

PRT Spreads Less Than 50 Basis Points to US T-10

Annuity purchase rates fell in June sending annuity prices higher. The immediate annuity rate for Retirees fell 14 basis points to 4.97% from 5.11% and deferred rates fell 12 basis points to 4.86% from 4.98%. The highest immediate annuity rate fell 13 basis points to 5.63% and the highest deferred rate fell 17 basis points to 5.49%. The highest Retiree rate was still inverted to the max deferred rate.

10 Year Treasury rates plodded lower ranging 29 basis points between 4.19% and 4.48% during June. The 30 Year treasury ranged narrowly from 4.34% to 4.62%, or 28 basis points. The ICE BofA BBB US Corp Index Option Adjusted Spread began firming and ended June 28 at 119 basis points up from a low of 110 at June 3.

US and Foreign equity markets diverged in June. The S&P 500 rose 3.1% and aggregate MSCI World markets declined -2.5%. Inflation concerns waned a bit and equity markets remained positive. World-wide macro events and artificial intelligence concentrations seem to resonate with investor confidence.

PRT Rate Action – PRT Spreads Narrow

PRT spreads to US 10 Year Treasuries have narrowed considerably for Retiree liabilities. The average PRT spread to US T-10 between August 2022 to March 2024 was 89 basis points. Since April 2024, the PRT spread was less than 46 basis points, narrowing the risk-free advantage for PRT. Providers may be turning more to private placement investments in order to obtain better pricing margins. Retiree rates are inverted to Deferred rates for a second month in a row. PRT Credit is under scrutiny at the same time.

PRT Annuity Selection Standards

PRT credit risk has taken center stage as a number of cases are being litigated. Given that there is no loss affecting participants, the question is: *Who is the safest?*

While plaintiffs argue that the “safest annuity standard” matters, QAS believes that findings in Bussian matter: *What’s the process?*

The selection of annuity providers is the most important work that we perform. QAS first commented on the Department of Labor’s rule making for Interpretive Bulletin 95-1 (“IB 95-1”) (“the safest available annuity standard.”) on September 17, 1991. As ERISA §3(21) Fiduciary, QAS differentiates itself with a practice discipline defined as “The QAS Procedural Prudence Standard.” It’s the “appropriate standard” to select providers. (QAS Procedural Prudence)

QAS Pension Risk Transfer 1000 Index©

Jul 2022 to Jun 2024 Relative Price PRT v. PPA Curve - FAS



Fed Watch

The CME Group FedWatch Tool shows a 97.4% probability of a range of 525-550 (unchanged) at the July 31, 2024 meeting. The Fed’s December 18, 2024 Target Rate of 475-500 now stands at 44.5%. This suggests some possibility of rate cuts by December 2024. The inflation question is muted. Volatility won’t shape change as PRT rates moved in a narrow range minimizing price discovery opportunities. (CME FedWatch Tool)

Rates

The 10-year yield closed at 4.50% on June 28, down 15 basis points from May. The ICE BofA BBB US Corp Index Option-Adjusted Spread closed at 119 basis points as of June 30, rising by 9 basis points from May.

PRT Model Plan Trax Index +/-	PRT	PPA
12mo HI-Lo %	+/- 7.3%	+/- 7.5%
YTD % Δ	-0.01%	-1.25%
3mos % Δ	-1.63%	-0.69%
1mo % Δ	+0.56%	+0.93%

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	+/-
June	4.97%	-0.14	5.63%	-0.13	4.86%	-.12	5.49%	-0.17%