Liability Driven Investment

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LDI (Liability Driven Investment) is now becoming popular. It should be considered as one of the techniques of the risk management of the defined benefit plan pension system in the context of pension ALM, although there are some who think it new in investment society. An appropriate evaluation of the pension liabilities is critical for ALM, but there are different definitions of pension liabilities such as for funding or for accounting. Even so, the movement for the integration of the concept of such liabilities seems to have already begun. Once pension liabilities are properly evaluated by market basis, using finance techniques will be possible to stabilize the profit and loss management of pension system. This is a key to manage pension plans, and leads to the future of the defined benefit pension plans. For pension actuaries, rethinking of the pension mathematical principles will be needed. On the other hand, the comparison of DB versus DC is not so useful for considering pension risks. Rather, we had better to compare past portions and future portions of pension plans. In this paper, I hope to discuss some ways to protect pension promises.

It is necessary to consider LDI (Liability Driven Investment) in the context of pension ALM (Asset Liability Management). While an appropriate evaluation of the pension liability is indispensable to do so, there emerges the direction toward integrating debt concepts that are separately set. If the pension liability is properly evaluated by the mark-to-market basis, it might be possible to stabilize the profit and loss management of pension plans by using financial techniques. This relates to the entire pension finance, and it is a key to develop the future of the defined benefit pension plans. In the context, pension actuaries should review their principles and mind-sets.