The Monthly Pension Review: January 2025

2025 started with positive S&P 500 returns, signaling a potential for above average annual gains based on historical trends

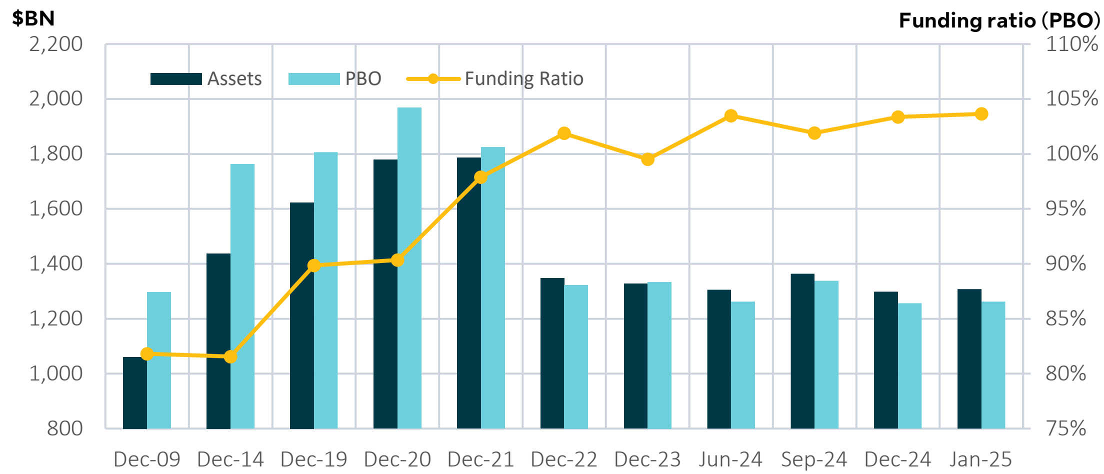
SLC Management

January Market Summary

- **Funded status rose by 0.2% in January** – Assets returned 1.8% while liabilities returned 0.4%.[1]
- **The S&P 500 Index rose by 2.7% in January** – Despite rising bond yields and a decline in the tech sector, the benchmark remained positive in January.
- **The Long Credit Index yield rose 1 basis point (bp) in January** – Long Treasury yields also rose 1 bp.

Market Watch	Dec-22	Dec-23	Dec-24	Jan-25
Funded Status (1)	101.9%	99.5%	103.4%	**103.6%**
FTSE Discount Rate	4.95%	4.76%	5.44%	**5.45%**
Long Credit Yield (2)	5.59%	5.22%	5.81%	**5.82%**
US 30Y TSY Yield	3.96%	4.03%	4.78%	**4.79%**
S&P 500	3,840	4,770	5,882	**6,041**

Milliman Pension Funding Index (January 2025)[1]



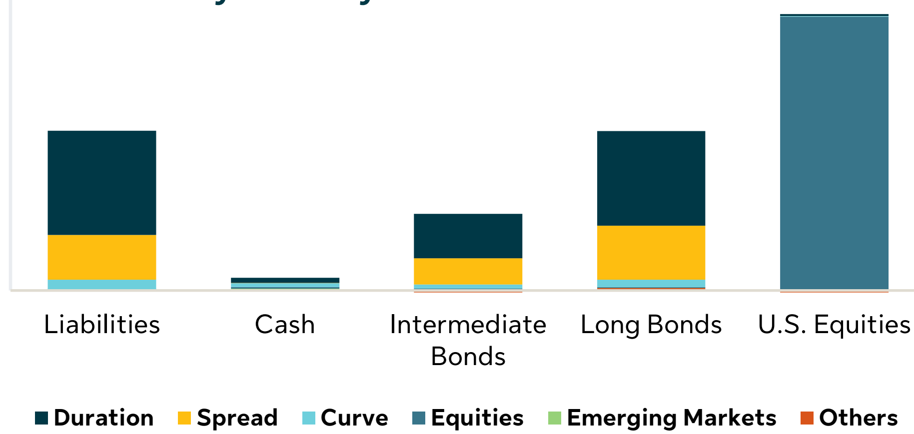
LDI considerations for pension plans

The Milliman pension funding index had a funded status of 103.6% at January end. As many pension plans are overfunded, plan sponsors are increasingly looking to de-risk to protect funding levels. With liability driven investing (LDI), pension plan sponsors can work with asset managers to meet investment needs based off their liabilities and funding positions.

Some potential benefits of LDI management include improving hedge ratio, diversifying credit risk and improved risk management via glidepath implementation. Extending duration through long duration physical instruments (e.g., long corporates, long Treasuries, ultra-long duration Treasury STRIPS) is often the easiest way to improve the hedge ratio for plan sponsors who do not wish to contribute to the plan or extend duration using leverage. There are many alternative asset classes that can diversify credit risk, including high yield, private credit and structured credit. With glidepath implementation, sponsors set a strategy for de-risking plan asset allocations as funded statuses improve, which generally involve a gradual shift from growth assets to liability-hedging assets. Additionally, as plans approach the end of their glidepaths they may want to consider capital efficient overlay strategies. Utilizing synthetic equity can allow sponsors to reallocate physical assets from growth portfolios to hedging portfolios to improve hedge ratios while maintaining growth asset exposure.

With LDI principles, pension plans can aim to maintain their high level of funded status while decreasing various risks their liabilities face.

Asset/liability volatility attribution



- In an asset/liability framework, cash is no longer the lowest risk asset as the lack of duration doesn't align with the long duration liabilities.
- Moving from shorter duration fixed income to longer duration fixed income can increase return while also lowering risk relative to liabilities.

[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, except for most recent month which is estimated based the return for representative pension plan asset allocation and prior month's liabilities adjusted for duration and change in discount rate. FTSE Discount Rate source: FTSE. Long credit, US 30Y TSY yield, S&P 500 Index value source: Bloomberg.

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Market chart indices:

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

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