

**User Guide**  
**Form 5500 Direct Filing Entity Bulletin: Abstract of**  
**Form 5500**

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Starting with 2008 plan year data, the U.S. Department of Labor has published the Direct Filing Entity (DFE) Bulletin, which includes information on assets and asset spreading across DFEs. This user guide is intended to accompany the Form 5500 Direct Filing Entity Bulletin and will explain the data edits and methodology used to produce the statistics in the bulletin.

## **Executive Summary**

Each year, the Employee Benefits Security Administration (EBSA) of the U.S. Department of Labor (the Department) publishes a report containing summary statistics on U.S. private retirement plans using the Form 5500 Annual Return/Report. The *Private Pension Plan Bulletin Abstract of Form 5500 Annual Reports* presents summary information on retirement plan counts, participant counts, and financial aggregates (including assets by category, contributions, and benefits).

For Form 5500 reporting purposes, private pension plans either hold assets directly (e.g., cash, stocks, government securities, mutual funds, etc.) or indirectly (i.e., in pooled investment arrangements). In certain cases, the sponsors of these pooled investment arrangements are either required or can choose to file a Form 5500 for these entities. The Form 5500 instructions identify such entities as Direct Filing Entities (DFEs).<sup>1</sup> Depending on whether or not a DFE files a Form 5500, the reporting requirements for the investing pension plans differ. Pension plans that invest in DFEs that do not file the Form 5500 are required to report all assets on the Schedule H – Financial Information – Large Plan as if those assets were held directly. Pension plans that invest in DFEs that file a Form 5500 can receive reporting relief by reporting all assets invested in those DFEs on the line items for the correct DFE types.

Due to the Schedule H reporting relief described previously, EBSA has historically reported assets as reported on Schedule H without adjustment. The result of this methodology is that assets are reported as being held in certain concrete categories, such as cash, stocks, and mutual funds, while assets invested in DFEs are reported as interest in DFEs.

In order to gain information about the investments of private pension plans, EBSA needs to know the allocation of the financial assets held by private pension plans using only those assets found on the non-DFE line items of Schedule H. However, assets in the pooled investment arrangement class are comprised of assets in the financial class, but not reported as such on Schedule H. As the statistics in the DFE bulletin will show, almost half of the asset holdings of private pension plans in the United States are held in the pooled investment arrangement class and the public disclosure using Form 5500 filings for such plans will not show detailed investments due to the reporting relief described above (see Form 5500 instructions for more information about the filing relief). Therefore, EBSA has created a methodology to spread the assets found in the pooled investment arrangement class into underlying financial asset categories. Thus, EBSA has produced the *Form 5500*

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<sup>1</sup> The term DFE is unique to the Form 5500 reporting regime; however, we refer to any pooled investment arrangement that does *or could choose to* file the Form 5500 as a DFE for the purposes of this document.

*Direct Filing Entity Bulletin Abstract of Form 5500*, to summarize the universe of DFEs and the DFE asset spreading methodology. Table 11 in the *Form 5500 Direct Filing Entity Bulletin Abstract of Form 5500* is a reproduction of Table C4 of the *Private Pension Plan Bulletins Abstract of Form 5500 Annual Reports*. Table 11 is also included in the *Private Pension Plan Bulletins Abstract of Form 5500 Annual Reports* as Table C4(a). This table shows the assets that were in the original four pooled investment arrangement categories spread into their underlying financial asset categories. This document gives the technical details of the methodology EBSA used to spread DFE assets into their underlying financial asset categories.

## **I. Introduction**

Each year, many private pension plans satisfy their annual reporting requirement by filing a Form 5500 Annual Return/Report regarding their financial condition, investments, and operations with the U.S. Department of Labor, Internal Revenue Service (IRS), and, if applicable, the Pension Benefit Guarantee Corporation (PBGC).<sup>2</sup> Most plans with 100 or more participants are required to disclose the value of the assets that the plan holds in various asset categories using the Schedule H “Financial Information.”<sup>3</sup>

There are multiple types of assets that a plan may hold that need to be reported on the Schedule H. Outside of direct holdings in items such as cash, stocks, or bonds, private pension plans may also invest a portion of their asset holdings in investment vehicles such as master trust investment accounts (MTIA), common/collective trusts (CCT), pooled separate accounts (PSA), and other pooled investment arrangements known as 103-12 investment entities (103-12 IE). These types of investment vehicles are collections of funds from individual investors or groups of investors that are pooled together in order to obtain wholesale prices and rates unavailable for regular investors.

For private pension plans, MTIA are those for which a regulated financial institution serves as the trustee and holds the assets of one or more plans sponsored by a single employer, or by a group of employers under common control.<sup>4</sup> A CCT is maintained by a bank, or similar financial institution, and holds assets of plans sponsored by more than one employer or a controlled group of corporations, as the term is used in Code section 1563. PSAs are collective investment accounts maintained by an insurance carrier which holds assets of plans sponsored by more than one employer or a controlled group of corporations, as the

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<sup>2</sup> The Department’s Employee Benefit Security Administration’s (EBSA) Office of Policy and Research (OPR) analyzes the Form 5500 Annual Return/Report filings of private pension plans to produce two publications, the annual *Private Pension Plan Bulletin Abstract of Form 5500 Annual Reports* and the annual *Private Pension Plan Historical Tables and Graphs*.

<sup>3</sup> Plans with fewer than 100 participants are required to disclose the value of assets on the Schedule I “Financial Information – Small Plans.” The Schedule I does not provide for reporting investment in the pooled investment arrangement class. Therefore, small plans are excluded from this report.

<sup>4</sup> A “regulated financial institution” means a bank, trust company, or similar financial institution that is regulated, supervised, and subject to periodic examination by a state or federal agency. A securities brokerage firm is not a “similar financial institution” as used here. See DOL Advisory Opinion 93-21A (available at [www.dol.gov/ebsa](http://www.dol.gov/ebsa)).

term is used in Code section 1563. Finally, collective investment accounts which are not covered by one of these three definitions are generally referred to as 103-12 IEs.

Schedule H (financial information schedule) requests information on 24 asset categories that need to be completed both for the beginning and for the end of the plan year. The following is the list of those asset categories with the last four corresponding to the types of accounts referred to as pooled investments arrangements (MTIA, CCT, PSA, 103-12 IE).

