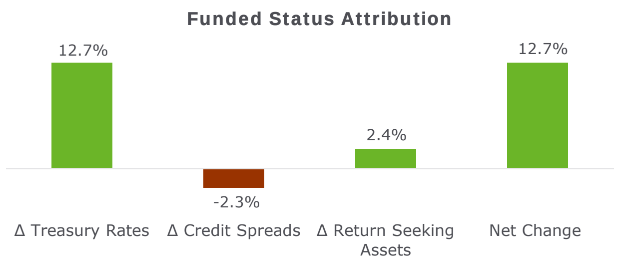
NEPC FUNDED STATUS PENSION MONITOR

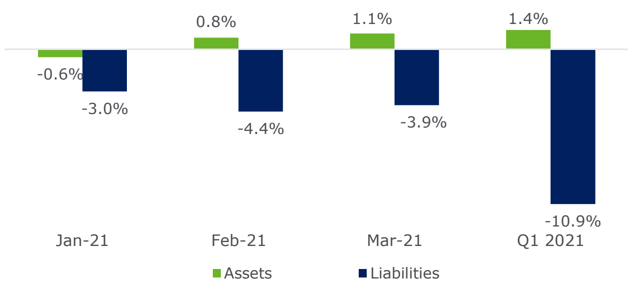
FIRST QUARTER 2021

U.S. corporate pension plans generally experienced significant gains in funded status in the first quarter, driven by a sharp rise in Treasury rates and positive equity returns. Treasury yields steepened dramatically between the two- and 10-year points of the curve, while credit spreads stayed tight, leading to a decline in estimated liability values over the quarter. For this period, the funded status of a total-return plan increased 5.3% for March and 12.7% for the quarter, outperforming the LDI-focused plan which rose 2.2% last month and 4.3% for the quarter.

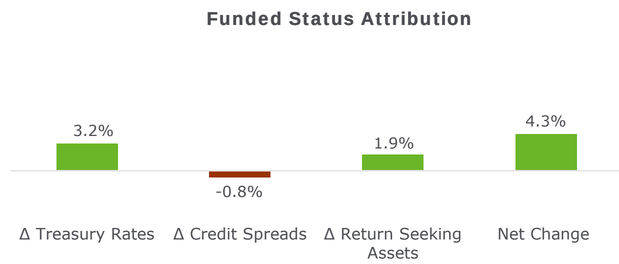
HYPOTHETICAL OPEN / TOTAL-RETURN PLAN



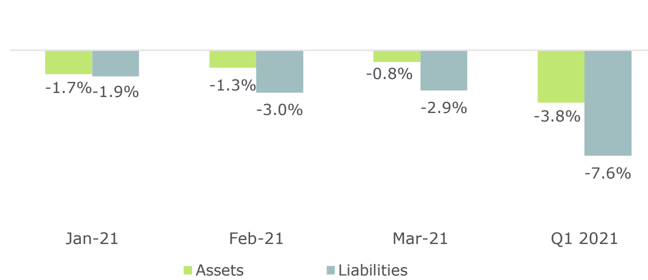
The funded status of the total-return plan skyrocketed as liabilities fell with rising rates and gains in risk assets during the quarter.



HYPOTHETICAL FROZEN / LDI-FOCUSED PLAN

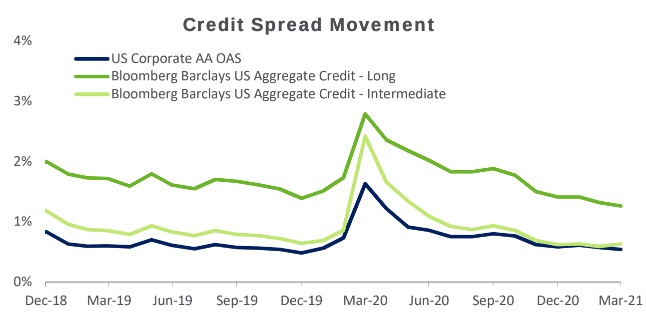


The LDI-focused plan saw an increase in funded status from declining liabilities and gains in risk assets. The plan is 87% hedged, as of March 31.



RATE MOVEMENT

Treasury yields soared in the first quarter, up from historic lows as the 10- and 30-year points on the curve moved up dramatically. The 30-year Treasury rate increased 76 basis points to 2.41%, as of March 31, returning to pre-pandemic levels. Long-credit spreads tightened, decreasing 15 basis points, and remain historically low. The rise in rates resulted in higher discount rates for liabilities, with the discount rate for the open total-return plan increasing 24 basis points for the month and 68 basis points for the quarter, ending the first quarter at 3.28%; for the same period, the discount rate for the frozen LDI-focused plan rose 26 basis points last month, and 68 basis points for the quarter, to finish the quarter at 3.02%.



RETIREE BUYOUT INDEX

The Buyout Index for Retirees is estimated to be approximately **103.7%** of PBO as of March 31.

