

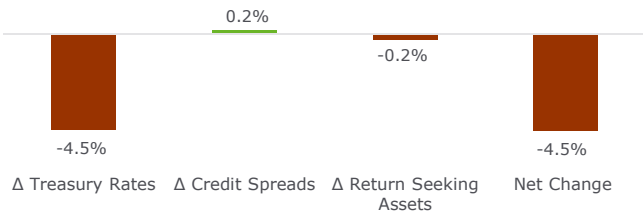


# NEPC PENSION FUNDED STATUS MONITOR SEPTEMBER 30 2019

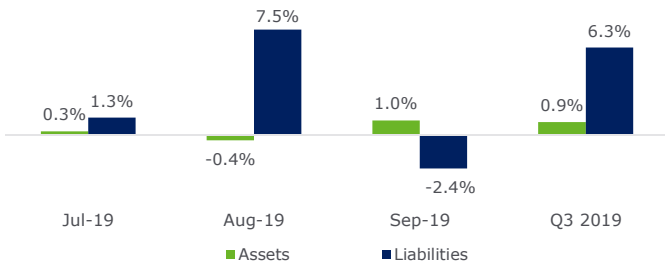
The funded status of typical corporate pension plans declined approximately 4.5% in the third quarter for a total-return-focused plan, while an LDI-focused plan saw a smaller decline of roughly 0.4%, according to NEPC's hypothetical open and frozen pension plans.

## HYPOTHETICAL OPEN PLAN / TOTAL RETURN

Funded Status Attribution

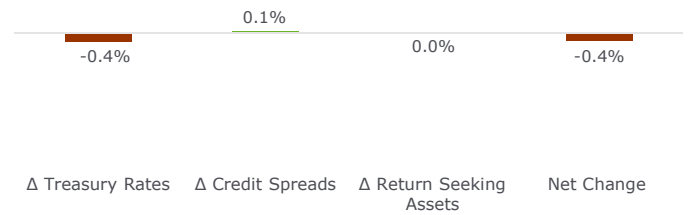


**Total-return plan suffered a net loss of funded status as liability valuations increased at a faster pace than asset growth.**

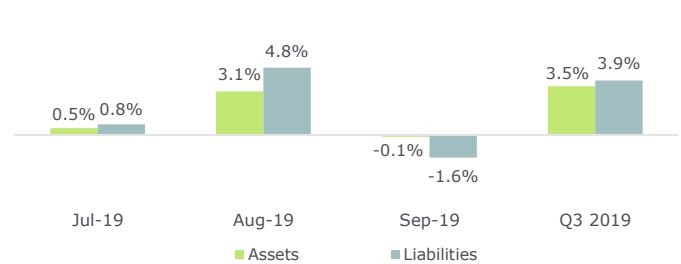


## HYPOTHETICAL FROZEN PLAN / LDI FOCUSED

Funded Status Attribution



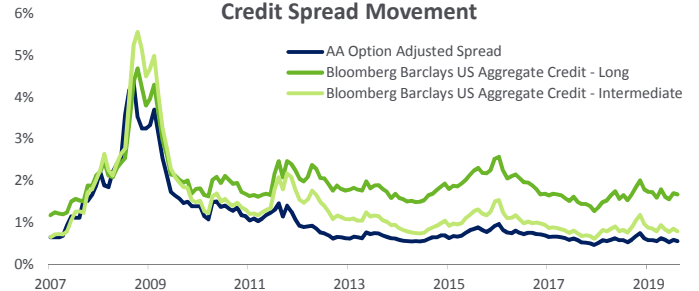
**LDI-focused plan saw a modest decrease to funded status as robust fixed-income returns offset rising valuations of liabilities. The plan is currently 72% hedged, as of September 30.**



## RATE MOVEMENT COMMENTARY

Treasury yields were volatile in the third quarter, with the 30-year Treasury declining by 40 basis points. With the moderate widening of spreads, the estimated discount rate for the quarter fell 37 basis points to 3.18% for the open total-return plan. Similarly, the discount rate of the frozen LDI-focused plan declined 35 basis points to end the quarter at 3.01%. The effect of the lower discount rates resulted in an increase in estimated valuations of liabilities of 6.3% and 3.9%, respectively, for the two plans, with varying impacts on durations. This liability increase was offset by asset growth that was mostly attributable to the outperformance of fixed-income assets fueled by lower rates. Portfolios that were positioned similarly to the LDI-focused plan saw significant gains due to long-duration fixed-income allocations.

