New York Life launches GPA (It doesn’t mean grade point average)

By Editor Test *Tue, May 31, 2011*

Smaller defined benefit pension plans are adopting a liability-driven investment model that resembles the three-bucket system used by retirees to provide income. New York Life has designed a fixed income option for the first bucket.

New York Life Investments has introduced an investment option for “near-term” (up to five years) liabilities of qualified corporate pension plan liabilities. The product, announced yesterday, is called Guaranteed Interest Pension Account, or GPA, and is designed primarily for smaller DB plans.

“Contributions are invested in a broadly diversified fixed income portfolio within New York Life’s general account. The GPA features a declared interest crediting rate that resets every six months, allowing plan sponsors more visibility into and control over their pension plans,” the company said in a release.

GPA allows sponsors to structure a portion of their assets to mirror liability cash flows, in accordance with the funding model set forth by the Pension Protection Act of 2006 (PPA), which outlines three segments for liabilities based on duration and the corporate bond yield curve, according to New York Life. The GPA solves for the “near-term” (0-5 years) segment by providing sponsors an investment option that offers a guarantee of principal coupled with competitive yields.

“In the PPA, they prescribed the handling of liabilities by segments—zero to 5 years, 5 to 20 years and 20 years and above. We look at each segment and evaluate the best way to manage the exposures,” said Steven Dorval, CFA, managing director and head of retirement investments at New York Life Investments.

“In the past, there has been a disconnect between the asset allocation and the actuarial work. The asset managers tried to achieve the desired rate of return, without necessarily taking into account the liabilities. That made sense if you had a long time horizon and you assumed that volatility would be smoothed out by mean reversion.”

“After the financial crisis of 2001-2002, a lot of pension clients regarded it as a 100-year flood, an unusual situation where you had both assets losses and low interest rates leading to low funding status. There was a lot of surprise that you could have a perfect storm like that,” he said.

“But as their funding status improved in the years that followed, they were still reluctant to take risk off the table. The crisis of 2008 reminded them that perfect storms are now a common occurrence. Now they’re looking for solutions. An investment committee needs to sort through how much [potential] return they’re willing to give up for predictability.”

“Larger plans with sophisticated staffs and extensive expertise aren’t using this type of bucketing. They think in terms of ‘risk budgeting.’ The more sophisticated they are, the more granularly they evaluate the various risks. We think that at the smaller, say $250 million plan, [GPA] will be something that the members of the investment committee can get their heads around,” Dorval told RIJ.

GPA is a group annuity contract issued by AAA-rated New York Life Insurance Company, parent of New York Life Investments.