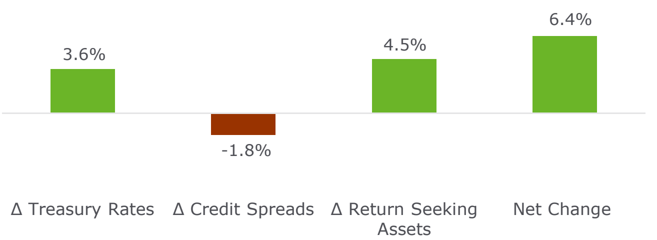
# NEPC PENSION FUNDED STATUS MONITOR

**DECEMBER 31 2019**

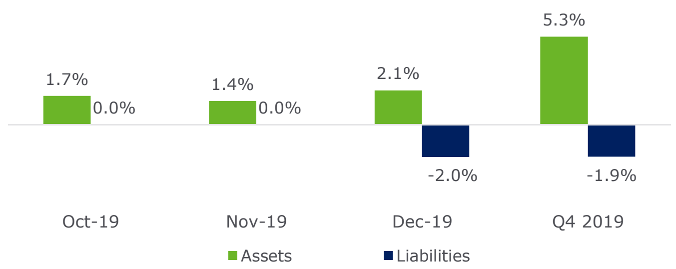
**The funded status of typical corporate pension plans increased in the fourth quarter by approximately 6.4% for a total-return plan, while an LDI-focused plan saw a smaller increase of 4.0%, according to NEPC's hypothetical open and frozen pension plans.**

## HYPOTHETICAL OPEN/TOTAL-RETURN PLAN

### Funded Status Attribution

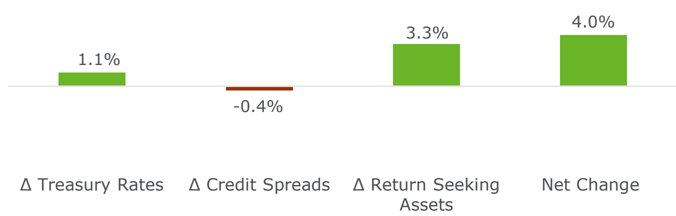



**Total-return plan outperformed as global equities posted robust gains and liability valuations decreased.**

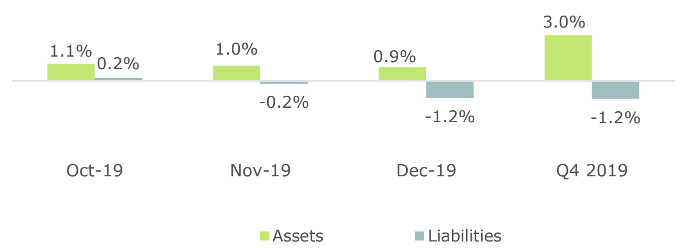



## HYPOTHETICAL FROZEN/LDI-FOCUSED PLAN

### Funded Status Attribution

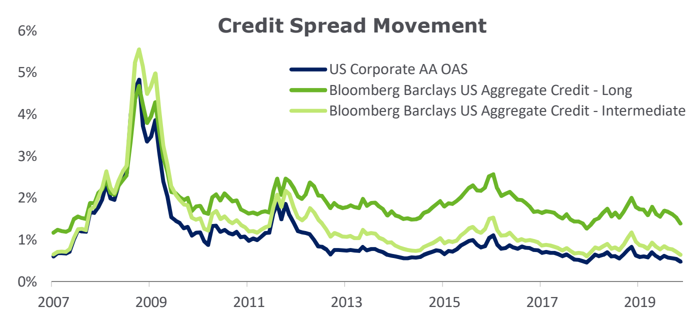



**LDI-focused plan experienced an increase to funded status as moderate fixed-income and liability losses were offset by strong global equity markets. The plan is currently 75.6% hedged as of December 31.**




## RATE MOVEMENT COMMENTARY

Treasury yields rose slightly in the fourth quarter, with the 30-year Treasury increasing by 27 basis points. With spreads tightening by a similar amount over the quarter, the estimated discount rate for the open total-return plan rose 12 basis points to 3.30% during the same period. Similarly, the discount rate of the frozen LDI-focused plan increased 11 basis points to end the quarter and the year at 3.12%. The higher discount rates resulted in a decrease in estimated liability valuations of 1.9% and 1.2%, respectively, for the two plans, with varying impact to liability duration. This liability decrease was accompanied by stellar asset growth that was largely attributable to the outperformance of equities. Portfolios that were positioned similarly to the total-return plan likely saw significant gains due to additional allocations to US equity.




## RETIREE BUYOUT INDEX

The Buyout Index for Retirees is estimated to be approximately **103.7%** of PBO, as of December 31.

