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US pension funding ratios increased over the first quarter of 2019

Legal & General Investment Management America, Inc. (LGIMA) announced today in its Pension Fiscal Fitness Monitor, a quarterly estimate of the change in health of a typical US corporate defined benefit pension plan, that pension funding ratios increased over the first quarter of 2019. LGIMA estimates the average funding ratio improved from 84.4% to 85.6% over the quarter based on market movements.

The Pension Fiscal Fitness Monitor showed that pension funding ratios rose over the quarter. Global equity markets increased by 12.33% and the S&P 500 increased 13.65%. Plan discount rates decreased by 42 basis points, as Treasury rates decreased 23 basis points and credit spreads tightened 19 basis points. This resulted in a 7.04% increase in plan liabilities. Overall, plan assets with a traditional “60/40” asset allocation rose 8.54%, resulting in a 1.18% increase in funding ratios over the first quarter of 2019.

Ciaran Carr, senior solutions strategist at LGIMA, said, “We estimate that funding ratio levels for the typical plan with a traditional asset allocation increased over the first quarter, largely due to assets outperforming liabilities.”

Carr added, “Many clients continue to focus on hedging interest rate and credit spread risk inherent in plan liabilities. Doing so can help reduce funded status volatility, which is a key metric of risk for many defined benefit pension plans. As clients continue to move along their glidepath, completion management and other custom hedging strategies have increased in popularity across the industry. Tailoring the fixed income more toward the plan’s liabilities has helped develop an outcome-orientated approach to their investment strategy while helping support potential end-game objectives, such as pension risk transfers or self-sufficiency.”

The Pension Fiscal Fitness Monitor assumes a typical liability profile and 60% global equity/40% aggregate bond (“60/40”) investment strategy, and incorporates data from LGIMA research, ICE indicies, and Bloomberg.

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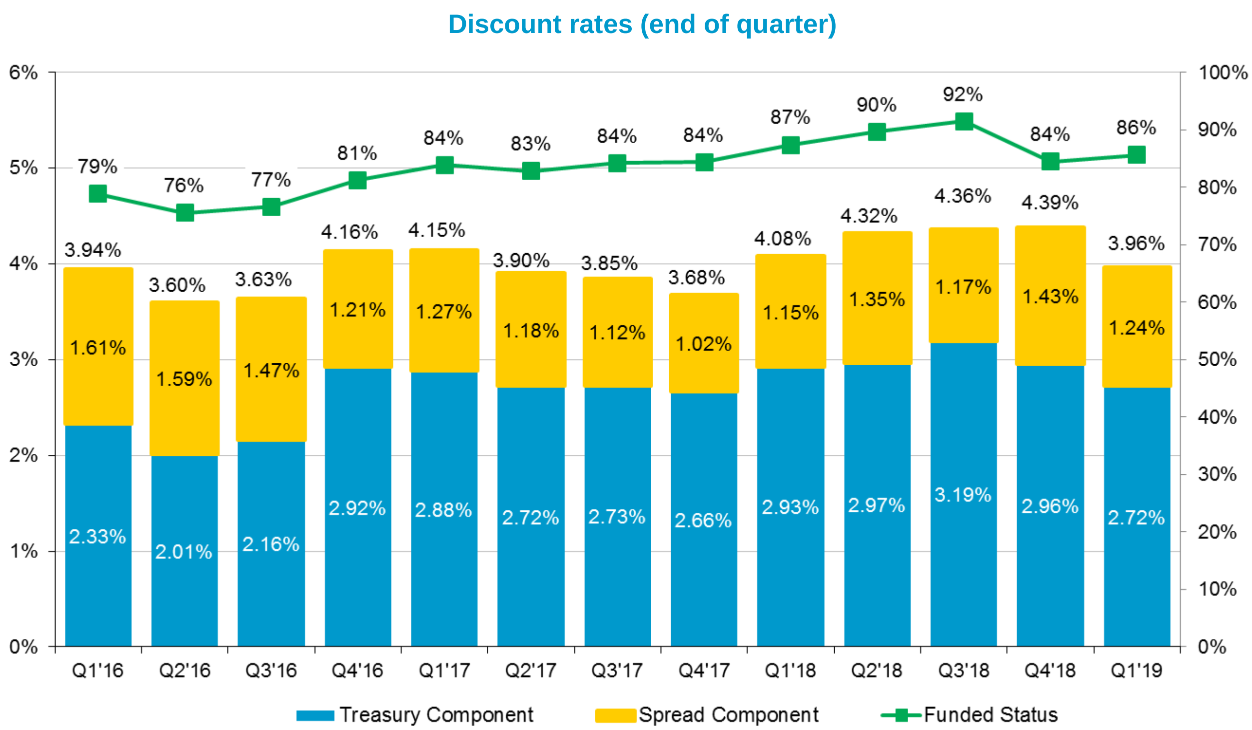
About LGIMA: Legal & General Investment Management America, Inc. (LGIMA) is a Chicago-based registered investment advisor which specializing in the design and management of investment solutions across active fixed income, index strategies, multi-asset and liability driven investment (LDI) for the US institutional market. With over $175 billion in assets under management as of December 31, 2019, LGIMA is a wholly-owned subsidiary of Legal & General Investment Management (Holdings) Ltd. (LGIM(H)), which also owns its affiliates Legal & General Investment Management Ltd. and LGIM International Ltd. Legal & General’s worldwide assets under management are approximately $1.3 trillion as of December 31, 2017. In May 2014, LGIMA became a wholly owned subsidiary of Legal & General Investment Management US (Holdings), Inc. (LGIMUS(H)) which is wholly owned by LGIM(H).