- Part I, 1a – Noninterest-bearing cash
- Part I, 1b(1) – Employer contributions
- Part I, 1b(2) – Participant contributions
- Part I, 1b(3) – Other receivables
- Part I, 1c(1) – Interest-bearing cash (include money market accounts & certificates of deposit)
- Part I, 1c(2) – U.S. Government securities
- Part I, 1c(3)(a) – Preferred corporate debt (other than employer securities)
- Part I, 1c(3)(b) – All other corporate debt (other than employer securities)
- Part I, 1c(4)(a) – Preferred stock (other than employer securities)
- Part I, 1c(4)(b) – Common stock (other than employer securities)
- Part I, 1c(5) – Partnership/joint venture interests
- Part I, 1c(6) – Real estate (other than employer real property)
- Part I, 1c(7) – Loans (other than to participants)
- Part I, 1c(8) – Participant loans
- Part I, 1c(9) – Value of interest in common/collective trusts
- Part I, 1c(10) – Value of interest in pooled separate accounts
- Part I, 1c(11) – Value of interest in master trust investment accounts
- Part I, 1c(12) – Value of interest in 103-12 investment entities
- Part I, 1c(13) – Value of interest in registered investment companies (e.g., mutual funds)
- Part I, 1c(14) – Value of funds held in insurance company. general account (unallocated contracts)
- Part I, 1c(15) – Other
- Part I, 1d(1) – Employer securities
- Part I, 1d(2) – Employer real property
- Part I, 1e – Buildings and other property used in plan operation

### *Reporting Relief*

Private pension plans participating in DFEs do not have to fully report investment amounts on the Schedule H if the DFE in which the plan is investing files a Form 5500 Annual Return/Report along with all required schedules. In that case, the participating plans need only complete Part I c(9) through c(12) describing the value of their interests in the DFEs. All MTIAs are required to file Form 5500, while CCTs, PSAs, and 103-12 IEs may choose to file in order to provide the investing pension plans the reporting relief described above.<sup>5</sup>

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<sup>5</sup> The Form 5500 Instructions (Page 9) define a DFE as follows:

All DFEs that file the Form 5500 are required to file a Schedule H. Pension plans investing in filing DFEs are afforded reporting relief through decreased reporting on Schedules A, C, and H; however, they must file a Schedule D, outlining the specific investments in each filing DFE. Plans investing in DFEs will enter the value of their investment in all DFEs of a certain type (MTIAs, CCTs, PSAs, or 103-12 IEs) on the corresponding Schedule H line item.

The percentage of large private pension plan assets held in these categories in 2018 was:

1. Value of interest in CCTs –17.4percent
2. Value of interest in PSAs – 2.1 percent
3. Value of interest in MTIAs – 26.3 percent
4. Value of interest in 103-12 IEs – 1.1 percent

Thus, for roughly 47 percent of all assets held by large pension plans, the public information on plans' investments on the Form 5500 is limited to the class of the pooled investment arrangements rather than the financial class of the underlying investments (common stock, U.S. Government Securities, registered investment companies, etc.). In theory, the asset allocation by financial class for each pension plan investing in DFEs can be derived from Form 5500 data (using the Schedules H and D of the pension plans and the Schedule H of the DFEs). However, there are technical challenges that arise because (1) pension plans can and do invest in multiple DFEs and (2) DFEs can and do invest in other DFEs. It is also important to note that DFEs which invest in other DFEs can also realize the same reporting relief on Schedule H as pension plans that invest in DFEs. These facts give rise to complicated patterns of DFE investment that can be challenging to unravel.

## **II. Overview of the DFE Asset Spreading Process**

EBSA uses the seven-step process below to “spread” the assets both private pension plans and DFEs hold in the pooled investment account classes:

1. EBSA creates a DFE dataset by extracting and combining data from the main Form 5500, Schedule H, and Schedule D for all DFEs that file a Form 5500.
2. EBSA edits the Schedule D data in this DFE dataset to ensure that the financial information corresponding to interest in other DFEs reported on Schedule H is

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Some plans participate in certain trusts, accounts, and other investment arrangements that file the Form 5500 annual return/report as a DFE. A Form 5500 must be filed for a master trust investment account (MTIA). A Form 5500 is not required but may be filed for a common/collective trust (CCT), pooled separate account (PSA), 103-12 investment entity (103-12 IE), or group insurance arrangement (GIA). However, plans that participate in CCTs, PSAs, 103-12 IEs, or GIAs that file as DFEs generally are eligible for certain annual reporting relief. For reporting purposes, a CCT, PSA, 103-12 IE, or GIA is considered a DFE only when a Form 5500 and all required schedules and attachments are filed for it in accordance with the following instructions.

commensurate with the information reported on the Schedule D. For instance, if DFE A reports \$1,000,000 as the value of interest in PSAs on Schedule H, it is necessary to verify that DFE A's Schedule D reflects \$1,000,000 invested in specific PSAs. If the Schedule H and Schedule D data differ, EBSA edits the Schedule D information to match the Schedule H information.

3. EBSA selects only those DFEs that report investing assets in other DFEs. This group is further reduced to include only those DFEs whose investee DFEs have Form 5500s on file with DOL. EBSA is unable to identify some DFEs (reported as holding private pension plan or DFE assets), sometimes because of improper reporting (for example, the plan was mistaken in their assumption that the DFE they invest in is actually filing their own individual Form 5500), errors in processing filings (for example, if a DFE files a Form 5500 that was inadvertently not entered into the database), or Employer Identification Number (EIN) and Plan Number (PN) mismatches (for example if the filing entity mistakenly reports an incorrect EIN/PN for the DFE in which they invest). The resulting dataset can be considered a "closed" DFEs dataset in that all of the included DFE Form 5500 filings report holding assets in a DFE for which EBSA has a linked Form 5500 filing. In other words, EBSA identifies a Form 5500 for both the investing DFE and for all DFEs that it invests in. Further, all of the DFEs in this "closed" dataset are unassociated with unlinked Form 5500 filings through intermediaries. For example, if DFE A is invested in DFE B for which EBSA has a filing, but DFE B is invested in DFE C for which EBSA does not have a filing, then neither DFEs A nor B are included.

4. For each individual DFE in the "closed" DFE dataset, EBSA spreads all of the assets reported in Schedule H's pooled investment arrangement asset class categories to the financial asset class categories of Schedule H. EBSA implements its matrix algebra approach (discussed in detail below) to determine the ownership of assets in the "closed" DFE dataset. Several matrices are created to calculate the ownership of the assets of each DFE by any other DFEs. This calculation is based on the Schedule D filings of the individual DFEs in the "closed" dataset. As a result, all of the reported holdings in pooled investment arrangement asset classes are moved into the DFE that holds those assets. The resulting dataset consisting of a record for each individual DFE in the "closed" DFE dataset that contains a revised Schedule H asset allocation with \$0 reported as the value in pooled investment arrangement asset classes, i.e., the "closed spread" DFE dataset.

5. The "closed spread DFE dataset is used to impute the underlying asset characteristics of DFEs for which EBSA is unable to locate a filing. As mentioned above, certain DFEs are reported as holding private pension plan assets, yet the DFE cannot be matched to a Form 5500, i.e., an "unlinked" DFE Form 5500 filing. Therefore, any assets reported as being invested in unlinked DFE Form 5500 filings are spread to the various financial asset categories of Schedule H based on a hot decking imputation method. With this method an asset allocation of a randomly selected individual DFE from the "closed spread DFE dataset is applied to each "unlinked" DFE Form 5500 filing. The assets reported as investments in the "unlinked" DFE Form 5500 filing are spread according to the distribution of assets on the revised Schedule H of the randomly selected DFE.

6. Once all assets reported as investments in “unlinked” DFE Form 5500 filings are spread, the matrix algebra discussed in step 4 above is repeated, this time incorporating the “unlinked” DFEs that were not previously included. The result is the “spread allocation” for the universe of DFE Form 5500 filings.

