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Mortality Carry Trade

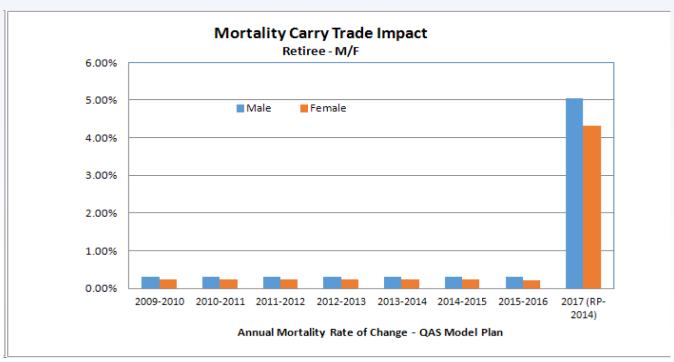
Last month we revealed some metrics. Let's bring that more in focus with a statement:

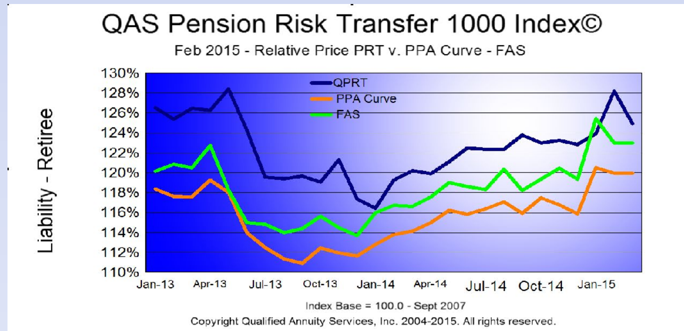
DB pension mortality is a negative carry trade against the equity of a business.

We take a deeper dive to get to the guts of the issue:

Should DB plans sell longevity risk?

In a May, 2009 presentation, QAS argued that DB plans may be better off financially if retirees are "sold off". While this is a current phenomenon, QAS conducted its first de risking transaction for a regional bank in 1986. At that time, the motivation was accounting. Today, the argument gaining traction is economics. This is the "mortality carry trade" of maintaining a DB plan. This chart helps grasp the issue:





What's the point?

As RP-2014 mortality is implemented, DB plans face higher funding and settlement costs. While most plans defer thinking about this, it can no longer be avoided. The "alpha to break even" through asset returns is quite high. And the risk of doing nothing costs cold hard cash.

Conclusion

You can't "manage longevity." However, loss from longevity risk can be immunized or transferred. Our clients engage us to bring clear thinking to an otherwise complex set of rules, including mortality impact. 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 studies here:
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Get Informed. Think Strategic. Act Tactical.

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Date	Immediate	Deferred
February 1, 2015	2.26%	2.77%
March 1, 2015	2.64%	3.05%