cost to buy bonds at the same par value (future value).

Reduce Costs: LBP reduces contribution costs as proven by the difference between present value of liabilities based on AA corporate pricing (GAAP accounting) vs. the cost to install a LBP. LBP model is tested since 12/31/09 with a consistent cost savings of about 10%.

Discount Rates: Ryan ALM can also provide the discount rates in conformity with FAS 158 (ASC 715) if needed. Our discount rates are consistently higher than Citigroup. We show a range of 7 bps. to 35 bps. higher rates which could enhance the balance sheet and funded ratio. Price Waterhouse Coopers (PWC) is our largest subscriber which should provide comfort to any client that we are in conformity with GAAP accounting.

Benefits: Ryan ALM Liability Beta Portfolio creates numerous benefits for clients:

1. Reduces risk
2. Reduces contribution costs
3. Reduces volatility of funded ratio
4. Outyields liabilities by 50-125 bps = pays asset management fee
5. Outyields liabilities by 50-125 bps creating alpha and enhancing funded ratio



Ryan ALM, Inc.

The Solutions Company
561-656-2014
www.RyanALM.com