

Duration-Enhancing Overlay Strategies for Defined-Benefit Pension Plans

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Abstract

Many large corporate and public pension trusts remain underfunded since the 2001-2002 recessionary periods. These plans are challenged by global demographic trends and the recent slowing economic conditions. We show that a special overlay strategy can improve performance and reduce risks by adding duration to the portfolio. The approach combines elements of liability-driven investing and asset-liability management. Versions of the strategy are evaluated via historical data. In addition, the strategy is tested with a widely employed, forward-looking economic projection system.