7. Finally, the DFE “spread allocation” is used to distribute pension assets reported under the pooled investment arrangement asset categories on Schedule H to the financial asset categories. The *Private Pension Plan Research File (PPP Research File)* is augmented with the corresponding data from filed Schedules D. As with the DFE Form 5500 filings, the asset information is edited to match what is reported on Schedule H. Assets reported as investments in “unlinked” DFEs are handled exactly as described in step 5 above. Therefore, using the asset allocations of the “spread allocation” DFE dataset and randomly chosen DFE Form 5500s for “unlinked” DFE Form 5500 filings, all private pension plan assets reported as interest in pooled investment arrangement classes are moved to the financial asset classes. The assets will be moved based on the distribution of assets for the Form 5500 DFE filings in which each private pension plan invests. This information is presented on Table 12 of the DFE bulletin.

### **III. Data Selection and Editing**

To complete the spreading process, two distinct sets of data are required. The first set is partially complete before we begin the process, in the form of the *PPP Research File* produced annually by EBSA. This dataset consists of information from the Form 5500, Schedule H, and Schedule I, on all large and small private pension plans.<sup>6</sup> For use in this project, this data must be augmented with the corresponding information from Schedule D. Therefore, the final private pension data used for this project is an augmented version of the *PPP Research File*. The Schedule H information includes end-of-year asset amounts as described in the introduction, Section I above, along with the beginning-of-year assets for each category, income, and expense statements. The Schedule D contains information on all DFEs in which the filer invests. This information includes the EIN/PN of the filer and the DFEs, the amount of assets invested in each DFE, the type of DFE, and the name of the DFE.

The second dataset required to create the “spread allocation” for both DFEs and private pension plans is a dataset of Form 5500 filing information for all filing DFEs. DFEs identify themselves when filing Form 5500 by checking the box (part I(A)) marked “a DFE” under “This return/report is for:” on the Form 5500. The DFE additionally inputs an “M,” “C,” “P,” or “E” next to the box. These letters correspond to MTIAs, CCTs, PSAs, and 103-12 IEs, respectively. For all self-identified DFEs, data from the Form 5500 is combined with Schedule H and Schedule D data included with that filing.<sup>7</sup>

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<sup>6</sup> See <http://www.dol.gov/ebsa/publications/form5500dataresearch.html> for more information regarding this dataset.

<sup>7</sup> For Form 5500 reporting purposes, another type of DFE exists called a Group Insurance Arrangement (GIA). Private pension plans do not participate in GIAs in the same way as they do for CCTs, PSAs, 103-12 IEs, or MTIAs, therefore GIAs were not included in the DFE asset spreading process; however,



Once both datasets are obtained, the information on Schedule H is compared to what has been filed on Schedule D. In all cases, the value of assets in the pooled investment category on the Schedule H should equal the sum of the individual investments in DFEs of that type on Schedule D.

EBSA uses an automated editing process that logically corrects inconsistencies between Schedules H and D. Pages 10 and 11 summarize two logical editing paths, one for common collective trusts and pooled separate accounts, and the other for MTIAs and 103-12 IEs. Two paths are necessary because both pension plans and DFEs might erroneously report owning assets in common collective trusts and pooled separate accounts that do not file a Form 5500; in these cases 000 is reported for the plan number. This path will not apply to MTIAs and 103-12 IEs, as all MTIAs and 103-12 IEs must file the Form 5500. Such amounts are reported erroneously because the Form 5500 line items for common collective trusts and pooled separate accounts may legitimately be used only to report holdings in trusts or accounts that file Form 5500.

For the necessary editing of Form 5500 data, there are two types of assets reported in DFEs on Schedule D: “linked” and “unlinked.” “Linked” assets refer to all assets held in DFEs for which EBSA can identify a Form 5500 filing. “Unlinked” assets refer to all assets held in DFEs for which EBSA cannot identify a Form 5500 filing.

In general, Tables 1 and 2 below describe a process in which “unlinked” amounts are ignored whenever possible, and reported investments on Schedule D are scaled to match the amounts reported on Schedule H. In this way, the individual investments reported on Schedule D are proportional to the originally filed Schedule D but match the amounts reported on Schedule H.

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Appendix A of the DFE Bulletin presents selected statistics for GIAs filing the Form 5500. See Section IX of this document for more information.

Table 1: Master Trusts and 103-12 Investment Entities Automatic Edits

Sch. H Assets*	Schedule D Assets**			Comment
	Linked	Unlinked	Total	
0	0	0	0	Records are clean
0	Any	Any	Any	All Schedule D amounts are adjusted to 0
Positive	0	0	0	All assets assumed to be in 1 DFE. This DFE is hot-decked
Positive	0	Positive	=H	The unlinked DFEs are hot-decked
Positive	0	Positive	<H	The unlinked DFEs are hot-decked and amounts are proportionately increased to sum to the amount reported on Schedule H
Positive	0	Positive	>H	The unlinked DFEs are hot-decked and amounts are proportionately decreased to sum to the amount reported on Schedule H
Positive	Positive	0	=H	Data are correct
Positive	Positive	0	<H	Amounts are proportionately increased to sum to the amount reported on Schedule
Positive	Positive	0	>H	Amounts are proportionately decreased to sum to the amount reported on Schedule H
Positive	Positive	Positive	<H	The unlinked DFEs are hot-decked and amounts are proportionately increased to sum to the amount reported on Schedule H
Positive	Positive	Positive	=H	Unlinked DFEs are hot-decked.
Positive	Pos, <H	Positive	>H	The unlinked DFEs are hot-decked and unlinked amounts are proportionately decreased to sum to the amount reported on Schedule H
Positive	Pos, =H	Positive	>H	Unlinked are ignored
Positive	Pos, >H	Positive	>H	The unlinked DFEs are hot-decked and all amounts are proportionately decreased to sum to the amount reported on Schedule H

Note: "Positive" refers to nonzero amounts, "0" refers to 0 amounts, "Any" refers to "Positive" or "0" amounts, and ">H," "<H," or "=H" describes the relationship between the Schedule D total and the value reported on Schedule H as "interest in" the DFE type.

\* Schedule H-reported holding in master trusts or 103-12 investment entities.

\*\* Summary of Schedule D-reported holding in master trusts or 103-12 investment entities by type of asset ("linked," "unlinked," and the sum of the two, defined above).

