



August 1, 2016

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### ***PRT: The Perfect Alt?***

When brilliant investment minds gather, the discussion can ultimately lead to the subject of “riskless” investments. In investment parlance this = short term US Treasuries.

In the DB risk world, this posture is a mandate. In fact, Pension Risk Transfer (“PRT”) is the equivalent of a high comparable return “riskless” alternative to the extent that credit risk is mitigated. Voila! Transferring risk at discount rates greater than US Treasuries could be deemed riskless alpha.

#### ***Is PRT the Perfect “alt”?***

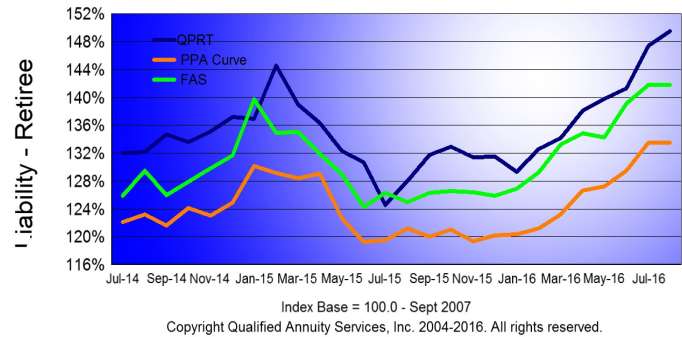
The duration of a DB retiree liability may be 8-10 years which argues that US 10 Year Treasuries is a good risk free discount proxy. DB risk = cash flows due for life. If US 10 Year Treasury is a good proxy, then a more accurate proxy is discounted cash flows at the US Treasury curve.

#### **DB Tail Risk**

To the mix we add liability “alpha” as cash flows discounted at US Treasury curve and measured with appropriate mortality. The PRT rate is “alpha”. Last month we discussed “Cyclical Syndrome” in year end deal flow: [http://qualifiedannuity.com/newsletters/2016\\_7.pdf](http://qualifiedannuity.com/newsletters/2016_7.pdf)

### **QAS Pension Risk Transfer 1000 Index©**

Aug 2016 - Relative Price PRT v. PPA Curve - FAS



### **Are We Getting Anywhere?**

Ah yes: Longevity Tail Risk 101. Focusing on PRT in 2004, we discussed funded status in terms of plan solvency - not interest rate arbitrage. We argue that PRT is a risk free alternative to the plan liability. That benchmark is next month’s topic.

#### ***What Should Plan Sponsors Do?***

PRT advice is a process. It is not a transaction. Many can perform a transaction. But is it the right transaction? Priorities must be vetted. Strategy must be developed. This should occur before any steps are taken to de risk a DB plan.

#### **Talk to QAS.**

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

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Date	Immediate	Deferred
July 1, 2016	2.12%	2.78%
August 1, 2016	2.11%	2.68%