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DB Deficits vs. Debt

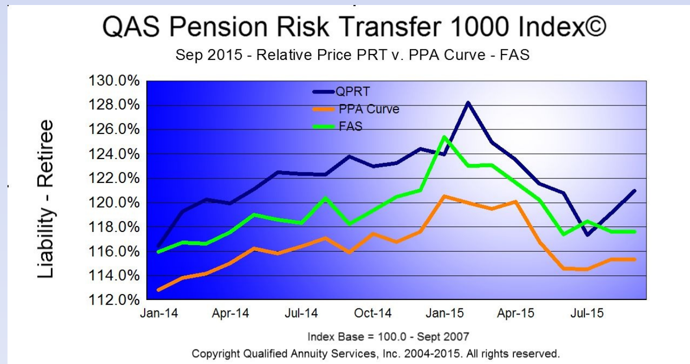
Debt is generally repaid with interest applied. As the Fed languishes in finding cause for raising rates, removing as much debt as possible makes sense. Eventually the cost of debt will rise. Perhaps that is why stocks are volatile and Main Street is absent from the market.

What About Pension as Debt?

HATFA artificially reduces pension obligations: good for the plan sponsor budgets and minimal contributions. However, if asset returns cannot out pace HATFA discounts, then plan solvency continues to erode. This is before expenses or other financial economic items are included.

What's the Point?

On July 31, 2015, the IRS released Notice 2015 - 53 providing "Updated Static Mortality Tables for Defined Benefit Pension Plans for 2016." The window for implementing strategic de-risking has an official reprieve for 2016 stability periods. It is time to act prudently to de risk DB plans. It may also make sense to consider swapping volatile DB deficits for a known debt structure.



How Should Plans Respond?

Lump sums were closed to retirees effective July 9, 2015. Strategic options are limited as plan obligations will increase under new mortality, when adopted.

What to Do

1) offer lump sums to terminated vested participants now
2) strategically transfer the retirees in order to reduce DB liabilities
3) reevaluate the DB plan to determine if it is viable for attracting and retaining employees

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

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Date	**Immediate**	**Deferred**
August 1, 2015	3.48%	4.01%
September 1, 2015	3.60%	4.15%