Table 2: Common Collective Trusts and Pooled Separate Accounts Automatic Edits

Sch. H Assets*	Schedule D Assets**					Comment
	Positive Plan Numbers			Null or 000	Total	
	Linked	Unlinked	Total			
0	0	0	0	0	0	Records are clean
0	Any	Any	Any	Any	Any	All Schedule D amounts are adjusted to 0
Positive	0	0	0	0	0	All assets assumed to be in 1 DFE. This DFE is hot-decked
Positive	0	0	0	Positive	=H	The null DFEs are hot-decked
Positive	0	0	0	Positive	<H, >H	One DFE is hot-decked with amount = H
Positive	0	Positive	Any	0	=H	Hot-deck unlinked DFEs
Positive	0	Positive	Any	0	<H, >H	Hot-deck unlinked DFEs and scale amounts to match H
Positive	Any	Positive	=H	Positive	Any	Hot-deck unlinked DFEs. Ignore those with null or 000
Positive	=H	0	=H	0	=H	Records are clean
Positive	=H	0	=H	Positive	>H	Null or 000 plan numbers ignored since linked amounts represent the full investment
Positive	=H	Positive	Any	Any	Any	Unlinked, null, and '000 plan numbers ignored
Positive	<H, >H	0	Any	0	Any	Scale linked amounts to match H
Positive	<H	Any	Any	Any	=H	Hot-deck all
Positive	<H	Any	<H	Any	<H, >H	If total unlinked and null or 000 is 0, row 10 applies. Otherwise, scale all amounts up to H and hot-deck all
Positive	Any	Positive	<H	Positive	=H	Hot-deck all
Positive	<H	Positive	>H	Any	>H	Scale back positive plan numbers to H amount and hot-deck unlinked. Ignore null or 000
Positive	>H	Any	Any	Any	Any	Ignore unlinked amounts and scale back linked amounts

Note: "Positive" refers to nonzero amounts, "0" refers to 0 amounts, "Any" refers to "Positive" or "0" amounts, and ">H," "<H," or "=H" describes the relationship between the Schedule D total and the value reported on Schedule H as "interest in" the DFE type.

\* Schedule H-reported holding in master trusts or 103-12 investment entities.

\*\* Summary of Schedule D-reported holding in master trusts or 103-12 investment entities by type of asset ("linked," "unlinked," and the sum of the two, defined above).

In addition to the edits performed to align Schedule H and D filings, EBSA also performs limited editing to the dataset of DFEs (in addition to the more extensive edits performed to create the *Research File*).<sup>8</sup>

EBSA utilizes the OPR Editor, a Department program, to edit Form 5500 data and create the *PPP Research File*. To allocate the assets reported in the four DFE asset categories to the non-DFE asset categories, EBSA first utilizes the OPR Editor to edit the Form 5500 DFE filings. In addition to using the OPR Editor, the DOL contractor Actuarial Research Corporation (ARC) deletes erroneous (non-DFE) filings, updates EINs, corrects financial errors that the OPR editor missed, and makes other edits as necessary.

Once both of these datasets, one consisting of DFE filings and one consisting of private pension plan filings, are complete, EBSA can begin the process to obtain “spread allocations” for both datasets. These datasets are processed separately, as will later become clear. The reason for this is that private pension plans can invest in DFEs, but DFEs can never invest in private pension plans. Therefore, inter-investment is limited to DFEs.

#### **IV. Missing Data**

In addition to inconsistencies reported on Schedules H and D, there is another source of error in the Form 5500 data being used. For both the filing DFEs and private pension plans, some DFEs that are reported on Schedule D cannot be found in EBSA’s data. For example, if a private pension plan reports being invested in DFE A on its Schedule D, but EBSA can find no corresponding Form 5500, Schedule H, or Schedule D for DFE A. In these cases, the reported Schedule D amount invested in the missing DFE is referred to as an “unlinked” amount (as discussed above). During this process EBSA creates a subset of the DFE dataset described above by selecting all DFEs that are unaffected by “unlinked” amounts. This means that any DFE that either directly reports an unlinked amount or reports investment in other DFEs that report unlinked amounts are temporarily removed from the dataset. In fact, each DFE that is associated with an unlinked amount through any number of intermediaries is temporarily removed. As mentioned in Section II, this subset is referred to as the “closed” DFE set.

#### **V. Methodology: Algebra of DFE Ownership**

The task of properly accounting for plan assets in DFEs is made complicated by the fact that inter-investment among DFEs is common. To overcome this challenge, the analysis will proceed in two phases. Phase 1 of the analysis will disentangles these DFE inter-investments. Once this phase is complete, the one-directional allocation of assets from DFEs to their plan investors is straightforward. When discussing phase 1, it is convenient to speak of DFEs as “owning” whatever share of the assets they hold that are not “owned” by other DFEs. Of course, the share of each

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<sup>8</sup> For more information regarding the *Form 5500 Research File*, please refer to the current *Form 5500 User Guide* found at <http://www.dol.gov/agencies/ebsa/researchers/data/private-pension-plan-data>.

DFE's assets that is "owned" by the DFE itself is actually owned by the plans whose assets it holds, but we choose to postpone discussion of ownership by plans until phase 2 of the analysis.

The share of DFE  $j$  directly owned by DFE  $i$  depends on two factors:

- The extent to which DFE  $i$  holds assets of DFE  $j$ , and
- The extent to which DFE  $i$  is owned by other DFEs.

OPR begins phase 1 by recording the percentage of each DFE  $j$  directly held by every other DFE  $i$  in a "holding matrix"  $A$ , an  $n \times n$  matrix where  $n$  represents the number of DFEs for a given year:

$$A = \begin{bmatrix} a_{1,1} & a_{1,2} & a_{1,3} & \dots & a_{1,n} \\ a_{2,1} & a_{2,2} & a_{2,3} & \dots & a_{2,n} \\ a_{3,1} & a_{3,2} & a_{3,3} & \dots & a_{3,n} \\ \vdots & \vdots & \vdots & \ddots & \vdots \\ a_{n,1} & a_{n,2} & a_{n,3} & \dots & a_{n,n} \end{bmatrix}, \text{ where } a_{i,j} = \frac{\text{DFE } i \text{ investment in DFE } j}{\text{DFE } j \text{ total assets}}.$$

All  $a_{i,j}$  should be less than 1 and  $a_{i,j}$  should always equal 0 when  $i = j$ , as a DFE should not report direct investment in itself. Furthermore, each column of  $A$  should sum to no more than one, because the combined holdings of all other DFEs in DFE  $j$  cannot exceed 100 percent.

For example, consider DFE A that directly holds 20 percent of DFE B, and DFE B directly holds 10 percent of DFE C. The matrix  $A$  that captures these relationships is:

$$A = \begin{array}{c|ccc} & \text{DFE} & A & B & C \\ \hline A & & [0.00 & 0.20 & 0.00] \\ B & & [0.00 & 0.00 & 0.10] \\ C & & [0.00 & 0.00 & 0.00] \end{array}$$

Next, we compute the extent to which the assets of each DFE are directly held by any other DFE by summing the columns of  $A$  yielding  $n$  sums  $S_1, S_2, \dots, S_n$ . Note that these sums also represent the extent to which each DFE is directly **or indirectly** owned by any other DFE because indirect ownership of a DFE must pass through one or more of its direct owners.

In our example, these column totals are [0.00, 0.20, 0.10]. We compute the share of each DFE not owned by others by subtracting each of these shares from 1, yielding [1.00, 0.80, 0.90].  $a_{2,3}$  reports that DFE B **holds** 10 percent of DFE C. The share of DFE C **owned** by DFE B is the product  $a_{2,3} \times 0.80$ . Thus DFE B's 10 percent holding of DFE C reflects 8 percent ownership.