Pension funded status market summary:

- Increasing Liability values offset by the positive asset portfolio returns (composed of a 60/40 mix of global equities and US Aggregate bonds), led to funded ratios increasing
- Equity markets rallied, with global equities up 12.33% and the S&P 500 up 13.65%
- Treasury rates decreased by 23 basis points as credit spreads tightened 19 basis points

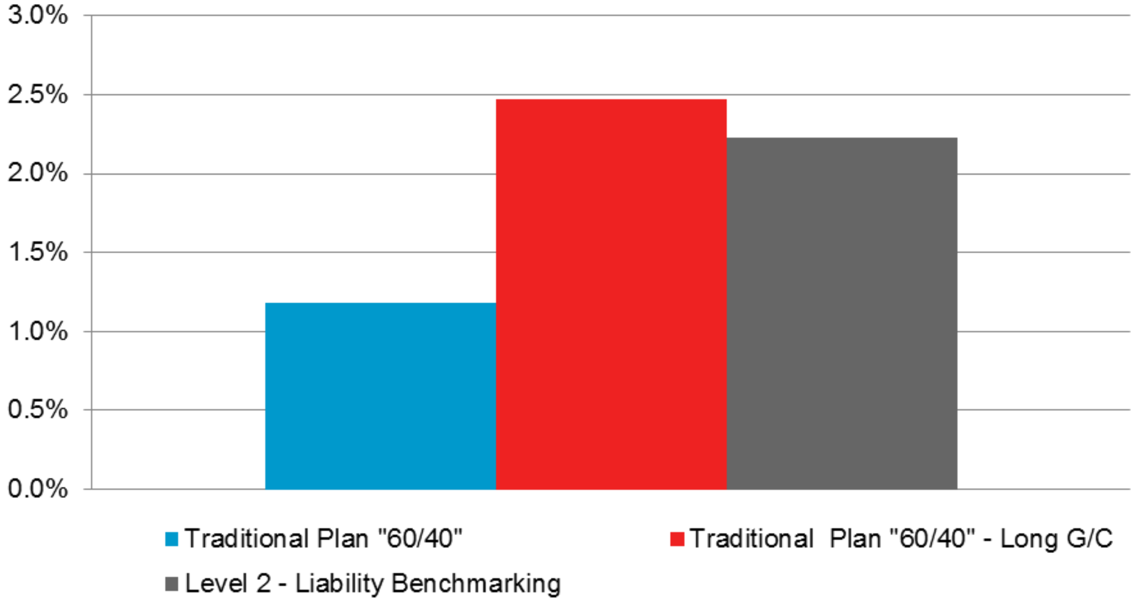
Funded status risk	Q1 2019
Equities	⬆
Interest rates	⬇
Credit spreads	⬇

Source: LGIMA, ICE indices, and Bloomberg



Source: LGIMA, ICE indices, and Bloomberg

Funding ratio performance of select pension investment strategies (over the quarter):



Source: LGIMA, ICE indices, and Bloomberg

The Pension Fiscal Fitness Monitor measures the historical market-related funding ratio performance of the traditional "60/40" investment strategy and highlights a few different approaches to implementation.

For each of the three approaches to implementation, we analyze how funding ratio performance would have changed for two different levels of equity exposure – 60% and 40%. We define two different LDI approaches as follows:

- Traditional: Allocating 60% to equities and 40% to either aggregate fixed income or Long G/C
- Level 2 LDI: Custom liability benchmark and derivative overlay designed within a total portfolio context
    - Level 2 implementation shown for comparison purposes and is chosen based upon the funding ratio of "a typical US corporate defined benefit pension plan" as of the beginning of the quarter

Traditional	Equity	LHA
60/40 Aggregate	60% MSCI AC World	40% Barclays Aggregate
60/40 Long G/C	60% MSCI AC World	40% Barclays Long Government/Credit
Level 2		
Level 2: 40% Equities / 90% IR Hedge	40% MSCI AC World	33% Barclays Long Credit A-AAA, 27% Treasuries and Futures