



November 1, 2014

Vol. XI, No. 11

The Grey Swan of PRT

The last decade of Defined Benefit plan risk can be defined by one simple metric:

Spreads

The shape of the world is still round – more or less. The shape of DB risk is explicit, or, maybe Grey? As macro events unfolded, CFO's awakened to a new dawn: DB risk was everywhere. And so, PRT exploded.

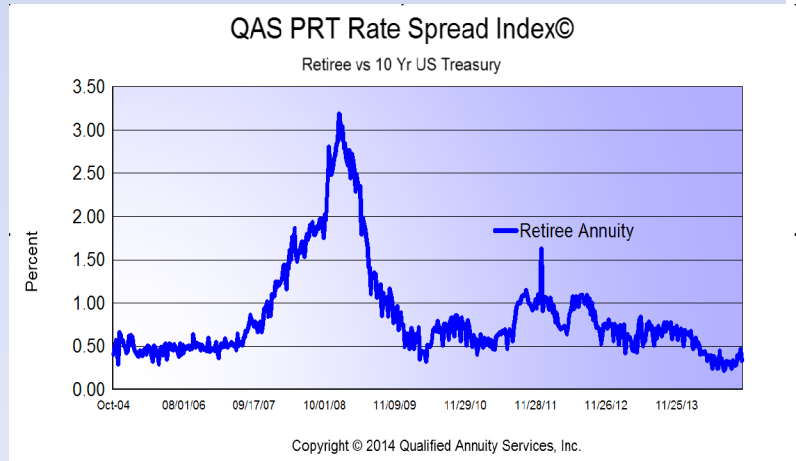
What's the point?

Pension Risk Transfer (PRT for short) is a new "term" for an old idea. QAS conducted buy outs and carve outs of retirees since the mid 1980's. We witnessed asset melt downs and saw a disruptive disconnect between risk *assumption* and risk *aversion*.

In a word, the simplest way to eliminate risk is to "insure" it. Although "insure" isn't as fashionable a word as "risk transfer" or PRT, the solution is exactly the same:

If there is an abundance of risk, sell it.

Annuity spreads to 10 Year Treasuries have been everywhere and recently exhibit a bias for investing in fixed income assets: precisely how insurers and LDI managers invest. As



"demand" or a "bond bids" rise, spreads fall.

Conclusion

The PRT value proposition can be assessed by monitoring annuity margins relative to 10 Yr Treasury. Spreads reflect credit risk which expands in a recovery. Annuity spreads remain compressed but inched higher benefitting PRT or carve out. Pick your name for the Grey Swan.

As the rules of risk change, QAS adds value for its clients. Here is a view of DB/PRT volatility:

PRT Trax Index - Hi-Lo			
Change %	12 Mos	24 Mos	36 Mos
QPRT	6.20%	10.29%	10.29%
PPA Curve	5.19%	8.58%	8.58%
FAS	5.87%	9.10%	9.63%
US Treasury Curve	5.76%	11.59%	13.40%

QAS's Longevity Extension Risk Study

Request more about QAS's study here:

<http://qualifiedannuity.com/contact.html>

Get more information on custom PRT 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
September 1, 2014	2.70%	3.31%
October 1, 2014	2.76%	3.41%
November 1, 2014	2.68%	3.34%