TAKING STOCK: PENSION LIABILITIES RISE IN Q2

Lynda Dennen Costello, ASA, EA Senior Research Consultant, Asset Allocation

BLOG POST

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Pension liabilities are estimated to have risen 7.5% in the second quarter, as the corresponding discount rate proxy fell 32 basis points to 3.51% on June 30 from 3.83% on March 31, according to the FTSE Pension Liability Index.

As a result, pension plans with a total-return allocation may have experienced a drop of over 2.0% in funded status for the quarter. However, plans with shorter durations, such as frozen plans, and those hedging interest-rate risk will likely see markedly less declines in funded status, staying flat or even showing a modest uptick in funded status as the increase in assets outpaced liabilities. To this end, we believe it is vital to understand your individual plan's liability profile and invest accordingly.

The change in pension liabilities comes on the back of a strong quarter for equities and bonds. The S&P 500 Index posted gains of 4.3% for the three months ended June 30 and the Barclays Long Credit Index was up 7.0% in the same period, as the Federal Reserve maintained its accommodative stance and remains poised to cut rates in July. Interest rates fell around 30 basis points to 40 basis points across the Treasury yield curve, with parts of the curve remaining inverted during the quarter.

To better understand the needs of your pension plan, please reach out to your NEPC consultant to discuss liability analyses and interest-rate hedging strategies.

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