

February 1, 2014

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### *Focus on Cash Flow*

As Defined Benefit plans mature, cash flow requirements grow, and with them, the risks to investing. Mature plans also have shortened durations.

#### **What's the issue?**

Investing plan assets for cash flow is disrupted by volatile asset values. Artificially low interest rates make bonds less attractive. Regulatory rate relief results in lower liabilities for funding. The fact remains that benefits must be paid in cash.

#### **What are the sources of DB cash flows?**

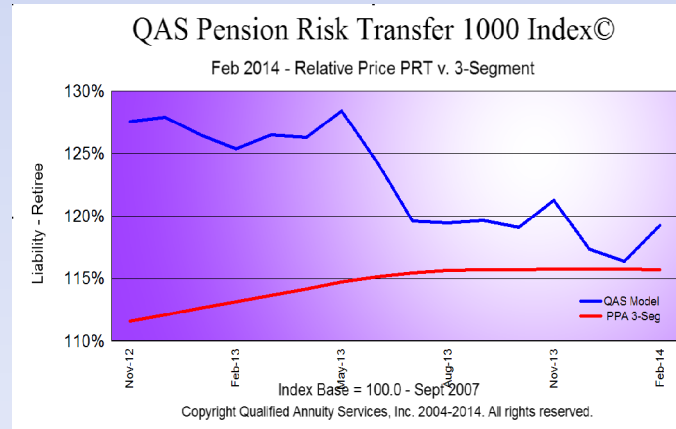
Plan cash flows come from contributions, interest earned, dividends received, and profits from investments, net of losses.

#### **What's the Strategy?**

Pension buy outs make sense when business conditions warrant, and not only when plan assets reach certain levels. If cash can be contributed, the question is:

#### **When should cash flow risk be transferred?**

The obvious answer is when rates are higher. However, businesses should review their cost of capital, funding rates, and net after tax cost of contribution levels. Sponsors should consider budgeting higher contributions if



business cost of funds and tax posture would warrant having cash available to contribute at the right time. While no one knows when rates will rise, it may make sense to position capital to facilitate contributions when needed.

#### **Price Volatility of QAS PRT Index**

Here is view of PRT volatility:

December 2013	-3.23%
January 2014	-0.80%
February 2014	+2.42%

#### **QAS Independent ERISA Fiduciary**

QAS provides advice for implementing PRT and termination annuities. Our proprietary scoring system navigated the Great Recession. ERISA procedural prudence is the appropriate standard for selecting annuity providers. Learn more here:

[http://qualifiedannuity.com/services\\_fs.html](http://qualifiedannuity.com/services_fs.html)

**Call now to get more information on custom PRT index modeling capabilities.**

**Get Informed. Think Strategic. Act Tactical.**

For information contact Don Cunningham (513-772-4488) or Joe Cleary (201-447-3900) or QAS.

Date	Immediate	Deferred
December 1, 2013	3.37%	3.87%
January 1, 2014	3.50%	3.90%
February 1, 2014	3.20%	3.61%