

5-Point Jump in Model Pension Plan's Funded Status

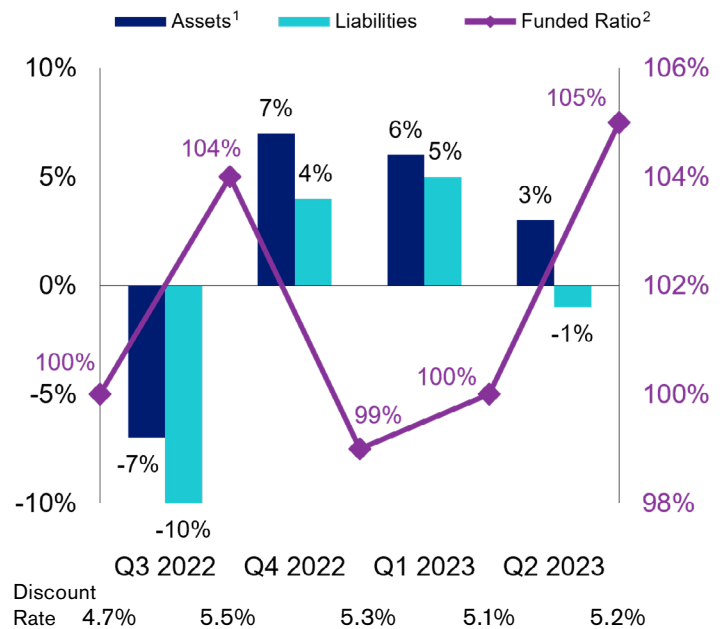
During the second quarter (Q2) of 2023, the funded status of the model pension plan examined in each issue of *Prism* rose by 5 percentage points, to 105 percent. (See Graph 1.) This increase in funded status is attributable to a 3 percent increase in assets and a 1 percent decrease in liabilities.

Changes in the yield curve

High-quality corporate bond yields increased by 25 basis points during Q2 — the net result of a 5 basis-point decrease in credit spreads and a 30 basis-point increase in U.S. nominal Treasury yields (see “Aspects of investment performance” on the next page for more details). This is illustrated in Graph 2 by the above-median curves.

Plans' liabilities are measured with the yield curve, determined by reference to high-quality corporate bond yields. Changes in the shape of the yield curve may have varying impact on plans' liabilities based on their maturity. (For background on yield curves, [read our primer.](#))

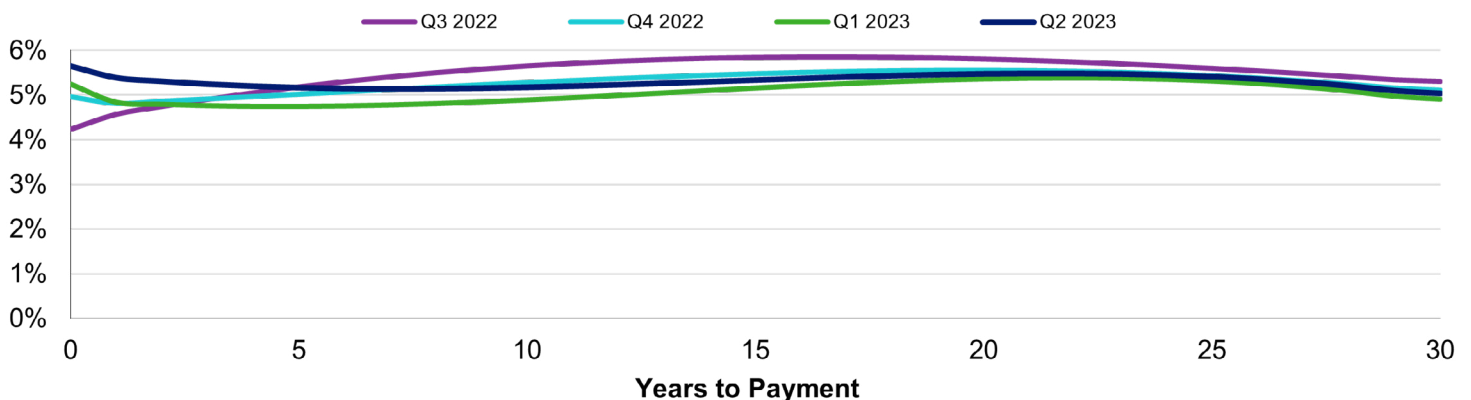
Graph 1: Change in Assets, Liabilities and Funded Ratio



¹ The model plan's portfolio has a simple, passively invested asset allocation of 45 percent to domestic equities, 15 percent to international equities and 40 percent to global bonds.