We can construct a matrix  $M_1$ , referred to as the first-order ownership matrix, reflecting the extent to which each DFE directly owns each other DFE can be derived by left multiplication of the holding matrix,  $A$ , by a diagonal matrix  $E$  with entries  $S_1, S_2, \dots, S_n$ , where  $S_k = 1 - \sum_{i=1}^n a_{i,k}$ ; that is:

$$M_1 = E * A, \text{ where } E = \begin{bmatrix} 1 - \sum_{i=1}^n a_{i,1} & 0 & 0 & \cdots & 0 \\ 0 & 1 - \sum_{i=1}^n a_{i,2} & 0 & \cdots & 0 \\ 0 & 0 & 1 - \sum_{i=1}^n a_{i,3} & \cdots & 0 \\ \vdots & \vdots & \vdots & \ddots & \vdots \\ 0 & 0 & 0 & \cdots & 1 - \sum_{i=1}^n a_{i,n} \end{bmatrix}$$

Applying this formula to our example:

$$\begin{bmatrix} 1 & 0 & 0 \\ 0 & 0.8 & 0 \\ 0 & 0 & 0.9 \end{bmatrix} * \begin{bmatrix} 0 & 0.2 & 0 \\ 0 & 0 & 0.1 \\ 0 & 0 & 0 \end{bmatrix} = \begin{bmatrix} 0 & 0.2 & 0 \\ 0 & 0 & 0.08 \\ 0 & 0 & 0 \end{bmatrix}$$

Thus, left multiplication by  $E$  maps the 20 percent holding of DFE B by DFE A into an identical 20 percent holding because DFE A has no DFE investors to claim ownership of its holdings. Left multiplication by  $E$  does affect the 10 percent stake of DFE B in DFE C, reducing it by the 20 percent extent to which other DFEs (namely DFE A) own a share of DFE B, resulting in an 8 percent ownership of DFE C by DFE B.

DFE  $i$  can also hold assets of DFE  $j$  via an intermediary DFE  $k$ ; that is, if DFE  $i$  owns a share  $a_{i,k}$  of DFE  $k$  and DFE  $k$  owns a share  $a_{k,j}$  of DFE  $j$ , then the percentage of DFE  $j$  held by DFE  $i$  via intermediary DFE  $k$  is the product  $a_{i,k} * a_{k,j}$ . The percentage of DFE  $j$  then owned by DFE  $i$  via any one single intermediary is the sum of these products across all possible intermediaries  $k$ :

$$\sum_{k=1}^n a_{i,k} a_{k,j}$$

Referring back to the previous example, the share of DFE C held by DFE A via any intermediary  $k$  is:

$$\sum_{k=1}^n a_{1,k} a_{k,3}$$

The arithmetic would then be:

$$\begin{aligned} & a_{1,1} * a_{1,3} + a_{1,2} * a_{2,3} + a_{1,3} * a_{3,3} \\ & = 0 * 0 + 0.2 * 0.1 + 0 * 0 = 0.02 \end{aligned}$$

To derive the holdings of DFE  $j$  by DFE  $i$  via exactly one intermediary, we square the matrix  $A$ :

$$A^2 = \begin{bmatrix} \sum_{i=1}^n a_{1,i}a_{i,1} & \sum_{i=1}^n a_{1,i}a_{i,2} & \sum_{i=1}^n a_{1,i}a_{i,3} & \dots & \sum_{i=1}^n a_{1,i}a_{i,n} \\ \sum_{i=1}^n a_{2,i}a_{i,1} & \sum_{i=1}^n a_{2,i}a_{i,2} & \sum_{i=1}^n a_{2,i}a_{i,3} & \dots & \sum_{i=1}^n a_{2,i}a_{i,n} \\ \sum_{i=1}^n a_{3,i}a_{i,1} & \sum_{i=1}^n a_{3,i}a_{i,2} & \sum_{i=1}^n a_{3,i}a_{i,3} & \dots & \sum_{i=1}^n a_{3,i}a_{i,n} \\ \vdots & \vdots & \vdots & \ddots & \vdots \\ \sum_{i=1}^n a_{n,i}a_{i,1} & \sum_{i=1}^n a_{n,i}a_{i,2} & \sum_{i=1}^n a_{n,i}a_{i,3} & \dots & \sum_{i=1}^n a_{n,i}a_{i,n} \end{bmatrix}$$

$A^2$  represents the percentage of DFE  $j$  owned by DFE  $i$  through exactly one intermediary. Applying this formula to the matrix  $A$  from the example above yields:

$$A^2 = \begin{array}{c} DFE \\ A \\ B \\ C \end{array} \begin{array}{ccc} A & B & C \\ \left[ \begin{array}{ccc} 0.00 & 0.00 & 0.02 \\ 0.00 & 0.00 & 0.00 \\ 0.00 & 0.00 & 0.00 \end{array} \right] \end{array}$$

The matrix  $A^2$  shows that DFE A holds 2 percent of DFE C through DFE A's 20 percent holding of DFE B (i.e., 2 percent of DFE C is held by DFE A through its 20 percent holding of DFE B). The zero cells indicate that there is no other instance of one DFE owning another via exactly one intermediary.

We derive the second-order ownership matrix,  $M_2$ , showing the extent to which each DFE owns any other via exactly one intermediary in the same manner as above – with left multiplication by  $E$ ; that is:

$$M_2 = E * A^2$$

Similarly, by taking  $A^3$ ,  $a_{i,j}$  will equal the percentage of DFE  $j$  owned by DFE  $i$  in a third-order investment, i.e., via two nested intermediaries. For example, DFE  $j$  owns a percentage of DFE  $m$ , which owns a percentage of DFE  $n$ , which owns a percentage of DFE  $i$ .

Consider a new example with a larger matrix:

$$A = \begin{array}{c} DFE \\ A \\ B \\ C \\ D \end{array} \begin{array}{cccc} A & B & C & D \\ \left[ \begin{array}{cccc} 0.00 & 0.20 & 0.00 & 0.00 \\ 0.00 & 0.00 & 0.10 & 0.00 \\ 0.00 & 0.00 & 0.00 & 0.05 \\ 0.00 & 0.00 & 0.00 & 0.00 \end{array} \right] \end{array}$$

$$A^2 = \begin{array}{c} DFE \\ A \\ B \\ C \\ D \end{array} \begin{array}{cc} A & B \\ C & D \end{array} \begin{bmatrix} 0.000 & 0.000 & 0.020 & 0.000 \\ 0.000 & 0.000 & 0.000 & 0.005 \\ 0.000 & 0.000 & 0.000 & 0.000 \\ 0.000 & 0.000 & 0.000 & 0.000 \end{bmatrix}$$

$$A^3 = \begin{array}{c} DFE \\ A \\ B \\ C \\ D \end{array} \begin{array}{cc} A & B \\ C & D \end{array} \begin{bmatrix} 0.000 & 0.000 & 0.000 & 0.001 \\ 0.000 & 0.000 & 0.000 & 0.000 \\ 0.000 & 0.000 & 0.000 & 0.000 \\ 0.000 & 0.000 & 0.000 & 0.000 \end{bmatrix}$$

First-order investments (from A):

1. A directly owns 20 percent of B.
2. B directly owns 10 percent of C.
3. C directly owns 5 percent of D.

Second-order investments (from  $A^2$ ):

1. A indirectly owns 2 percent of C through A's direct investment in B.
2. B indirectly owns 0.5 percent of D through B's direct investment in C.