RECENT INSIGHTS FROM NEPC

Taking Stock: Stimulus Package Provides Respite to Single-Employer Pension Plans

Click HERE to read

BOSTON | ATLANTA | CHARLOTTE | CHICAGO | DETROIT | LAS VEGAS | PORTLAND | SAN FRANCISCO

255 State Street, Boston, MA 02109 | P. 617.374.1300 | F. 617.374.1313

NEPC.com

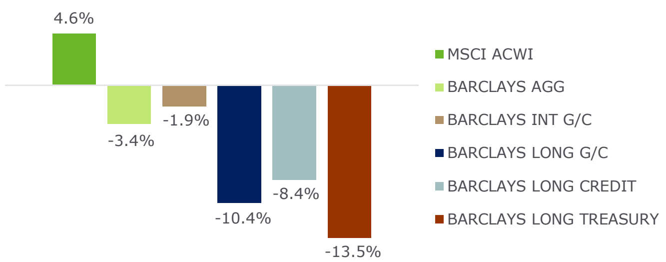
NEPC FUNDED STATUS PENSION MONITOR

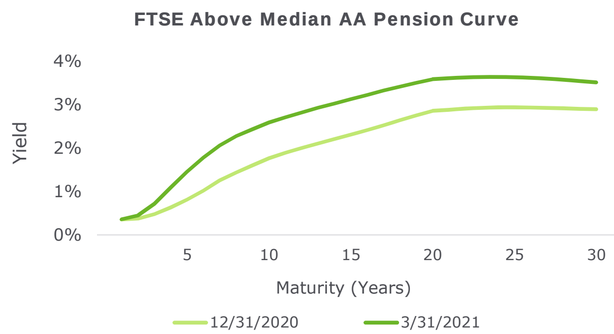
FIRST QUARTER 2021

CONSIDERATIONS FOR PLAN SPONSORS

Treasury rates moved markedly higher over the first quarter, despite the Federal Reserve's assurance that it will keep short-term rates low, underscoring investors' expectations for inflation and economic growth. Equity markets were volatile but pushed higher over the quarter as the economic stimulus package, the American Rescue Package Act (ARPA), was passed and the pace of inoculations picked up. ARPA included funding relief to single-employer pension plans by increasing and extending the rates used to calculate funding liabilities and lowering required contributions. Continued upward pressure on rates would push funded status higher, but NEPC believes in partial interest-rate hedging and will be monitoring clients' hedge ratios closely as durations decrease with rising rates.

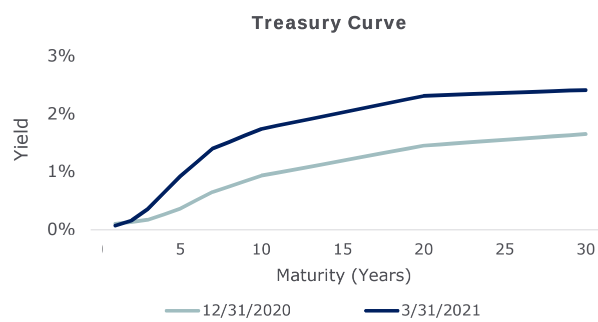
MARKET ENVIRONMENT AND YIELD CURVE MOVEMENT





Equity markets got off to a rocky start in January but rebounded by the end of the first quarter. The S&P 500 Index gained 4.4% in March and 6.2% during the quarter, driven by another massive stimulus package, quicker pace of the vaccine rollout, and continued re-opening of different parts of the economy. In contrast, lockdowns have been reinstated in some parts of Europe; the MSCI ACWI Index was up 2.7% in March and returned 4.6% in the first quarter. Meanwhile, emerging market equities lost 1.5% last month but gained 2.3% for the three months ended March 31.

Treasuries steepened 76 basis points at the long end, resulting in a 13.5% loss in the Barclays Long Treasury Index in the first quarter. Note that Treasury yields beyond 10 years ceased steepening in March, potentially because of LDI bond demand. As spreads on AA-rated corporate bond issues tightened further by four basis points, long credit fell 8.4% in the first quarter, according to the Barclays Long Credit Index.



DISCLOSURES

Liability returns are based on the FTSE Above Median Pension Discount Curve. Liabilities for the two hypothetical plans are based on sample benefit payments of two unique plans, set equal to stable duration targets as of December 31, 2018. The Total-Return plan reflects an open plan with a 15-year duration, while the LDI-Focused plan represents a frozen plan with a 10-year duration. The benefit payments are not rolled forward each month to maintain the duration targets. No future benefit accruals or benefit payments are assumed in order to isolate the performance of plan's liabilities due to changes in interest rates. The funded status of each hypothetical plan was set at 90% funded as of December 31, 2018.

The Total Return plan assumes an allocation of 60% Global Equity, 40% Core Bonds. The LDI Focused Plan assumes an asset allocation of 40% Global Equity and 30% Long Credit, 20% Long Treasuries, 10% Intermediate Govt/Credit, with a greater emphasis on hedging liability duration. Monthly rebalancing is assumed. We do not assume any fees, expenses, benefit payments or contributions are made during the year in order to isolate the impact of market returns on the hypothetical allocations.

NEPC's Retiree Buyout Index is estimated using midpoint annuity purchase rates published by Brentwood Advisors, discounted against the cash flows of a sample retiree population, and compare with the same discounted cashflows using the FTSE Above Median Pension Discount Curve. Actual annuity pricing may vary substantially based on multiple factors.

Asset benchmarks used to measure asset returns are sourced from FactSet: MSCI ACWI index, Barclays Aggregate index, Barclays Intermediate Gov/Credit index, Barclays Long Gov/Credit index, Barclays Long Credit index, Barclays Long Treasury index, Barclays US Aggregate Intermediate Credit spread, Barclays US Aggregate Long Credit spread, and US Corporate AA Option Adjusted Spread.

Past performance is no guarantee of future results.

BOSTON | ATLANTA | CHARLOTTE | CHICAGO | DETROIT | LAS VEGAS | PORTLAND | SAN FRANCISCO
255 State Street, Boston, MA 02109 | P. 617.374.1300 | F. 617.374.1313
NEPC.com