² This is the ratio of a defined benefit (DB) plan's assets to accrued liabilities. The funded ratio data in the graph is the ratio on the last day of each quarter. In May 2023 (after publication of the Q1 2023 *Prism*), the funded percentage for the model DB plan was reset as of January 1, 2023 to reflect the average actual funded percentage of large pension plans.

Graph 2: Changes in the Yield Curve*



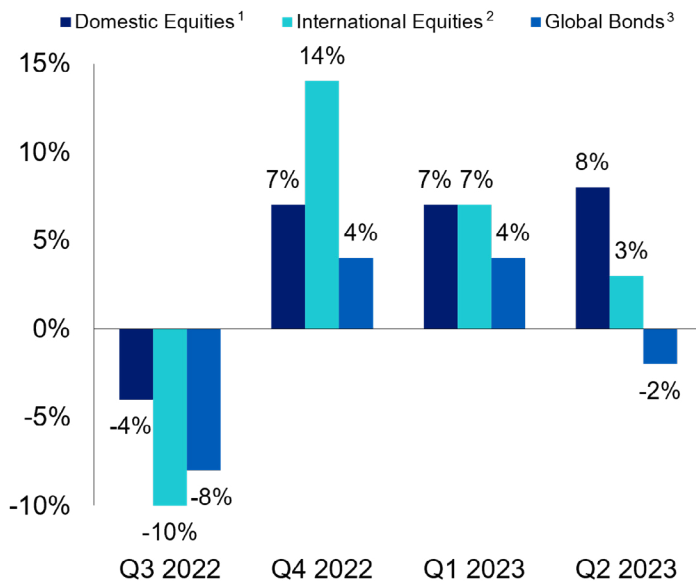
* This curve reflects the average yield, at each duration, for corporate bonds rated AA that have yields above the median for that duration.

Aspects of investment performance

This section discusses aspects of investment performance illustrated in Graph 3 that contributed to the model plan's 3 percent rise in asset value in Q2.

Both domestic and international equities had positive single-digit returns in Q2, with U.S. equities outperforming both developed international and emerging market equities. Suspension of the U.S. debt ceiling, moderating inflation and investor sentiment regarding commercial AI applications all contributed to the positive market performance. Emerging market equities were the poorest performer among the three, hampered by Chinese equities that are still struggling during the country's slow recovery from the COVID-19 pandemic. Domestically, growth stocks outperformed value, and large cap stocks outperformed small caps.

Graph 3: Investment Performance



¹ Russell 3000

² Morgan Stanley Capital International All Country World Index Ex-U.S. (MSCI ACWI Ex-U.S.)

³ Citigroup World Government Bond Index (WGBI) Unhedged, which includes U.S. and international bonds

Fixed-income returns were modestly negative both domestically and internationally, with interest rates ticking higher during the quarter. The Federal Open Market Committee (FOMC) increased the target range for the federal funds rate by 25 basis points during the quarter (to a range of 5.00 to 5.25 percent) but paused rate increases at its June meeting. This marked the first time without a rate increase in 11 meetings. Economic projections still indicate higher rates are possible before year-end as inflation has not yet returned to pre-2022 levels. The yield on the 10-year Treasury note ended Q2 up 33 basis points from three months ago, at 3.81 percent, about where it began the calendar year.

Important: examine your own DB plan's experience

Plan sponsors should examine changes in their own DB plans' assets, liabilities and funded ratios from the vantage point of both accounting and funding metrics.* Segal Marco Advisors and Segal can help employers project their DB plans' funded ratios through:

- **Deterministic modeling**, which projects results under a specific set of assumptions but does not offer insight into the likelihood of these outcomes
- **Stochastic asset-liability modeling (ALM)**, which offers a more complete view of the range of a plan's possible future statuses and can act as an early warning sign of potential challenges through a long-term time horizon

*Individual plan results will differ from this model for a host of reasons, including different funded positions, liability duration and contribution patterns.

For more information about how ALM can help you manage your plan, contact your Segal Marco Advisors investment consultant or your Segal retirement consultant — or get in touch with us via our websites: segalmarco.com and segalco.com.

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