Get a Grip on the Gap

The adoption of MP-2014 hits the bank account hard. A deeper dive into MP-2014 is revealing - even troublesome. The undiscounted change in pure cash flow cost for the QAS Model Plan is approximately 4% for RP-2014 versus Applicable Mortality 2015. The gap widens to 12.0% un-discounted for MP-2014 versus AM-2015. (Note: This is total plan liability, not segment liability such as Retirees alone.) Get out the credit cards.

What’s the point?
When IRS adopts its version of RP-2014 is yet to be determined. However, one thing is clear:

You need quite a bit more alpha to break even. The question is: Do you feel lucky?

What’s the outcome?
Get a grip on the gap. The QAS Longevity Impact Study is revealing in many ways. If the aggregate liability based upon cash flows increases by 4% in 2017, then a 2% return in excess of current plan assumptions is needed to break even. If an ongoing plan adopts MP-2014 for 2017, the return in excess of plan investment assumptions must be 6% per year to retain current funded status levels. We would classify this a “mortality shock” to the overall funded status levels of DB plans. On this basis alone, PBGC will have a bigger pay day. If things get out of hand, perhaps legislators will find ways to cajole regulators into "easing" pension burdens. Call it QE for DB, or QEDB for short.

Conclusion
Speaking of “gaps”, one might ponder how this impact came about. These tin cans are everywhere and in order to get some where, sometimes you have to kick them out of the way. It generally doesn’t solve anything, only delays the pain. Ouch! Longevity risk is, in part, a phenomenon with great appeal.

Our clients engage us to bring clear thinking to an otherwise complex set of rules. We develop strategies starting with fundamentals. Only then are solutions applied within a frame work of sound risk management principles.

As the rules of risk change,
QAS adds value for its clients.

Request more about QAS’s study here: http://qualifiedannuity.com/contact.html

Get more information on custom PRT modeling capabilities.

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