NEPC PENSION MONITOR

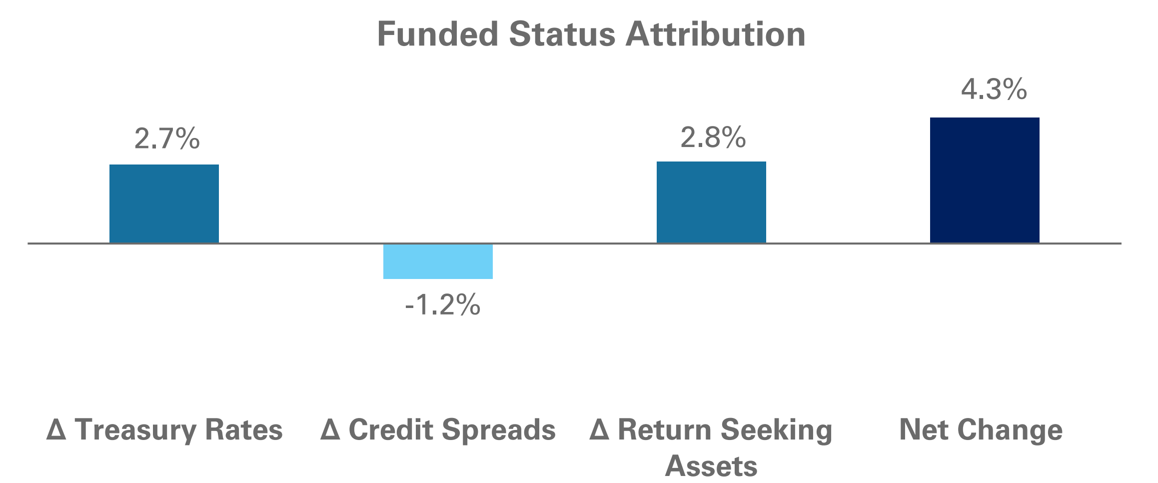
MAY 2025

In May, defined benefit pension plan sponsors likely experienced an increase in funded status on the heels of a rally in public stocks. The Treasury yield curve increased across all tenors for the month while credit spreads tightened. The 10-year yield increased to 4.41% and 30-year yield rose 26 basis points to 4.92%.

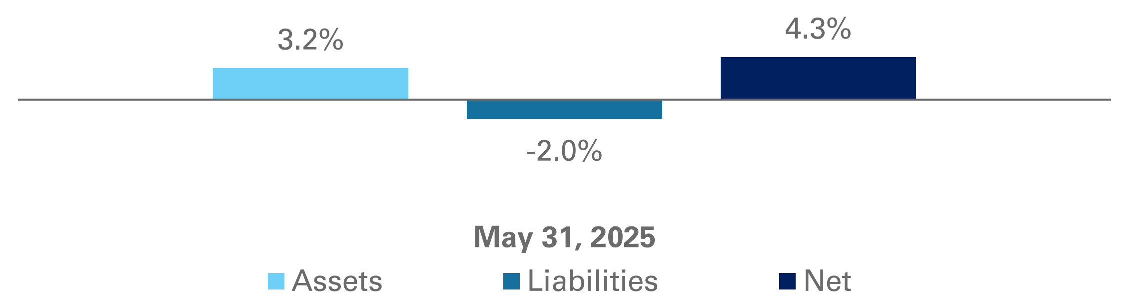
The increase in Treasury rates offset the contraction in credit spreads, resulting in higher pension discount rates and lower pension liabilities. The discount rates for NEPC's hypothetical pension plans increased about 14 basis points to 5.84% for the open total-return plan, while the discount rate for the frozen LDI-focused plan rose 14 basis points to 5.64%. NEPC's hypothetical total-return pension plan saw an uptick of 4.3% in funded status compared to a modest increase of 2.2% for our LDI-focused plan.