Third-order investments (from  $A^3$ ):

1. A indirectly owns 0.1 percent of D through A's direct investment in B and B's direct investment in C.

The percentage of each DFE  $j$  held by any other DFE  $i$  through  $n-1$  intermediaries is derived by calculating  $A^n$ . Each  $a_{ij}$  entry of  $A^n$  represents the percentage of DFE  $j$  held by other DFEs  $i$  via  $n-1$  intermediaries.

Regardless of the number of intermediaries ( $n-1$ ), left multiplication by  $E$  translates the holding matrix  $A^n$  into the corresponding  $n^{\text{th}}$ -order ownership matrix. The ownership matrix  $M$  that reflects the extent to which each DFE owns each other DFE via any number of intermediaries is computed by summing the  $i^{\text{th}}$ -order ownership matrices for all  $i$ :

$$M = \sum_{i=0}^n E * A^i = E * \sum_{i=0}^n A^i$$

If the ownership pattern is a chain of length  $n$ , as in the example above (an "untangled,"  $n$ -level hierarchical chain), then each cell of  $A^n$  equals 0, so the summation includes only  $n-1$  terms. Actual investment patterns are sometimes more complicated, with patterns of inter-investment that can, for example, form loops. Looping produces an infinite number of levels of inter-investment, so for the general case, we can use an infinite summation to compute  $M$ :

$$M = \sum_{i=0}^{\infty} E * A^i = E * \sum_{i=0}^{\infty} A^i$$



Note that for  $I$  equals  $O$ ,  $M = E * A^0 = E * I = E$ , which represents the extent to which each DFE owns the assets it holds.

To find the ownership matrix  $M$  in the last example, we first compute column sums for  $A$ , obtaining 0, 0.2, 0.1, 0.05, so the diagonal matrix  $E$  of differences from 1 is:

$$E = \begin{bmatrix} 1 & 0 & 0 & 0 \\ 0 & 0.8 & 0 & 0 \\ 0 & 0 & 0.9 & 0 \\ 0 & 0 & 0 & 0.95 \end{bmatrix}$$

The sum of the powers of  $A$  yields:

$$I + A + A^2 + A^3 = \begin{bmatrix} 1 & 0.2 & 0.02 & 0.001 \\ 0 & 1 & 0.1 & 0.005 \\ 0 & 0 & 1 & 0.05 \\ 0 & 0 & 0 & 1 \end{bmatrix}$$

Hence,

$$\begin{aligned} M = E * (I + A + A^2 + A^3) &= \begin{bmatrix} 1 & 0 & 0 & 0 \\ 0 & 0.8 & 0 & 0 \\ 0 & 0 & 0.9 & 0 \\ 0 & 0 & 0 & 0.95 \end{bmatrix} * \begin{bmatrix} 1 & 0.2 & 0.02 & 0.001 \\ 0 & 1 & 0.1 & 0.005 \\ 0 & 0 & 1 & 0.05 \\ 0 & 0 & 0 & 1 \end{bmatrix} \\ &= \begin{bmatrix} 1 & 0.2 & 0.02 & 0.001 \\ 0 & 0.8 & 0.08 & 0.004 \\ 0 & 0 & 0.9 & 0.045 \\ 0 & 0 & 0 & 0.95 \end{bmatrix} \end{aligned}$$

In all cases, the columns of  $M$  all sum to 1. This pattern reflects the fact that each DFE owns the assets it holds (diagonal elements) to whatever extent those assets are not owned by other DFEs.

The first column of this matrix shows that DFE A retains ownership of all of its assets.<sup>9</sup> The second column shows that while DFE B retains 80 percent of its assets, the remaining 20 percent of its assets are owned by DFE A. The third column shows that DFE C retains 90 percent of its assets, DFE B owns 8 percent, and DFE A owns 2 percent. The final column shows that DFE D retains 95 percent of its assets, DFE A owns 0.1 percent, DFE B owns 0.4 percent, and DFE C owns 4.5 percent. In general,  $a_{i,j}$  represents the percent of DFE  $i$ 's assets owned by DFE  $j$ .

This method produces the ultimate allocation, through direct and indirect investments, of all the assets in each DFE. Define a matrix  $M$  as:

$$M = E * I + E * A + E * A^2 + E * A^3 + \dots$$

or,

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<sup>9</sup> Remember that ownership of DFE assets by plans is considered later.

$$M = E * (I + A + A^2 + A^3 + \dots)$$

To solve this infinite sum, defined  $D$  to be an  $n \times n$  matrix such that,

$$\begin{aligned} M &= E * (I + A + A^2 + A^3 + \dots), \\ D &= I + A + A^2 + A^3 + \dots, \\ A * D &= A + A^2 + A^3 + \dots, \\ D - A * D &= I, \\ (I - A) * D &= I, \\ D &= (I - A)^{-1} \end{aligned}$$

which implies that

$$M = E * (I - A)^{-1}.$$

We commented in the example above that the columns of  $M$  all sum to 1. This property is required for  $M$  to fully account for the ownership of each DFE. Now that we have derived a formula for the infinite sum, we can mathematically demonstrate that the column sums of  $M$  yield 1 whenever  $I - A$  is nonsingular.<sup>10</sup> (See Appendix I for proof.)

Additionally, it can be shown that a well-constructed  $I - A$  is always nonsingular so long as no DFE is fully owned by other DFEs. (See Appendix II for proof.)

Now define  $P$ , consisting of the balance sheet of each DFE, as follows:

$$P = \begin{bmatrix} p_{1,1} & p_{1,2} & p_{1,3} & \dots & p_{1,20} \\ p_{2,1} & p_{2,2} & p_{2,3} & \dots & p_{2,20} \\ p_{3,1} & p_{3,2} & p_{3,3} & \dots & p_{3,20} \\ \vdots & \vdots & \vdots & \ddots & \vdots \\ p_{n,1} & p_{n,2} & p_{n,3} & \dots & p_{n,20} \end{bmatrix}, \text{ where } p_{i,j} \text{ represents the dollar amount of DFE } i$$

assets in category  $j$ , where category  $j$  represents each of the 20 categories listed above.

Multiplying  $P$  by  $M$ :

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<sup>10</sup> A square matrix is considered nonsingular if it has an inverse.

$$B = M * P = \begin{bmatrix} \sum_{i=1}^n m_{1,i}p_{i,1} & \sum_{i=1}^n m_{1,i}p_{i,2} & \sum_{i=1}^n m_{1,i}p_{i,3} & \dots & \sum_{i=1}^n m_{1,i}p_{i,20} \\ \sum_{i=1}^n m_{2,i}p_{i,1} & \sum_{i=1}^n m_{2,i}p_{i,2} & \sum_{i=1}^n m_{2,i}p_{i,3} & \dots & \sum_{i=1}^n m_{2,i}p_{i,20} \\ \sum_{i=1}^n m_{3,i}p_{i,1} & \sum_{i=1}^n m_{3,i}p_{i,2} & \sum_{i=1}^n m_{3,i}p_{i,3} & \dots & \sum_{i=1}^n m_{3,i}p_{i,20} \\ \vdots & \vdots & \vdots & \ddots & \vdots \\ \sum_{i=1}^n m_{n,i}p_{i,1} & \sum_{i=1}^n m_{n,i}p_{i,2} & \sum_{i=1}^n m_{n,i}p_{i,3} & \dots & \sum_{i=1}^n m_{n,i}p_{i,20} \end{bmatrix}$$

This matrix multiplication produces an  $n \times 20$  matrix  $B$  where each  $b_{i,j}$  represents the dollars in each asset category  $j$  owned by DFE  $i$  or held by DFE  $i$  and not reported as being owned by any other DFEs. Row  $i$  of this matrix therefore reports the asset allocation of DFE  $i$  that will be used in spreading pension assets.

