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Tactical View: Bonds Are High

Interest rates drive Pension Risk Transfer ("PRT") costs. Rates are recovering from extraordinary lows. Sell bonds? In theory: Yes. In practice: No.

Premium Prices?

"Risk off" bets may not be the only reason bonds have been volatile. The sheer volume of sideline risk averse positions continues to grow. Running for cover makes sense.

But, For How Long?

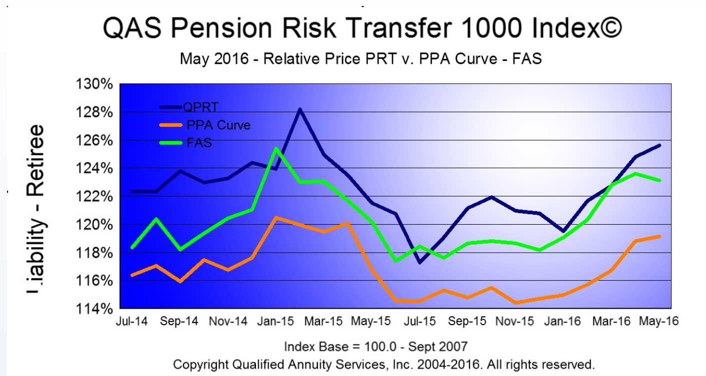
Implementing PRT requires views to the risks as defined by the rates. A PRT tactical view is like a coin: it has two sides:

Obverse: Stocks
Reverse: Bonds

Implementing PRT can be beneficial not only when rates are high (bonds prices are low) but when stocks are high too. At QAS

We Call This A "Save"

This means designing a PRT strategy to manage organic risk with the idea of retaining a DB plan. This can also be used to prepare to reduce aggregate risk in absolute dollar terms. The opportunity to do so has been missing for some time. As always, timing is everything.



Strategy

Sitting on the sidelines can make sense. Hibernation is a strategy that minimizes aggregate risk and requires understanding contribution budgets and defending core liabilities in a measured way. Not fancy, but fundamental.

What Should Plan Sponsors Do?

Like asset allocation, PRT advice can include a series of steps intended to meet a range of objectives - from strictly business to what may provide more participant security. Priorities must be vetted. Talk to QAS.

As the rules of risk change,
QAS adds value for its clients.

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Date	Immediate	Deferred
April 1, 2016	2.53%	3.26%
May 1, 2016	2.52%	3.19%