At NEPC, we anticipate continued market volatility and the potential for market disruption. Plan sponsors should remain diligent about monitoring sources of change in funded status versus expectations, as equities and interest rates are likely to remain volatile. This includes closely monitoring interest rate hedge ratios and allocating across the yield curve as interest rates change.

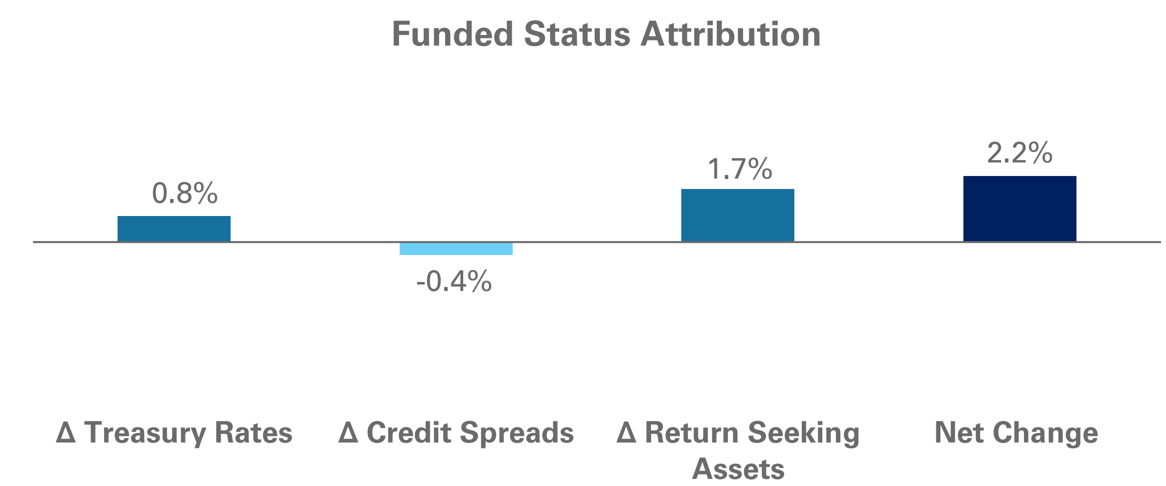
HYPOTHETICAL OPEN/TOTAL-RETURN PLAN



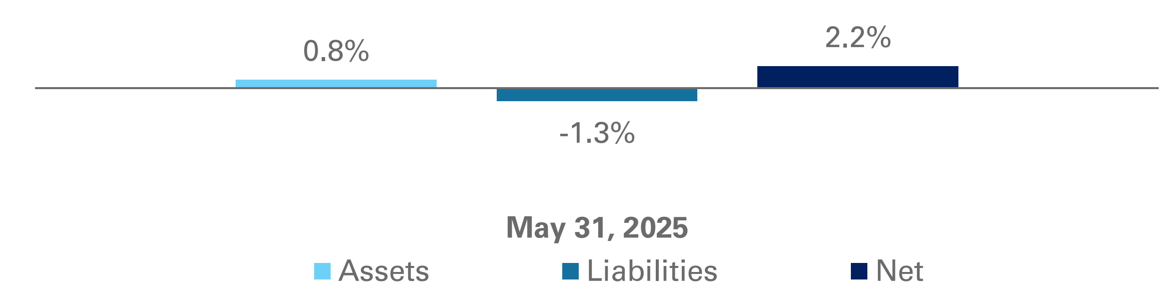
The funded status of the total-return plan increased due to the rise in Treasury rates and return seeking assets in May.



