

# The Monthly Pension Review: August 2023

Long yields moved higher last month as economic uncertainty remains front of mind for investors

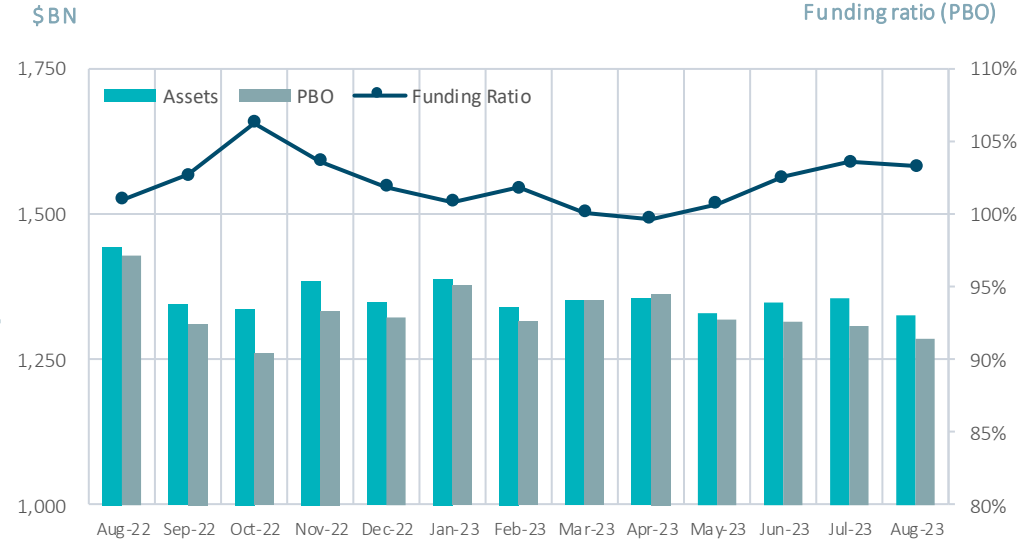


## August Market Summary

- Funded status decreases by -0.2% through August – Assets returned -1.6% while liabilities returned -1.2%.<sup>(1)</sup>
- Equities slumped in August, breaking five-month hot streak – The S&P 500 Index returned -1.8% in last month, as general economic uncertainty impacted investor sentiment.
- The Long Credit Index yield rose by 20 basis points (bps) in August – The yield increase was primarily rates driven as the 30-year Treasury rose 19 bps last month.

Market Watch <sup>(2)</sup>	Dec-21	Dec-22	Jul-23	Aug-23
Funded Status	97.9%	101.9%	103.6%	103.3%
FTSE Discount Rate	2.63%	4.95%	4.96%	5.13%
Long Credit Yield	3.10%	5.59%	5.47%	5.65%
US 30Y TSY Yield	1.90%	3.96%	4.01%	4.21%
S&P 500	4,766	3,840	4,589	4,508

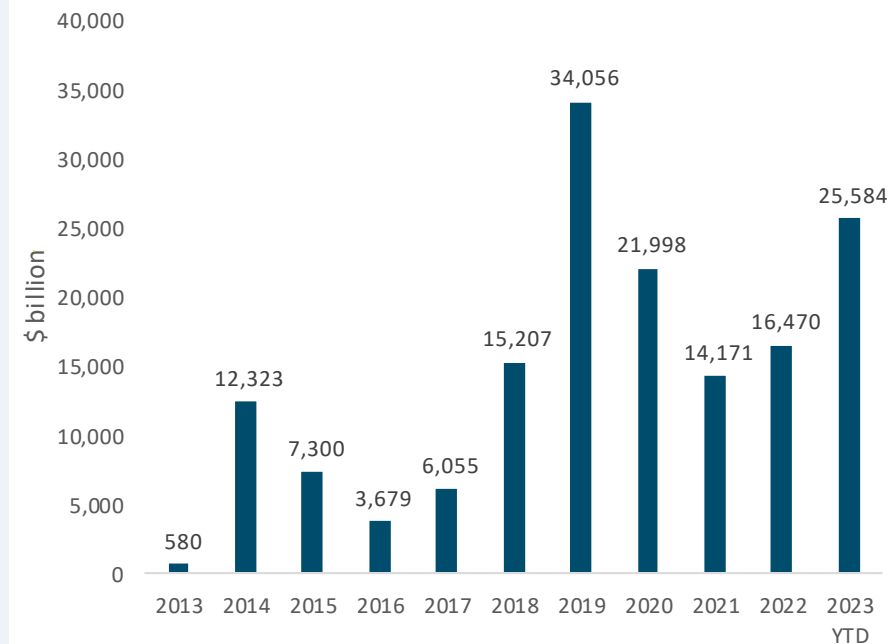
## Milliman Pension Funding Index (August 2023)



## SPOTLIGHT: TRENDS IN PENSION RISK TRANSFERS

- The first half of 2023 saw record pension risk transfer (PRT) activity as corporate defined benefit plan funded status remains near its 15-year highs. Year-to-date there have been over 285 PRT transactions totaling over \$22 billion in pension liabilities. For comparison, through H1 2022 there were roughly 200 transactions totaling \$17 billion in liabilities. The U.S. PRT market remains competitive, with over 20 insurers bidding on the business. As such, premiums could stay low, which may facilitate increased demand by corporate plans.
- Over half of the transactions were full plan terminations. However, in terms of dollar amount, over 70% of liabilities transferred were for current retirees in payment, often the least complex portion of the liability to value.
- We have a long history of working with clients through all phases of a plan's life cycle – from helping them de-risk and improving their funded status to the entire PRT process itself. Throughout that journey, plan sponsors face varying challenges.
- One such challenge is navigating the 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.
- Furthermore, characteristics of liability-driven investment portfolios often require multiple adjustments throughout the termination process, first to reflect estimates of the lump sum take up and its impact and then later to account for actual experience and how that differed from assumptions.
- For plans that may be close to fully funded but still 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.
- Plan sponsors who opt to hibernate the plan rather than pay a premium for risk transfer may want to consider utilizing some of the same tools that insurers have used to back long-term liabilities. This includes assets like investment grade private credit, which can offer attractive premiums to comparable public bonds.

## U.S. corporate pension buyout activity



Source: Pensions & Investments Research Center, 2023.

\*Based on monthly performance of the S&P 500 Index. Data from Bloomberg.

(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.

(2) Funded Status source: Milliman. FTSE Discount Rate source: FTSE. Long Credit Yield source: Bloomberg. US 30Y TSY Yield source: Bloomberg. AAA Non-Agency CMBS and A Corporate 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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(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.