

Another 8-Point Jump in Model Pension Plan's Funded Status

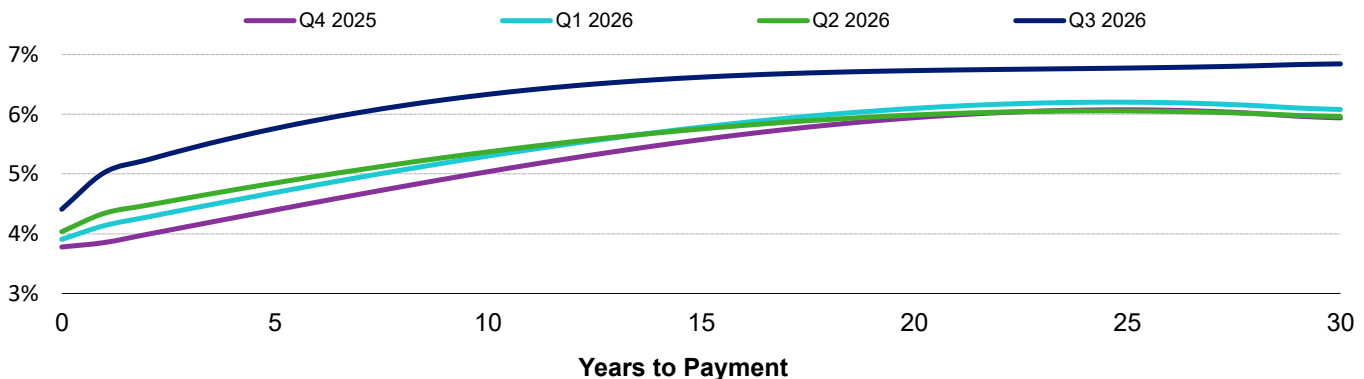
During the third quarter (Q3) of 2026, the funded status of the model pension plan examined in each issue of *Prism* improved by 8 percentage points, to 118 percent. (See Graph 1.) This increase in funded status, the second consecutive quarter with an 8-point increase, is primarily attributable to a 7 percent decrease in liabilities driven by higher interest rates.

Changes in the yield curve

High-quality corporate bond yields increased 85 basis points during Q3 — the net result of an 80 basis-point increase in U.S. nominal Treasury yields and a 5 basis-point increase in credit spreads (see “Aspects of investment performance” on the next page for more details). This is illustrated in Graph 2 by the above-median curves.

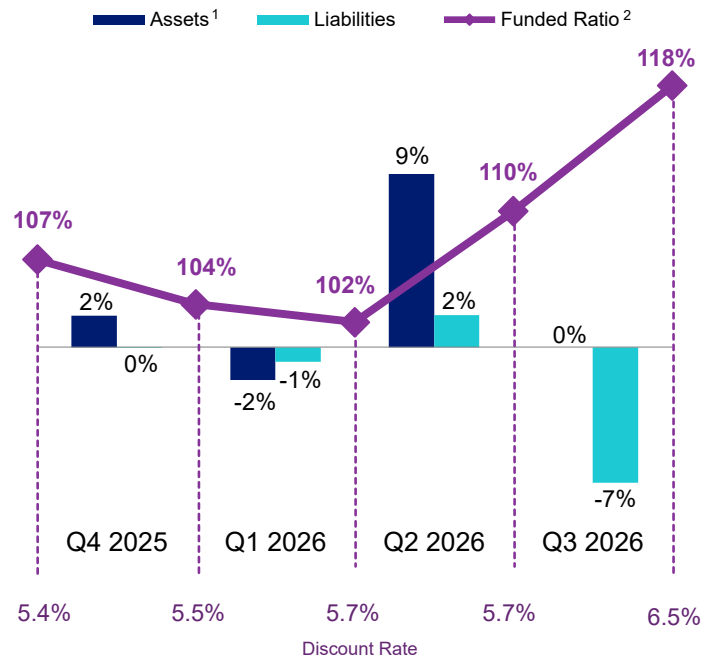
Plans' liabilities are measured with the yield curve, determined by reference to high-quality corporate bond yields. Changes in the shape of the yield curve may have varying impact on plans' liabilities based on their maturity. (For background on yield curves, [read our primer.](#))

Graph 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.

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 2026, after publication of the Q1 2026 *Prism*, the funded percentage for the model DB plan was reset as of January 1, 2026 to reflect the average actual funded percentage of large pension plans. As a result, the asset and liability returns for Q4 2025 do not align with the change in funded status as shown in the graph.

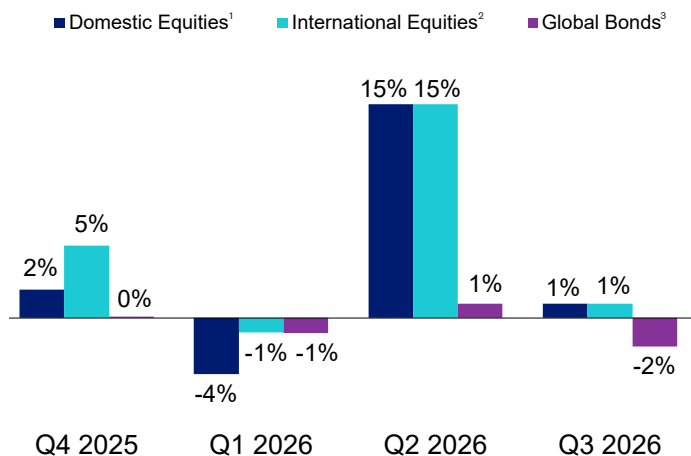
Disclosure: The "model plan" is a hypothetical model designed based on certain market information about investments. It is provided for illustrative purposes for actuarial clients.

Aspects of investment performance

The model plan's asset value decreased slightly during Q3 2026. This was the result of negative returns in global bonds, largely offset by positive returns in domestic equities and international equities, as illustrated in Graph 3.

For more information on investment performance during Q3 2026, [see our investment insights](#).

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

Disclosure: This performance is provided for illustrative purposes to show the investment performance of the indices included in the chart. These indices were selected as proxies for each market sector. You cannot invest in an index. These indices were selected with the benefit of hindsight and do not reflect the performance of any client of Segal.

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.* In Segal's view, successful retirement programs focus on [providing meaningful retirement income](#) while [maintaining stable contribution requirements](#) and the long-term security of benefit payments. In that context, a plan's market-based funded status can serve as an indicator of its financial position and have important implications. It may affect funding requirements and policy, shape investment strategy and influence decisions about potential benefit improvements, [risk reduction](#) and other longer-term plan objectives.

Because those considerations may shift as funded status changes, regular monitoring can help plan sponsors stay ahead of issues, evaluate opportunities and make more informed decisions. Ongoing coordination with actuarial and investment advisors can help ensure that both short-term and long-term strategies remain aligned with both the plan's financial condition and the plan sponsor's objectives.

Segal can also 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 retirement consultant — or get in touch with us via our website: segalco.com.

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