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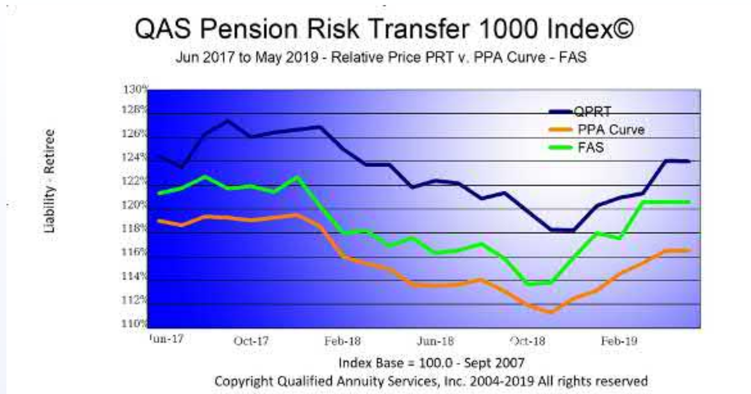
Riding High In April, Shot Down In May



Purchase rates were up in April. The immediate annuity purchase rate was flat at 2.97%, the deferred rate was also flat at 3.21%. The highest rate for immediate annuities was 3.28% down from 3.30%, the highest deferred rate was flat at 3.40%.

In April, the treasury curve steepened slightly. The 10 year treasury yield increased from 2.41% to 2.51%, a 10 basis point increase, while the 30 year treasury yield rose from 2.81% to 2.93%, an increase of 12 basis points. The two year treasury yield was flat at 2.27%. T-bills continue to be at or above the Treasury Curve at 10 years and in.

US Equity markets continued upward in April. The S&P 500 was up 1.3% while aggregate foreign market indexes were virtually flat; year-to-date the S&P 500 was up roughly 17.5% while aggregate foreign markets were up just under 13%. May has been challenging: US markets are down roughly 3% since the end of April; foreign markets are down roughly 4%. The tariff turf war is targeting a number of key industries, while political turmoil between the President and Democrats in Congress intensifies: and nothing gets done.

Is A Retiree Carve Out De-risking Or Expense Management

We see a lot of articles written on PRT these days with a focus on Retiree Carve Outs. Recent articles assert that risk is not reduced. They argue that funded ratio doesn't change. If you think of the three main risks a pension plan creates for the plan sponsor (mortality, interest and expense), there clearly is risk reduction in a carve out. If mortality improves more than expected, the purchase price for retirees will increase, but not nearly as much as for a group of deferred participants (per dollar of liability). If interest rates drop, the impact is also far greater on deferred lives than on retired lives. As for expenses, the relationship is not as clear and varies by the specific situation. So let's assume it's roughly the same for deferred and retired lives. The result of a carve out is that you reduce the risk and expenses of the plan. But the risk is reduced far less than the portion of the liability extinguished. The real risk of a retiree carve out is if you then decide to terminate the plan, the annuity market may not be nearly as receptive as if you had not carved out those retirees. That results in higher end prices. If you're considering a retiree carve out, give QAS a call. We can advise on the risks of the transaction and/or execute the annuity purchase.

Rates

The next Fed meeting is June 19 and, according to the CME Fed Watch Tool, there is a 90% probability of no change to the Fed Funds target rate at the current 2.25-2.50% range, and a 10% probability of a 25 basis point drop. By the end of the year, the CME Group is predicting a 24% probability of no change, a 42% chance of a 25 basis point decrease, and 34% chance of a 50 basis point or higher decrease. Since the end of April, rates have moved down: the two year down 4 basis points at 2.23%, the 10 year down 12 basis points at 2.39% and the 30 year at 2.82%, lower by 11 basis points.

PRT Trax Index +/-	
12 mo Hi-Lo %	+/- 4.9%
YTD % Δ	+ 4.94%
3 mos % Δ	+ 2.5%
1 mo % Δ	+ 2.2%

As the rules of risk change, QAS adds value for its clients. Read more or subscribe here: https://www.qualifiedannuity.com/monthly-newsletters/

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Date	Immediate	High	Deferred	High
May 1, 2019	2.97%	3.28%	3.21%	3.40%