



## Liability Driven Risk Transfer Settles & Sustains DB Plans

Annuity interest rates are oscillating. The immediate annuity rate fell 3 basis points to 4.80% from 4.83%, and deferred interest rates rose 2 basis points to 4.79% from 4.77%. The highest immediate annuity rate rose 1 basis points to 5.31% and the highest deferred rate rose 24 basis points to 5.47%.

Treasury rate volatility widened as the 10 Year ranged 43 basis points from 3.93% to 4.36% during August. The 30 Year treasury yield ranged from 4.05% to 4.47%, or 42 basis points. The ICE BofA BBB US Corp Index Option Adjusted Spread remained range bound with a low of 147 and a high of 156 during August.

US and Foreign equity markets fell in August. The S&P 500 declined -1.55% and aggregate MSCI World markets declined -0.24%. The Fed's hesitation is tempered by the possible higher for longer syndrome as inflation undertones affect equity stability.

### PRT Rate Action

September 2023 PRT rates were level and thus PRT and annuity costs were basically unchanged. The US T 10 year accelerated during September. Jumbo placements peppered the news. See this link. ([ATI Annuity](#)). PRT Buy Out Sales are very strong industry wide.

### Liability Driven Risk Transfer ("LDRT")

In June 2012 GM completed the transfer of some \$26 billion of retiree liability to Prudential. The PRT retiree interest rates were 3.13% and the 10-year Treasury was 1.47%, resulting in a generous spread of 1.66%. Since then, the increase of the success of Liability Driven Investing has now positioned DB plans with more options. This question arises:

*Are today's PRT rates going higher?*

This is why QAS believes that Liability Driven Risk Transfer may be transformative. The macro world is risky. Is it a good time to buy some cover? LDRT strategy has the potential to both settle and sustain DB plans. In QAS's research, we commented on the lack of action taken late 1995 to 2001 and again in 2006-2007. The rationale was simple: settle out to right size your DB plan. See this link ([Milliman 100](#)). Interest rates have accommodated.

Interestingly, the auto unions have bargained to regain worker pensions. It's a smart move. DB Sponsors now have more tools to manage these risks. It results in resetting the clock to a rational retirement plan with a balanced approach.

### QAS Pension Risk Transfer 1000 Index©

Oct 2021 to Sep 2023 Relative Price PRT v. PPA Curve - FAS



### Future Think

Common sense suggests that pensions are good. Maybe some will make their mark by investing in the Crypto world. For most, the slow but steady approach works. With the possibility of pension surpluses becoming more common, it's only a matter of time before politicians focus their eyes on "what could be." As stated last month: "Employers have an embedded option in risk transfer. That option only has value if it can be implemented when the time is right for the employer. Getting it right requires skill." QAS is laser focused on achieving success with our proprietary LDRT approach. Give us a call to discuss.

### Rates

The 10-year yield was 4.09% on August 31. The ICE BofA BBB US Corp Index Option-Adjusted Spread rose 4 basis points to close at 151 as of August 31. Stay healthy.

PRT Model Plan Trax Index +/-	PRT	PPA
12mo Hi-Lo %	+/- 7.8%	+/- 6.2%
YTD % Δ	1.6%	-4.1%
3mos % Δ	-1.1%	-3.1%
1mo % Δ	-0.0%	-1.1%

*As the rules of risk change, QAS adds value for its clients.*  
Read more or subscribe here:  
<https://qualifiedannuity.com/newsletter-subscription/>

### Where PRT Advice Matters Most

Ron McHugh, FSA MAAA CFA Advisor (508)733-8591 # Joe Cleary Relationship Manager (201)447-3900

Date	Immediate	+/-	High	+/-	Deferred	+/-	High	+/-
Sept	4.80%	-0.03	5.31%	+0.01	4.79%	+0.02	5.47%	+0.24