## VI. Application of Matrix Algebra

The discussion of matrix algebra above explains the theoretical framework used to derive the “spread allocation” for DFEs. However, this discussion does not take into account the impact of missing data. Therefore, as discussed earlier, a “closed” DFE set is created. This dataset consists of all DFEs that are completely unaffected by missing data, either directly or indirectly. This “closed” set is created as follows. First, a matrix  $A$  is created exactly as described above.

$$A = \begin{bmatrix} a_{1,1} & a_{1,2} & a_{1,3} & \dots & a_{1,n} \\ a_{2,1} & a_{2,2} & a_{2,3} & \dots & a_{2,n} \\ a_{3,1} & a_{3,2} & a_{3,3} & \dots & a_{3,n} \\ \vdots & \vdots & \vdots & \ddots & \vdots \\ a_{n,1} & a_{n,2} & a_{n,3} & \dots & a_{n,n} \end{bmatrix}, \text{ where } a_{i,j} = \frac{\text{DFE } i \text{ investment in DFE } j}{\text{DFE } j \text{ total assets}}$$

This matrix is then altered in one simple fashion. An additional row and column is added as follows:

$$A = \begin{bmatrix} a_{1,1} & a_{1,2} & a_{1,3} & \dots & a_{1,n} & b_{1,missing} \\ a_{2,1} & a_{2,2} & a_{2,3} & \dots & a_{2,n} & b_{2,missing} \\ a_{3,1} & a_{3,2} & a_{3,3} & \dots & a_{3,n} & b_{3,missing} \\ \vdots & \vdots & \vdots & \ddots & \vdots & \vdots \\ a_{n,1} & a_{n,2} & a_{n,3} & \dots & a_{n,n} & b_{n,missing} \\ 0 & 0 & 0 & 0 & 0 & 0 \end{bmatrix}, \text{ where } a_{i,j} = \frac{\text{DFE } i \text{ investment in DFE } j}{\text{DFE } j \text{ total assets}} \text{ and } b_{i,missing} = \text{Sum of DFE } i \text{ investment in DFEs not represented in dataset (not in } n)$$

Once this matrix is created, the ownership matrix  $M$  is calculated as

$M = E * (I - A)^{-1}$ , keeping in mind that the newly created matrix is of size  $n + 1$  where  $n$  is the number of DFE Form 5500 filings in the dataset. In this instance, the only important result will be in the  $n + 1$  column. Each DFE (row) that has a nonzero entry in the  $n + 1$  column is considered to be affected by missing information either directly or through any number of intermediaries. The values are not important during this calculation, as this matrix mixes percentages of ownership with the dollar amount of ownership. However, it is not important for these purposes. Any DFE unaffected by missing data will have a 0 in the  $n + 1$  column.

All DFEs that are determined to be unaffected by missing information are used to create the “closed” set. Once this set is created, the matrix algebra process is used. This creates a balance sheet  $B$  for all of the DFEs that are unaffected by missing data, i.e., all dollar amounts captured in the financial class categories.

This data consists of only a subset of the entire DFE universe. However, it is used to deal with the missing information.

The consolidated balance sheet of the subset of DFEs unaffected by missing data are converted to distributions, i.e., 10 percent of assets in common stock, 20 percent in interest-bearing cash, etc. These DFE balance sheet distributions are then divided into four buckets, one each for MTIAs, CCTs, PSAs, and 103-12 IEs. The number of DFE balance sheet distributions is calculated by bucket. The balance sheets in each bucket are ordered by EIN/PN and an even interval between 0 and 1 is applied to each record in the bucket.

Next, all reported Schedule D investments that do not correspond to a Form 5500 are classified based on the type of DFE in which assets are invested. Therefore, there is a bucket for investments in missing MTIAs, CCTs, PSAs, and 103-12 IEs. A pseudo-random real number from a uniform distribution between 0 and 1 is applied to each balance sheet distribution using the RANUNI() function in SAS. The seed value used will be discussed later in this section.

Once these two datasets are created, those requiring imputation and those being used to do imputations, the datasets are merged based on the interval applied to the DFE balance sheet distributions and the pseudo-random number applied to the missing investment. Once this new link is formed, the investment dollars are spread to the financial class categories based on the balance sheet distribution of the randomly applied DFE balance sheet.

Once this is completed, there are no DFEs associated with missing information. Therefore, the matrix algebra approach is applied to the entire universe of DFEs (including the DFEs from the “closed” set). After this process all assets have been moved to the financial class categories. We call this data, the DFE “spread allocation.”

## VII. Spreading Pension Assets

To establish a “spread allocation” for all private pension plans on the *Private Pension Plan Research File*, the private pension plans on the *Research File* must be linked to the DFE “spread allocation” of each DFE that the plan reports investing in on Schedule D. This has been described in Section III above.

As with the DFEs, sometimes the Schedule D for pension plans shows investment in a DFE for which EBSA has no filing. The allocations of these investments are calculated in the same way as for the DFEs. First a group of known links between pension plans and DFEs is created. These links, however, are divided into thirteen buckets. There are four buckets each for 1) MTIAs, 2) CCTs, and 3) PSAs. All investments in 103-12 IEs are placed in one bucket, due to the infrequency of this type of arrangement.

The four buckets in MTIAs, CCTs, and PSAs, correspond to the percentage of the pension plan’s total assets invested in the DFE: 0 to 25 percent, 25 to 50 percent, 50 to 75 percent, and 75 to 100 percent. For instance, a Plan A reports \$1,000,000 (of \$4,000,000 in total assets) in a pooled separate account called DFE B. However, there is no Form 5500 for DFE B. This information would be included in the bucket of pooled separate accounts, 25 to 50 percent (percentages on the margin are placed in the higher of the two buckets).

The links used for imputation are given intervals, and the missing data requiring imputation are given random numbers, as described in VI. After this process, each investment in a DFE reported by pension plans and included in the *Private Pension Plan Research File* is associated with a “spread allocation” of a DFE (either a randomly selected DFE or the actual DFE in which the plan reports investment). These investment amounts are then spread to the financial classes based on the distribution found in the DFE “spread allocation.” The result is a “spread allocation” for the private pension plans included on the *Private Pension Plan Research File*.

## VIII. Impact of Imputation

As described in the previous section, random DFEs are chosen and used as stand-ins for DFEs for which EBSA does not have a filing. Since a random process has the potential to significantly alter the results of this process, EBSA undertook an analysis of the impact of randomization.

