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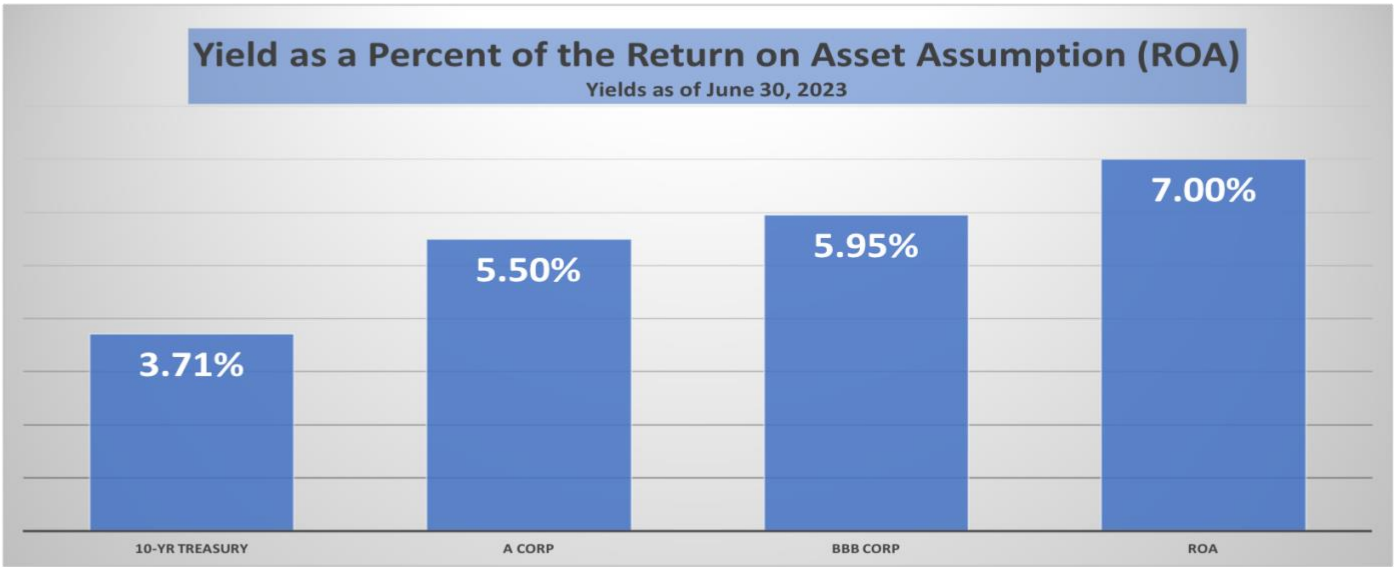
Asset/Liability Management

Pension Monitor:
Spread between ROA and Bonds Narrowest in 20+ Years



Most Asset Allocations for pensions are based on achieving the ROA. The ROA is an annual forecast of asset returns. Each asset class is assigned a ROA then weighted by the target allocation to get an average or target ROA. Currently, the ROA for most Public pensions is around 7.00%. Yields on A and BBB corporates have risen significantly in the last two years and are now fast approaching the ROA target return. With A and BBB corporate yields at **78.6% to 85.0%** of the ROA, a strong argument should be made to increase the allocation to fixed income. The 2023 Milliman Public Funding Survey suggests that the ROA will continue its trend lower. With the Milliman 2024 estimate of a 6.75% ROA, A and BBB corporate bonds would approach **81.5% to 88.2%** of the target return. Ryan ALM recommends using bonds for their intrinsic value… the certainty of their cash flows. Cash flow matching liabilities chronologically would be in harmony with the true objective of a pension… ***to secure the promised benefits in a cost-efficient manner with prudent risk.***

Benefits of Higher Bond Allocation to Cash Flow Matching:

- Improve Liquidity
- Outyield ROA = liability Alpha
- Reduce Volatility (risk) of Funded Ratio
- Create CORE portfolio as anchor to earning ROA
- Reduce costs to fund Benefits + Expenses (B + E)
- Buy TIME for performance assets to grow unencumbered

"Where is the knowledge we have lost in information" – TS Eliot