From: rryan@ryanalm.com
To: RegComments
Cc: "Russell Kamp"
Subject: Response to PBGC on SFA for ARPA
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PBGC,

Pension liabilities (projected benefit payments) are a term structure or yield curve that actuaries project out as annual liability cash flows.
As a result, discount rates are used (i.e. PPA and ASC 715) that price these liability cash flows as a yield curve to calculate liability present values (PV).
The present value or market value of assets is then compared to this liability PV to calculate the funded ratio and funded status. This calculated funded ratio decides the funded status zone for multiemployer plans (MP). The new ARPA legislation requires a full funding of liabilities for 30+ years.
Full funding is a **future value** focus not present value. As a result, full funding requires **cash flow matching** of asset cash flows versus liability cash flows.
The intent of the legislation was too ***secure*** the funds necessary to meet the future benefits and expenses for the next 30-years. The ONLY way for these benefits and expenses to be secured is to **defease those liabilities through a cash flow matching investing program**.

This is what the initial Butch Lewis Act intended and now ARPA has reemphasized this objective. Cash flow matching requires the certainty of cash flows.
Any investments where the cash flows are uncertain should not be an acceptable investment under ARPA and the PBGC monitoring. This should eliminate all equity and risky investments that have no stated cash flows. Moreover, the PBGC should mandate or at least promote cash flow matching as the preferred method to achieve full funding. Traditional bond investing and most asset classes are focused on beating a generic index benchmark that has nothing to do with the plan sponsor's liabilities. In fact, it could create a misalignment of assets versus liabilities which has plagued most MPs. Any investment under ARPA must show how it will fund liabilities or it should be deemed an unacceptable investment for an SFA grant by PBGC.

Note: Ryan ALM Advisers, LLC is a well known investment adviser specializing in asset liability management (as our name implies). Please visit our website under insights/white papers for numerous research papers we have written on efficient ALM. we are also available for consultation if needed at 561-656-2014.

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