June 1, 2016   Vol. XVI, No. 6

When Isn't PRT About Rates?

Last month we discussed the impact of interest rates in driving Pension Risk Transfer ("PRT") costs higher. http://qualifiedannuity.com/newsletters/2016_5.pdf However, PRT is not always about the rates at the time. When we began talking about PRT in 2004, we did so by focusing on funded status for overall plan solvency - not as interest rate arbitrage.

QAS Pension Risk Transfer 1000 Index©
Jun 2016 - Relative Price PRT v. PPA Curve - FAS

Index Base = 100.0 - Sept 2007
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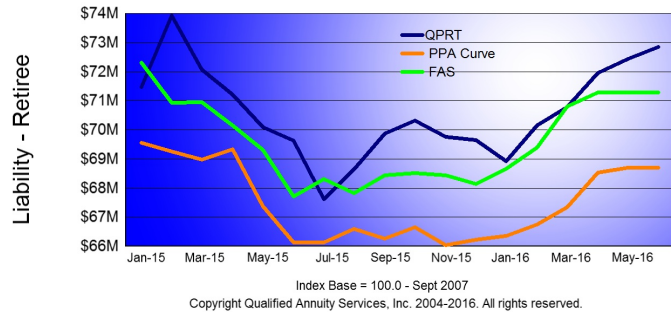
A Rising Tide Lifts All Boats

This axiom is generally true. However, when the tide was high (in funded status terms), few transacted. Risk returned - in abundance.

What Happened?

In a 2008 phenomenon equity prices declined and corporate borrowing costs rose. Mortality studies began to reveal that life expectancy had increased. This translated to higher DB costs. In 2007 we characterized this as: **Longevity Tail Risk**

We studied GM in 2007 and noted that the 9-10 year duration of the GM DB plan allowed little time for plan assets to recover from a taking a market hit. And so, in 2012 when GM transferred the retiree risk, the PRT phenomenon was born.

PRT = "Save"?

In 2012 GM's allocation to bonds was high. By selling bonds and transferring retiree risk, GM demonstrated PRT viability - as did Verizon.

QAS's Deep PRT Experience

In 1985, QAS execute PRT for a block of retirees. Around that time we also executed a 100% risk transfer for all liabilities for a DB plan that then implemented a standard termination.

PRT advice requires a discipline and strategic planning. We develop custom strategies to meet objectives.
Talk to QAS.
As the rules of risk change,
QAS adds value for its clients.
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Date	Immediate	Deferred
May 1, 2016	2.52%	3.19%
June 1, 2016	2.49%	3.13%