Credit Spread Movement



### RETIREE BUYOUT INDEX

The Buyout Index for Retirees is estimated to be approximately 102.4% of PBO, as of September 30.

### RECENT INSIGHTS FROM NEPC

Taking Stock: What is the Yield Curve Signaling? Part 2  
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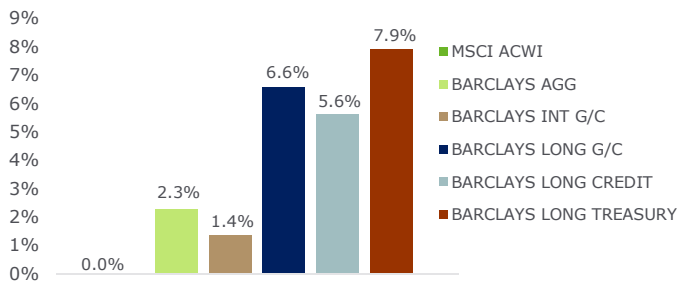
# NEPC PENSION FUNDED STATUS MONITOR

SEPTEMBER 30 2019

## PLAN SPONSOR CONSIDERATIONS

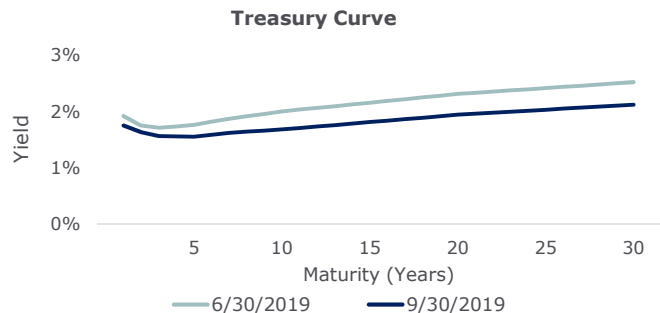
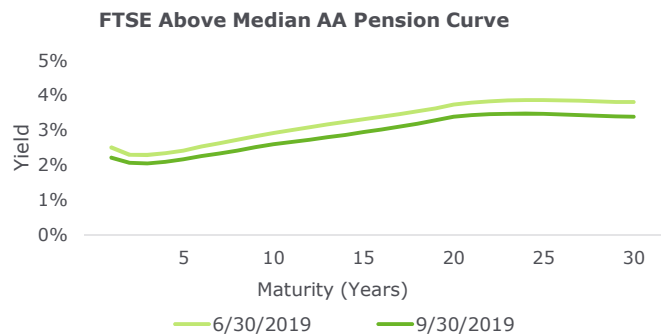
With falling discount rates and increasing liabilities, plan sponsors may find that they have minimum required contributions in 2020 - a first in many years. With current yields at historical lows and subdued inflation expectations, this may be an opportune time to take a fresh look at your plan's glide path to determine the best use of incoming capital.

## MARKET ENVIRONMENT AND YIELD CURVE MOVEMENT



Growth slowed down in the third quarter with the S&P 500 Index posting modest gains of 1.7% for the three months ended September 30. Non-US developed market equities lagged amid an [escalating trade war between the United States and China](#), with the MSCI EAFE Index falling 1.1%. Emerging market stocks took the biggest hit with losses of 4.2%, according to the MSCI EM Index. The MSCI ACWI was flat for the quarter.

Fixed-income markets were up 7.9% in the third quarter, according to the Barclays Long Treasury Index, as Treasury yields fell 40 basis points on the long-end of the curve and spreads widened modestly for the three months ended September 30.



## 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. Actual annuity pricing may vary substantially based on multiple factors.

Asset benchmarks used to measure asset returns are the MSCI ACWI index, Barclays Aggregate index, Barclays Intermediate Gov/Credit index, Barclays Long Gov/Credit index, Barclays Long Credit index, and Barclays Long Treasury index sourced from FactSet.

Past performance is no guarantee of future results.