

The Monthly Pension Review: April 2024

Higher-for-longer interest rate expectations pressure both fixed income and equity markets

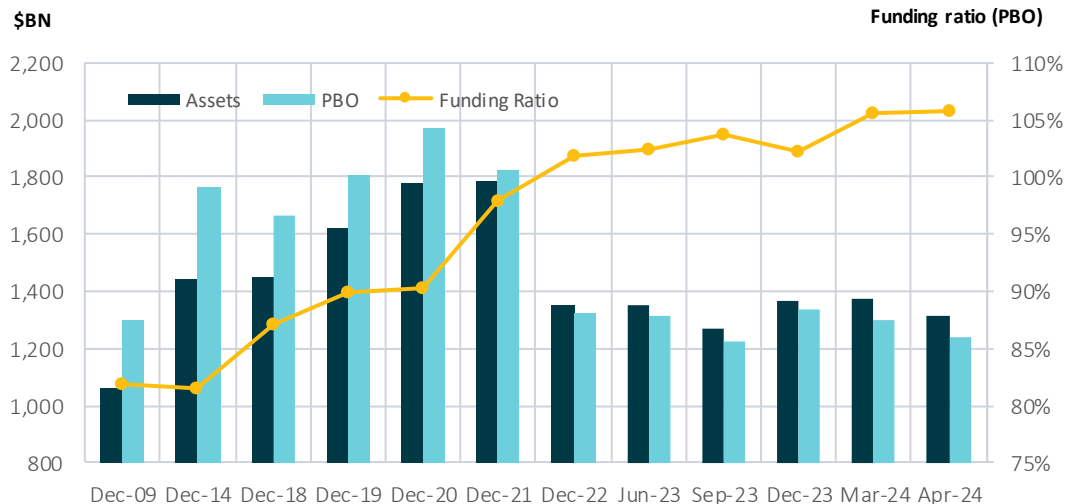


April Market Summary

- **Funded status increased by 0.2% through April** – Assets returned -4.4% while liabilities returned -4.5%.⁽¹⁾
- **Global markets declined last month as economic uncertainty persists** – The S&P 500 Index fell -4.6% last month, as equity investors discounted the prospect of higher interest rates for longer.
- **The Long Credit Index yield rose 44 basis points (bps) in April** – The increase was almost all due to the rise in Treasury yields, as credit spreads tightened marginally as demand remained strong.

Market Watch	Dec-22	Dec-23	Mar-24	Apr-24
Funded Status ⁽¹⁾	101.9%	102.2%	105.6%	105.8%
FTSE Discount Rate	4.95%	4.76%	5.06%	5.51%
Long Credit Yield ⁽²⁾	5.59%	5.22%	5.46%	5.90%
US 30Y TSY Yield	3.96%	4.03%	4.34%	4.78%
S&P500	3,840	4,770	5,254	5,036

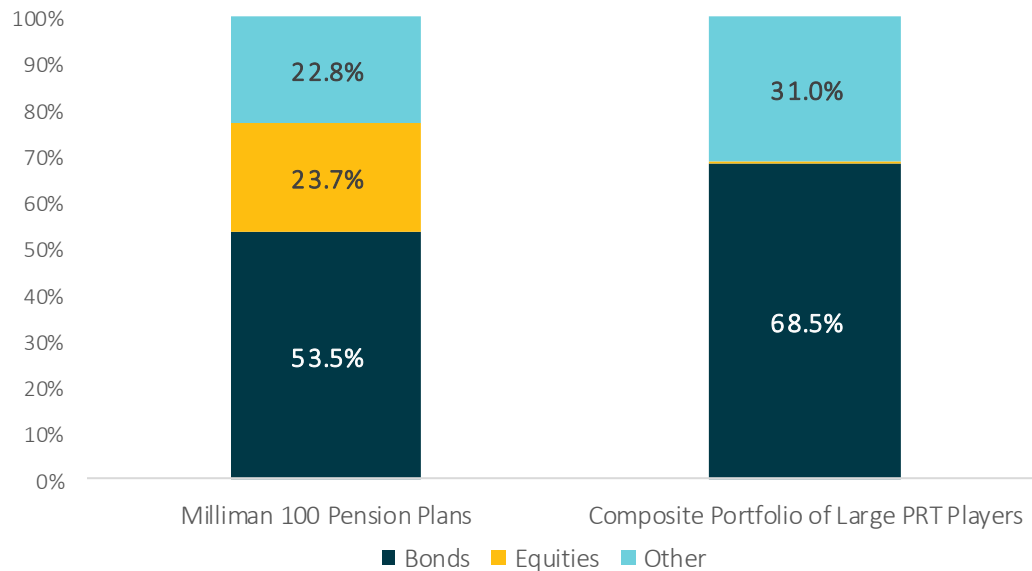
Milliman Pension Funding Index (April 2024)¹



INVESTMENT PROFILE OF LARGEST PRT PLAYERS INDICATES PREFERENCE FOR FIXED INCOME AND ALTERNATIVES

- Average funded status for DB pension plans has been above 100% for 25 of the previous 26 months dating back to March of 2022. With interest rates at decade highs, numerous plans have turned to de-risking through pension risk transfer (PRT) to lock in funded status and secure higher fixed income yields.
- While de-risking through annuitization is a prudent strategy for many plans, it may not be right for all, particularly those plans that are under 100% funded. Other considerations for plans are the costs associated with PRT, and caution regarding non-financial risk, particularly headline risk regarding the chosen insurance partner.
- For those looking to de-risk but cautious of traditional PRT, we believe an opportunity exists for plans to access a similar investment toolkit as the largest players in the PRT industry. These firms are typically large life insurers and reinsurers, who manage diversified, income-driven portfolios, which typically serve as new underlying assets in most PRT transactions.
- According to the average asset allocation of some of the largest insurance participants in the PRT market, these companies favor public bonds and income-generating alternatives. The average investment portfolio for the Milliman 100 includes a 23.7% allocation to public equities, which drives appreciation of plan assets. Life insurance companies invest significantly less in public equities due to regulatory capital considerations, but may maintain strong portfolio returns due to their higher allocation to alternatives.
- Within the alternatives bucket, large life insurers tend to focus on private credit, real estate debt, infrastructure debt, and private equity. For pension plans looking to diversify into alternatives, we believe these options are a good place to start.

Total Portfolio Asset Allocation²



¹ Data from reference Bloomberg Indices. Funded status is in reference to Pension Funding Index of the top 100 US corporate pension plans sourced from Milliman. Funded Status source: Milliman. FTSE Discount Rate source: FTSE. Long credit, US 30Y TSY yield, S&P 500 index value source: Bloomberg.

² Data sources: Milliman 2024 Corporate Pension Funding Study (Milliman 100 asset allocation), S&P Global Market Intelligence (weighted average asset allocation of 11 of the top PRT providers). "Other" investments for composite portfolio includes private credit, commercial mortgage loans, preferred stock, and Schedule BA assets. Data as of 12/31/23.

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Market chart indices:

- AAA Non-Agency CMBS and A Corporate source: Index data from Bloomberg.

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