

The Monthly Pension Review: July 2022

Rebound in risk assets lifted funded status by 2.4%

July Market Summary

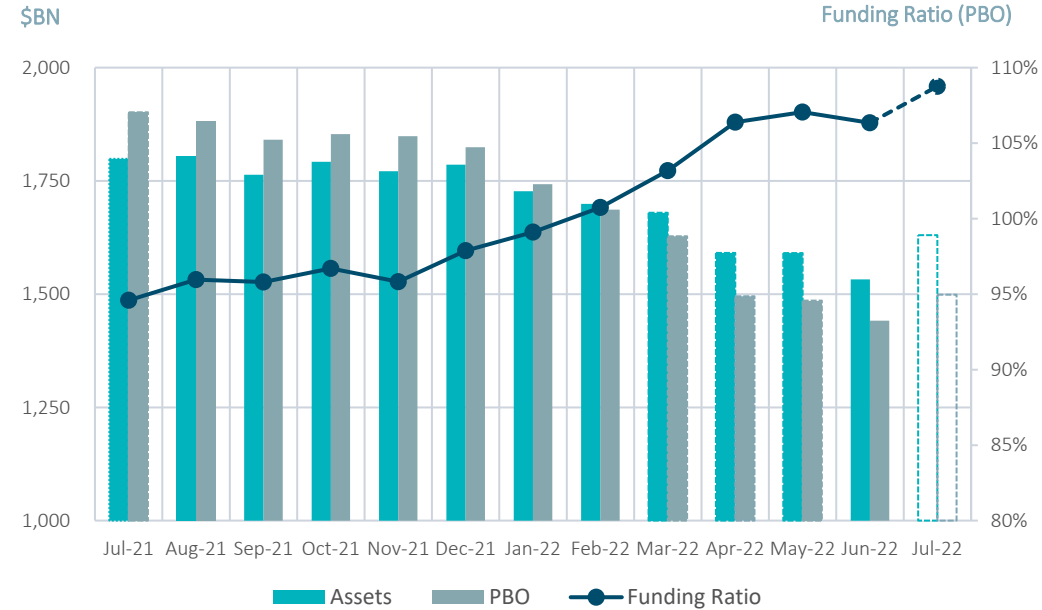
- Funded status improved by 2.4% in July and is now up roughly 11% since the start of the year - Assets returned 6.4% while liabilities increased by 4.0%. ⁽¹⁾
- U.S. equity markets had their best month since late 2020 – After the worst 1st half in 50 years, the S&P 500 index rallied 9.1% in July. Year-to-date, the index is now down 13.3%.
- The yield on the Bloomberg Barclays Long Credit Index declined 32 basis points (bps) – Long credit spreads tightened 9 bps while the underlying Treasury basis fell by 23 bps.

Market Watch	Dec-2020	Dec-2021	June-2022	July-2022
Funded Status	90.3%	97.9%	106.3%	108.8%
FTSE Discount Rate ⁽²⁾	2.23%	2.63%	4.38%	3.99%
Long Credit Yield ⁽²⁾	2.78%	3.10%	5.09%	4.77%
US 30Y TSY Yield	1.64%	1.90%	3.18%	3.01%
S&P 500	3,756	4,766	3,785	4,130

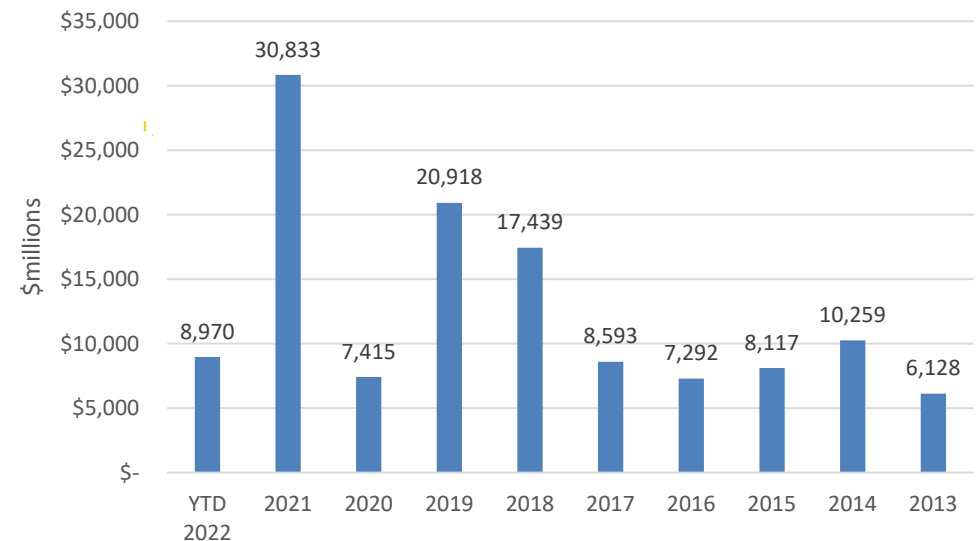
SPOTLIGHT: GUIDING PLAN SPONSORS THROUGH PENSION RISK TRANSFERS

- With funded status for most U.S. corporate DB plans at multi-decade highs, more plan sponsors are considering their next steps, including pension risk transfers (PRT's) as a means to remove balance sheet risk and expenses associated with pension plans, increased de-risking efforts, or hibernation.
- We work with clients to guide them through each scenario depending on their unique situation - below are some considerations, particularly as it relates to PRT's.
 - In 2021, we saw a record year of PRT's with over \$30B offloaded from corporations to insurers.
- For many plan sponsors, the decision to terminate and the subsequent arrangements can take upwards of 12 to 18 months.
 - Plan sponsors will typically navigate uncertainty surrounding lump sum take rates, a bidding process that can produce diverse pricing as well as questions surrounding payments in cash or in-kind.
 - LDI portfolio characteristics often require multiple adjustments throughout the termination process as lump sum estimates can differ from the actual amount taken by participants.
- For plans that may be close to fully funded but a few years away from a buyout, utilizing a more closely matched key-rate duration portfolio approach can minimize funding volatility and plan expenses while remaining on track for a future termination.

Milliman Pension Funding Index (July Estimate)



U.S. Corporate Pension buyout activity ⁽³⁾



(1) Funded Status for the current month is estimated and subject to change as final numbers are released. Data from reference Bloomberg Indices.

(2) The Long Credit yield corresponds to the Bloomberg Long Credit Index.

(3) Corporate buy out activity source: Pension and Investments Research Center