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US pension funding ratios increase over the second quarter of 2018

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 rose over the second quarter of 2018. LGIMA estimates the average funding ratio rose from 87.4% to 89.7%.

Over the quarter, global equity markets increased by 0.79% and the S&P 500 increased 3.43%. Plan discount rates increased by 24 basis points, as Treasury rates increased 4 basis points and credit spreads widened 20 basis points. Overall, liabilities for the average plan fell 2.17%, while plan assets with a traditional “60/40” asset allocation increased 0.41%, resulting in a 2.3% increase in funding ratios over the second quarter of 2018.

Ciaran Carr, Senior Solutions Strategist at LGIMA, said, “We estimate that funded ratio levels for the typical plan with a traditional asset allocation increased over the second quarter, as positive equity performance was coupled with a rising discount rate, largely due to weakness in credit spreads. This is an optimal outcome for pension plans, as plan assets increased while liability values decreased.”

Carr added, “We continue to see an uptick in demand for more customized strategies to help hedge interest rate risk and lock in funding ratio gains after benefitting from a strong increase in discount rates. Completion management and option-based hedging strategies remain in high demand, while clients continue to move assets into fixed income and synthetically replicate equity exposure. We have also seen an increase in the demand for custom credit strategies, particularly from plans focusing on a pension risk transfer or self-sufficiency strategies.”

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, Bank of America Merrill Lynch and Bloomberg.

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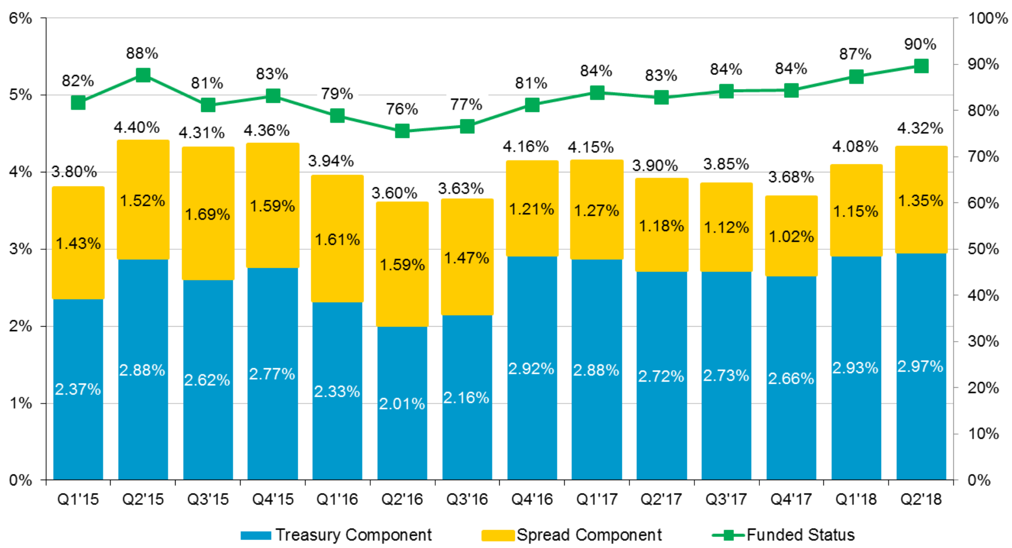
About LGIMA: Legal & General Investment Management America, Inc. (LGIMA) is a Chicago-based registered investment advisor which specializing in the design and management of investment solutions across active fixed income, index strategies, multi-asset and liability driven investment (LDI) for the US institutional market. With over $174.8 billion in assets under management, 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:

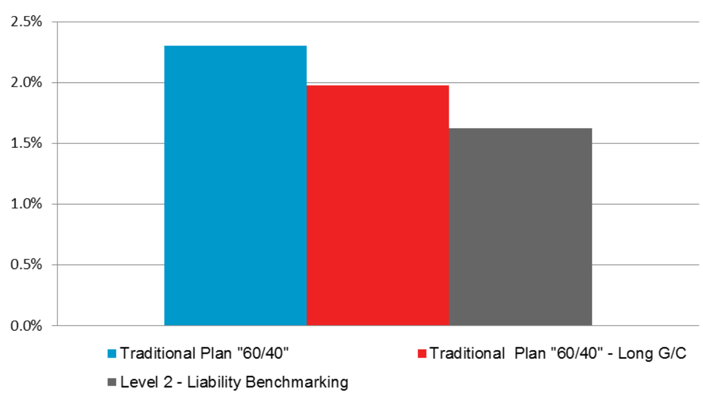
- The decrease in liability values paired with positive asset portfolio returns (composed of a 60/40 mix of global equities and aggregate bonds), led to funded ratios increasing
- Equity markets increased, with global equities up 0.79% and the S&P 500 up 3.43%
- Average pension discount rates increased 24 basis points over the second quarter; Treasury rates increased by 4 basis points while credit spreads widened 20 basis points

Funded status risk	Q2 2018
Equities	
Interest rates	
Credit spreads	

Discount rates (end of quarter)



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



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