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Taking Stock: NEPC s 2019 Defined Benefit Trends Survey
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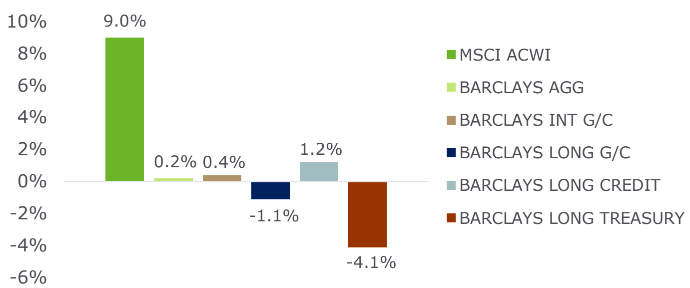
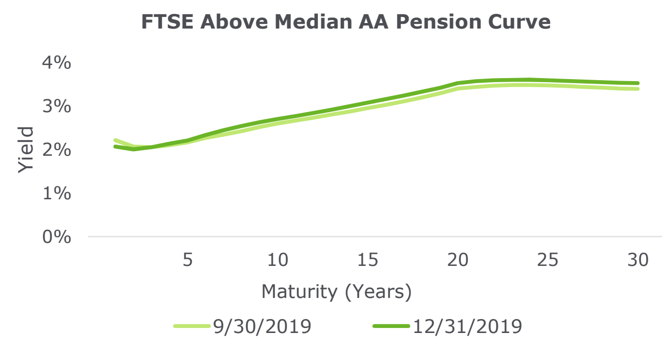
DECEMBER 31 2019

## PLAN SPONSOR CONSIDERATIONS

After a year of robust gains by equities and falling interest rates, forward-looking expected returns have declined for many portfolios. Corporate sponsors may have questions regarding potential changes in the expected return on asset class assumption used in the financial reporting of pension plans. NEPC can assist with these questions and offer potential recommendations relevant to the evolving market environment.

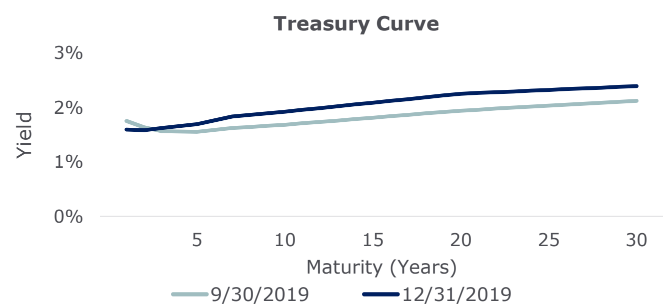
## MARKET ENVIRONMENT AND YIELD CURVE MOVEMENT




Growth rebounded in the fourth quarter with emerging market stocks leading the charge with gains of 11.8%, according to the MSCI EM Index. US and non-US developed market equities also posted stellar returns with the S&P 500 Index posting gains of 9.1% and the MSCI EAFE Index up 8.2% for the three months ending December 31; the MSCI ACWI returned 9.0% for the quarter.

Long Treasuries were down 4.1% in the fourth quarter, according to the Barclays Long Treasury Index, as Treasury yields rose 27 basis points on the long-end of the curve. Meanwhile, long-credit spreads tightened by 27 basis points, partially offsetting losses from the rates for fixed income.




### DISCLOSURES

Liability returns are based on the FTSE Above Median Pension Discount Curve. Liabilities for the two hypothetical plans are based on sample benefit payments of two unique plans, set equal to stable duration targets as of December 31, 2018. The Total-Return plan reflects an open plan with a 15-year duration, while the LDI-Focused plan represents a frozen plan with a 10-year duration. The benefit payments are not rolled forward each month to maintain the duration targets. No future benefit accruals or benefit payments are assumed in order to isolate the performance of plan's liabilities due to changes in interest rates. The funded status of each hypothetical plan was set at 90% funded as of December 31, 2018.

The Total Return plan assumes an allocation of 60% Global Equity, 40% Core Bonds. The LDI Focused Plan assumes an asset allocation of 40% Global Equity and 30% Long Credit, 20% Long Treasuries, 10% Intermediate Govt/Credit, with a greater emphasis on hedging liability duration. Monthly rebalancing is assumed. We do not assume any fees, expenses, benefit payments or contributions are made during the year in order to isolate the impact of market returns on the hypothetical allocations.

NEPC's Retiree Buyout Index is estimated using midpoint annuity purchase rates published by Brentwood Advisors, discounted against the cash flows of a sample retiree population, and compare with the same discounted cashflows using the FTSE Above Median Pension Discount Curve. Actual annuity pricing may vary substantially based on multiple factors.

Asset benchmarks used to measure asset returns are sourced from FactSet: MSCI ACWI index, Barclays Aggregate index, Barclays Intermediate Gov/Credit index, Barclays Long Gov/Credit index, Barclays Long Credit index, Barclays Long Treasury index, Barclays US Aggregate Intermediate Credit spread, Barclays US Aggregate Long Credit spread, and US Corporate AA Option Adjusted Spread.

Past performance is no guarantee of future results.


BOSTON | ATLANTA | CHARLOTTE | CHICAGO | DETROIT | LAS VEGAS | PORTLAND | SAN FRANCISCO
255 State Street, Boston, MA 02109 | P. 617.374.1300 | F. 617.374.1313
NEPC.com