

Model Plan Funded Status Increases 5 Points

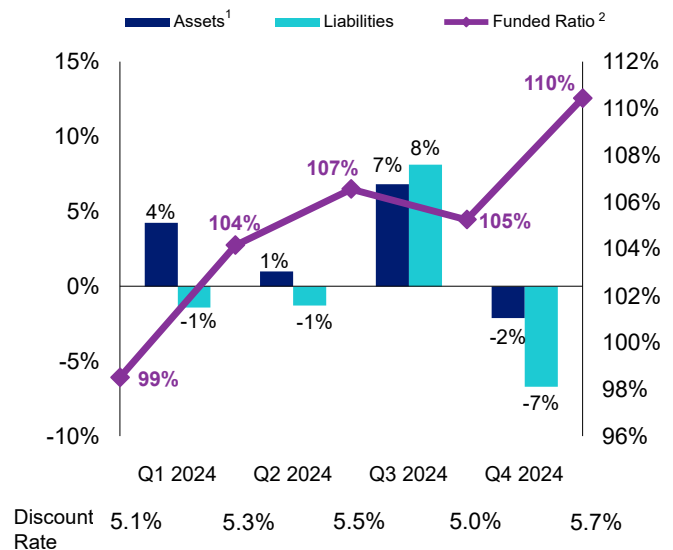
During the fourth quarter (Q4) of 2024, the funded status of the model pension plan examined in each issue of *Prism* rose by 5 percentage points, to 110 percent. (See Graph 1.) This increase in funded status is attributable to a 7 percent decrease in liabilities, partially offset by a 2 percent decrease in assets.

Changes in the yield curve

High-quality corporate bond yields increased by 65 basis points during Q4 — the net result of a 70 basis-point increase in U.S. nominal Treasury yields and a 5 basis-point decrease 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 1: Change in Assets, Liabilities and Funded Ratio

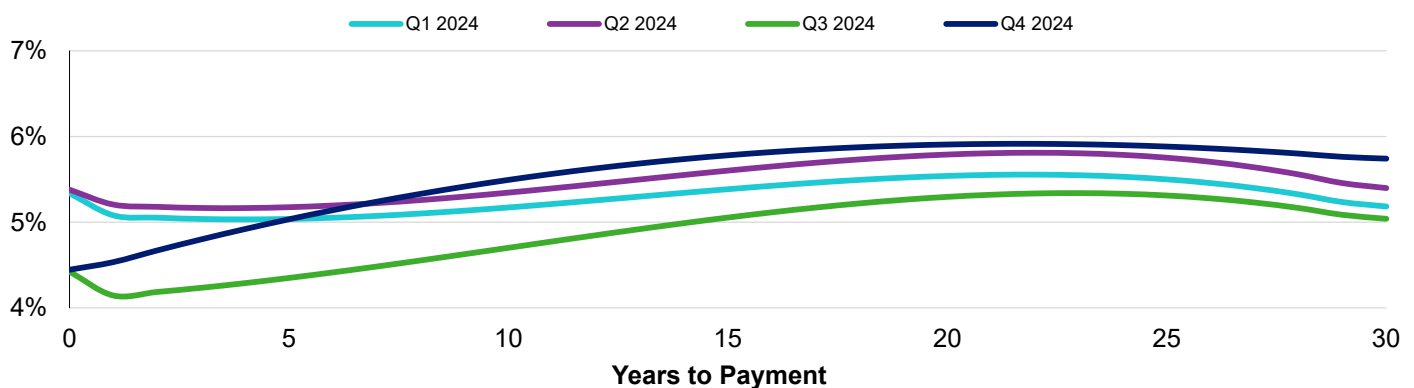


¹ The model plan’s portfolio has a simple, passively invested asset allocation of 45 percent to domestic equities, 15 percent to international equities and 40 percent to global bonds.

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 2024 (after publication of the Q1 2024 *Prism*), the funded percentage for the model DB plan was reset as of January 1, 2024 to reflect the average actual funded percentage of large pension plans. As a result, the asset and liability returns for Q4 2023 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.

Graph 2: Changes in the Yield Curve*



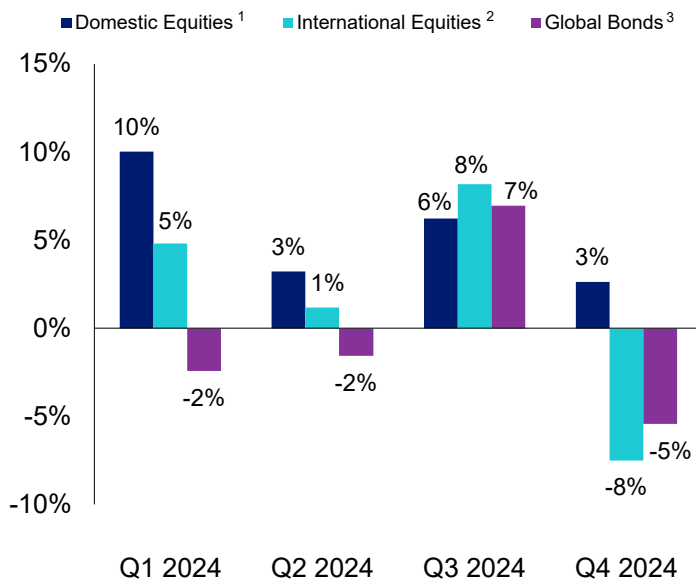
* This curve reflects the average yield, at each duration, for corporate bonds rated AA that have yields above the median for that duration.

Aspects of investment performance

This section discusses aspects of investment performance illustrated in Graph 3 that contributed to the model plan's 2 percent decrease in asset value in Q4.

Domestic equities had positive returns for a fifth consecutive quarter, closing out another strong calendar year for U.S. stocks. Internationally, equity market performance was poor, with both developed international stocks and emerging market stocks posting negative returns for the quarter that fell well short of domestic equities. International market equities were hindered by a U.S. dollar that appreciated materially against most currencies. Domestically, growth stocks outperformed value stocks, and large-cap stocks outpaced small caps. The U.S. election was the biggest economic story of the quarter. The fact that the election was resolved without much controversy no doubt was a tailwind to financial markets.

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.

At their December meeting, the Federal Open Market Committee announced a third consecutive rate cut that was widely anticipated: by 25 basis points, lowering the target range for the federal funds rate to 4.25-4.50 percent. They also provided forward guidance that anticipates much slower rate easing during 2025. This caused markets to pull back somewhat during the second half of December.

Fixed income returns were mostly negative around the globe, following interest rates that moved higher after many central banks (including in the U.S.) appear to be nearing the end of their rate-easing cycles. Domestically, the Bloomberg U.S. Aggregate Bond index was down about 3 percent, with longer duration bonds doing worse. Futures markets are anticipating one or two more rate cuts during 2025. The yield on the 10-year Treasury note ended Q4 up 77 basis points from the end of the previous quarter, at 4.58 percent.

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

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