



June 1, 2015

Vol. XV, No. 6

### *Alchemy of DB Risk*

As funded status improves, we ponder if it will result in higher demand for fixed income duration matched assets. Or, will it result in more PRT activity?

#### **Longevity is the Alchemy of DB Risk**

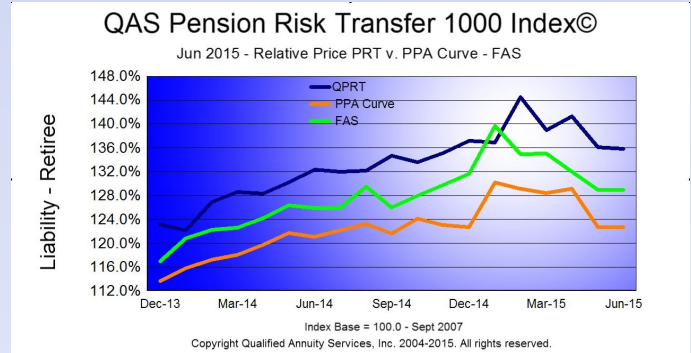
Risk is ultimately driven by continued improvement in mortality. We define “Regulatory Mortality” for DB plans as that imposed for funding, 417(e) lump sums, and accounting. Then, there is “market” or PRT for short. So, each DB metric must be evaluated in order to define risk, and thus develop appropriate mitigation strategies.

Applying different mortality for disparate purposes each impacts funded status one way or another. If glide path de-risking reduces equity exposure too quickly for investing, the gap between funding liability and annuity (PRT) pricing may still be too wide.

#### **Ahead of the Curve**

Window lump sum settlements help to head off rising settlement costs. New mortality will only increase these costs in the future.

Critical analysis should be performed to quantify the impact of how any risk mitigation



strategy may impact duration and, thus, asset allocation. Lump sum settlements of term vested participants may be advantageous whether a plan terminates or not.

#### **Longevity is a Science: Not an Event**

PRT solutions must be crafted and customized to client specific needs. PRT is a dynamic and strategic solution. As the alchemy of DB risk is drawn, it may be measured and weighed.

#### **Conclusion**

We advise clients on tactical risk transfer - a term we defined. We bring clear thinking to complex sets of rules. We analyze the fundamentals and evaluate solutions by applying sound risk management principles.

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

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

**Learn More About 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
May 1, 2015	2.53%	3.24%
June 1, 2015	2.60%	3.34%