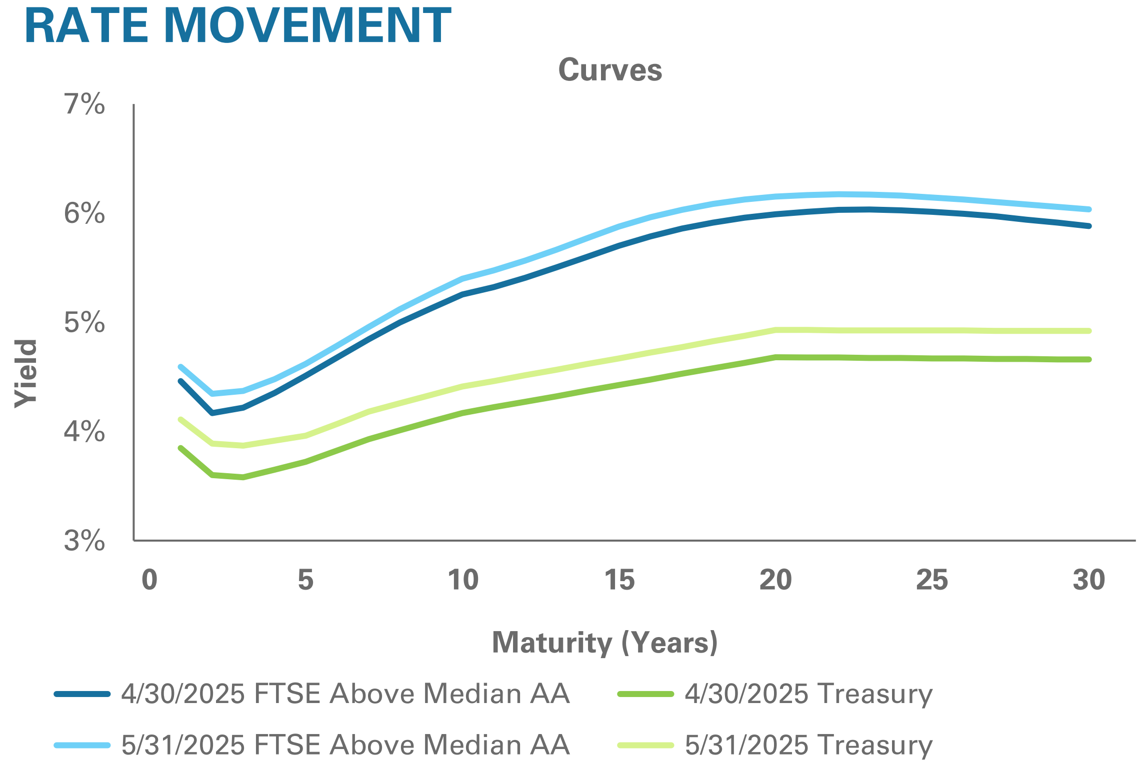
HYPOTHETICAL FROZEN/LDI-FOCUSED PLAN

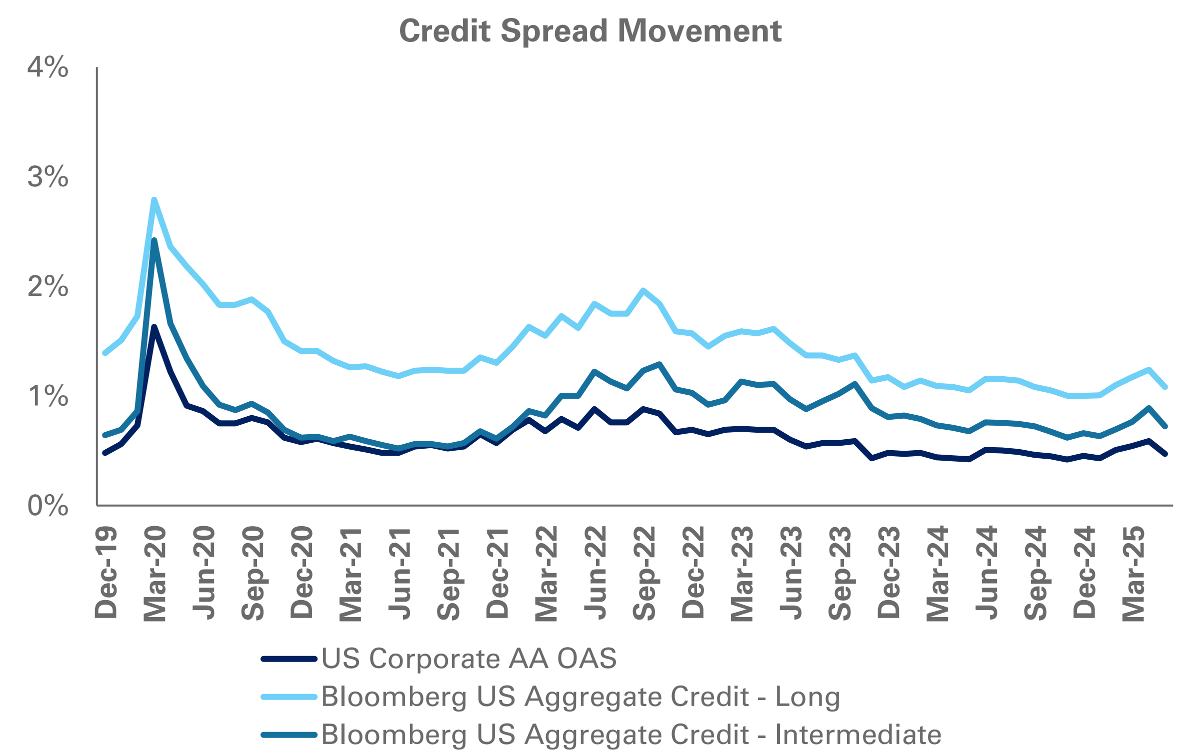


The funded status of the LDI-focused plan remained increased due to the rise in Treasury rates and return seeking assets. The plan is 95% hedged as of May 31.



RATE MOVEMENT





RETIREE BUYOUT INDEX

The Buyout Index for retirees is estimated to be approximately **106.1%** of PBO, as of May 31, 2025

RECENT INSIGHTS FROM NEPC

2025 NEPC Corporate Defined Benefit Peer Study and Survey

NEPC PENSION MONITOR

MAY 2025

RECENT CORPORATE PENSION HEADLINES

Due to a provision in the Bipartisan Budget Act of 2015 (BBA 2015), the PBGC premium filing due date for plan years beginning in 2025 may be accelerated to September 15, 2025 instead of the normal due date of October 15, 2025. This one-time provision will impact when cash needs to be raised to fund the premium payment. The PBGC premium due date is expected to revert back to October 15 in 2026.

PRT Litigation Update:

On March 31, 2025, Alcoa's motion to dismiss the lawsuit was approved, while Lockheed Martin's motion was denied. Decisions on other pending cases have yet to be finalized. NEPC remains committed to monitoring the ongoing litigation and will continue providing timely updates to clients.

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. The total-return plan reflects an open plan with a 13.5-year duration, while the LDI-focused plan represents a frozen plan with a 9-year duration as of December 31, 2024. The benefit payments are not rolled forward each month to maintain a stable demographic profile. 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 reset to 80% funded (Total-Return) and 100% funded (LDI-focused) as of December 31, 2024.

The total-return plan assumes an allocation of 60% global equity, 40% core bonds. The LDI-focused plan assumes an asset allocation of 30% global equity and 70% US IG credit and Treasuries constructed to match the beginning of year 90% hedge ratio, 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 compared 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.
All investments carry some level of risk. Diversification and other asset allocation techniques do not ensure profit or protect against losses.
This memo should not be considered customized investment advice. Please contact NEPC for advice specific to your investment program.
The information in this report has been obtained from sources NEPC believes to be reliable. While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within.
These materials were prepared by NEPC, LLC, an affiliate of Hightower Advisors, LLC. The opinions presented herein represent the good faith views of NEPC as of the date of this report and are subject to change at any time.