The entire process of DFE spreading was run 50 times, using seed values of 1 through 50 for the two instances of the pseudo-random number generator, RANUNI(). The impact of changing the seed values for this function is merely to, in some instances, alter the chosen DFE used as a stand-in for a missing DFE. Once these 50 trials were completed, the percentage increase of each financial class was calculated for all 20 financial line items in each trial, for both the complete set of DFEs and the set of private pension plans. The sample variance was calculated for each financial class item and 95 percent confidence intervals were constructed around the sample mean based on the assumption of normality.

The following charts show the mean, confidence intervals, and the results of a single trial for the set of all DFEs and the spread *Private Pension Plan Bulletin*. By reviewing each individual trial in comparison to the average and variance of all the trials, EBSA was able to choose a trial that

seemed representative of all trials, in which the increase to a particular financial class line item was not an outlier. Additionally, by reviewing the width of the confidence intervals for each variable, EBSA was able to feel confident that the result of any random imputation would not significantly impact the final results of this project.

## **IX. Group Insurance Arrangements**

For Form 5500 reporting purposes, a “group insurance arrangement” (GIA) is a type of multiple-employer welfare arrangement that provides benefits to the employees of two or more unaffiliated employers (not in connection with a multiemployer plan or a collectively-bargained multiple-employer plan), fully insures one or more welfare plans of each participating employer, uses a trust or other entity as the holder of the insurance contracts, and uses a trust as the conduit for payment of premiums to the insurance company. Each welfare benefit plan that is part of a group insurance arrangement is exempt from the requirement to file a Form 5500 if a consolidated Form 5500 report for all the plans in the arrangement was filed in accordance with 29 CFR 2520.104-43.

GIAs are direct filing entities by definition; however, private pension plans do not participate in them in the same way as they do for CCTs, PSAs, 103-12 IEs, or MTIAs. There is also no line item on the Schedule H for reporting interests in group insurance arrangements. For these reasons, GIAs are not included in the DFE asset spreading process described in this document.

However, in order to provide a complete picture of all DFEs filing the Form 5500, Appendix A of the DFE Bulletin presents selected statistics for GIAs that filed the Form 5500 between 2008 and 2018. Appendix A2 of the *2018 Group Health Plans Bulletin* presents similar statistics for GIAs that filed the Form 5500 and indicated providing health benefits. All GIAs filing the Form 5500 are included in this tables in Appendix A, regardless of the type of benefits offered. As in Appendix A2 of the *2018 Group Health Plans Bulletin*, GIAs are not group health plans, even though some may provide health benefits.

## Technical Appendix I

The column sums of  $M = E * (I - A)^{-1}$  are 1 if  $I - A$  is nonsingular.

### Proof:

Let  $J$  be an  $n \times 1$  column vector of all 1s, and let  $W$  be an  $n \times n$  matrix, then  $J^t * W$  yields a row vector with entries equal to the sum of the columns of  $W$ . We can therefore express the vector with entries equal to the sum of the columns of  $E * (I - A)^{-1}$  as:

$$J^t * (E * (I - A)^{-1})$$

The matrix  $E$  can be written as  $I - \text{diag}(J^t * A)$ . (The notation  $\text{diag}(\vec{v})$  represents the diagonal matrix whose  $i, i$  element is  $v_i$ .) Therefore,

$$J^t * (E * (I - A)^{-1}) = J^t * ((I - \text{diag}(J^t * A)) * (I - A)^{-1})$$

Expressing  $I$  as a diagonal matrix of its own column sums, we can write:

$$= J^t * ((\text{diag}(J^t * I) - \text{diag}(J^t * A)) * (I - A)^{-1})$$

Because a difference of diagonal matrices is the diagonal matrix of the differences:

$$= J^t * (\text{diag}(J^t * I - J^t * A) * (I - A)^{-1})$$

Factoring:

$$= J^t * (\text{diag}(J^t * (I - A)) * (I - A)^{-1})$$

By associativity:

$$= (J^t * \text{diag}(J^t * (I - A))) * (I - A)^{-1}$$

For any vector  $v$ ,  $J^t * \text{diag}(v) = v$ , hence:

$$= (J^t * (I - A)) * (I - A)^{-1}$$

Again by associativity:

$$\begin{aligned} &= J^t * ((I - A) * (I - A)^{-1}) \\ &= J^t * I \\ &= J^t \end{aligned}$$

So we have shown that the vector with entries equal to the sum of the columns of  $E * (I - A)^{-1}$  equals  $J^t$ , the vector consisting of all ones, hence columns of  $E * (I - A)^{-1}$  sum to one when  $I - A$  has an inverse.

Acknowledgement:

EBSA appreciates the mathematical assistance with this proof provided by George Washington University Associate Professor Lowell Abrams.

## Technical Appendix II

A well constructed  $I - A$  is always nonsingular so long as no DFE is fully owned by other DFEs.

### **Proof:**

Let  $A$  be a complex  $n \times n$  matrix, with entries  $a_{ij}$ . For  $i \in \{1, \dots, n\}$ , let  $R_i = \sum_{j \neq i} |a_{ij}|$  be the sum of the absolute values of the entries in the  $i$ th row (save the entries along the diagonal). Let  $D(a_{ii}, R_i)$  be the closed disc centered at  $a_{ii}$  with radius  $R_i$ . Such a disc is called a Gershgorin disc. Every eigenvalue of  $A$  lies within at least one of the Gershgorin discs  $D(a_{ii}, R_i)$  according to the Gershgorin circle theorem (GCT).<sup>11</sup>

It follows that for a well constructed ownership matrix  $A$ , as described above,  $I - A$  is always invertible. Let  $B = I - A$  be an  $n \times n$  matrix. Define the Gershgorin disc  $D(b_{ii}, R_i)$  where  $R_i = \sum_{j \neq i} |b_{ij}|$ . Since all  $a_{ii}$  of  $A$  equal 0,  $D(b_{ii}, R_i) = D(1, R_i)$ . Therefore, from the GCT, 0 is an eigenvalue of  $I - A$  only when  $R_i = \sum_{j \neq i} |b_{ij}| = 1$ . For  $I - A$ , this is only the case when a DFE is 100 percent owned by other DFEs. A matrix  $A$  can be constructed so that no DFE is 100 percent owned by simply transferring the assets of DFEs that appear 100 percent owned to the DFEs that own them.<sup>12</sup> Then, the rows and columns of the matrix corresponding to the 100 percent owned DFE are removed. This is appropriate given that a DFE that is 100 percent owned by other DFEs cannot be owned by private pension plans. Therefore, these DFEs are not needed to arrive at the ultimate spread file. Since a well-constructed  $I - A$  does not have an eigenvalue of 0 and the determinant of a matrix is the product of its eigenvalues, the determinant of  $I - A$  cannot be 0. Since its determinant is nonzero,  $I - A$  must be invertible.

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<sup>11</sup> "Gershgorin circle theorem." Wikipedia.org.

<sup>12</sup> In constructing the spread file using 2006 data, this process was not performed as  $I - A$  was already invertible. This theorem assures, nevertheless, that if the  $I - A$  matrix in any future year is found to be non-invertible, invertibility can be achieved through elimination of DFEs that are fully owned by other DFEs.