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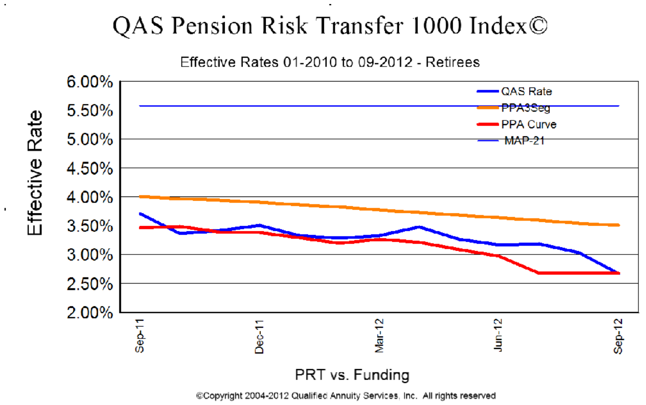
MAP GAP: MAP-21's Double Edged Sword

This month's comments explore implications for MAP-21 interest rates.

PPA caused DB plan sponsors to focus on adequacy of assets to meet liabilities. This "funded status" barometer reflects the workings of PPA spot and segment rates. Now, sponsors have another wrinkle: MAP–21.

The chart illustrates a gap between MAP and PPA of nearly 300 basis points. This MAP GAP is the distance between MAP and PPA curve and PRT 1000 Index effective rates.



MAP-21 rates are for contributions.

MAP-21 allows sponsors to kick the proverbial can down the road. Some posit that defraying contributions only reduces tax deductions (increases tax revenue).

PPA rates apply to settlements.

Sponsors must closely consider the objective:

1) is the plan to be "ongoing"?
2) is the plan destined for termination?

Most plans will likely adopt MAP-21 to lessen contributions.

Ongoing plans should be wary and LDI bond oriented portfolios will further drag recovery to fully funded status if more bonds are allocated at low rates. In a rising rate market, the gap will remain given that MAP discount rates for funding are much higher.

Terminating plans should seriously evaluate Pension Risk Transfer (PRT). This is not a good time to take interest rate risk for the sake of reduced contributions and volatility. Taking risk off the table might better serve a sponsor's needs.

What's a Plan to Do?

Now, more than ever, PRT makes sense:

1) PRT mitigates interest rate risk and provides an embedded hedge against rising rates.
2) LDI bonds will drag recovery and maintain a negative funding gap in a rising rate market, exacerbating the MAP GAP.
3) A deductible contribution for a PRT transaction can offset an income tax event.

Rate volatility has returned. We have strongly encourage this view: ***Think Strategic. Act Tactical.***
For information contact Don Cunningham (513-772-4488) or Joe Cleary (201-447-3900) or QAS.

Date	**Immediate Life Annuity**	**Deferred Life Annuity**
July 1, 2012	2.96%	3.52%
August 1, 2012	2.89%	3.34%
September 1, 2012	2.91%	3.24%