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Cliff Notes

Bond volatility is no friend of LDI. It is the stuff of PRT.

We await the call for sensibility as the Fiscal Cliff draws near. Pension Risk Transfer (PRT) strategies make sense in times of uncertainty. Certainty is as scarce as a fully funded plan.

Is it time for a call on bonds?

From our July 2012 letter:

“The gap for pension funding costs will continue to increase creating further funded status deterioration”.

Predictable? You bet.

The rate trend is only one key to effective risk management. Cash, after all, is risky. Or is it? To the extent that DB deficits are debt, liabilities are predictably higher from July, 2012. Cash, on the other hand, to be “optioned” for contributions, is most important when interest rates rise.

If interest rate volatility returns and augurs with it a rising rate market, should DB plans remain in LDI bond oriented allocations?

Only your balance sheet knows for sure.

The notion that PRT trade execution is high cost is simply irrelevant. What is relevant is the balance sheet and its associated leverage. Ask GM or Verizon. And soon, new MAP-21 costs will rise adding to avoid embedded costs. It’s a shame to see DB plans so abused.

Right Size Your Risk

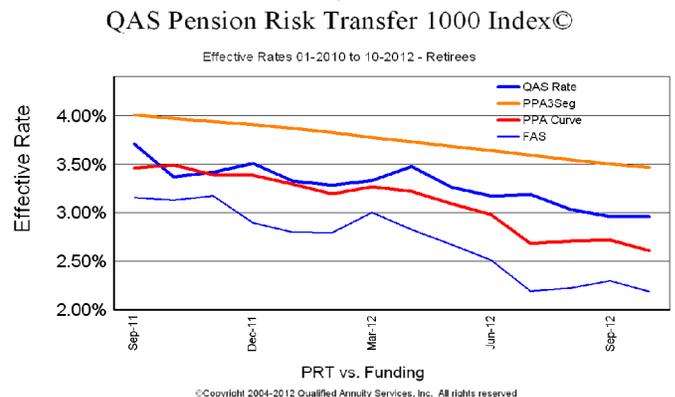
PRT deals help eliminate equivalent debt. And DB debt is not necessarily desirable. It comes with extra tariffs and tolls:

longevity - we call it “extension risk” to the extent that retiree liabilities are known and predictably, (they are changing day by day

embedded costs associated with DBs includes:

- PBGC premiums - going one way: up
- investment expense - try as you may, this cost does not go away
- administration - benefit payment administration is ongoing until participants expire; plan for a long time horizon

The November QAS PRT 1000 Index® shows the



net cost of PRT after adjusting for some costs. For information on our PRT custom modeling capabilities, please give us a call.

Get Informed. 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
September 1, 2012	2.91%	3.24%
October 1, 2012	2.86%	3.33%
November 1, 2012	2.67%	3.08%