



PRT Takes Center Stage

Soon the IRS must cook up a recipe for funding and lump sum mortality. Some form of RP-2014 should be announced for plan years beginning January 1, 2017.

Longevity is Extension Risk

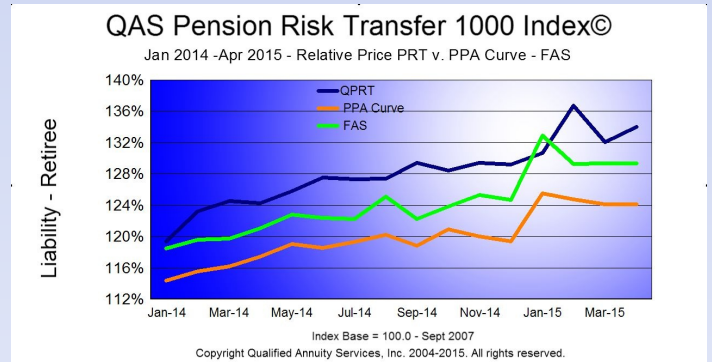
RP-2014 with MP significantly narrows the gap between funding liability and annuity pricing. This dynamic sets the stage for active advice. The “carrying cost” of DB plans is often ignored as sponsors seek alpha in order to outperform over stated funding assumptions.

Last month we said that longevity risk can't be managed. Embedded costs continue to be a drag on funding as PBGC variable premiums rise with deficits driven by new mortality. Assuming 80% funded status using PBGC rates, the premium is 1% of the deficit, or 25 basis.

When added together, the conclusion is simple: the larger the cash flow risk, the riskier the cost of alpha. Investing based on 10-year historical return for an 8 year duration doesn't add up. DB plans are challenged by low yields and fewer alpha opportunity trades.

Enter PRT

Solution driven PRT designs and structures have developed very slowly. More dynamic



and flexible designs will drive an array of strategic solutions. PRT will take center stage.

What's the point?

MP-2014 reflects mortality experience already adopted by many insurers. Resetting the mortality clock for DB plans has a large impact resulting from a known risk. DB plans that retain longevity risk are exposed to the impact of future improvement. (Cure for cancer?)

Conclusion

We manage risk using tactical risk transfer - a term we defined. Our clients want clear thinking within a complex set of rules. We develop strategies starting with fundamentals and implement them with sound risk management principles.

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

Request more about QAS's studies here:
<http://qualifiedannuity.com/contact.html>

Get more information on Custom PRT Modeling and Glide Path capabilities.

Get Informed. Think Strategic. Act Tactical.

Ron McHugh, FSA MAAA CFA (508)733-8591 Don Cunningham (513)772-4488 Joe Cleary (201)447-3900

Date	Immediate	Deferred
April 1, 2015	2.39%	2.94%
May 1, 2015	2.53%	3.24%