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US pension funding ratios decreased over the third 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 decreased over the third quarter of 2019. LGIMA estimates the average funding ratio declined from 83.1% to 79.2% over the quarter based on market movements.

The Pension Fiscal Fitness Monitor showed that pension funding ratios regressed over the quarter. Equity markets were range bound, with Global Equities increasing 0.1% and the S&P 500 improving 1.7%. Plan discount rates were estimated to have decreased 33 basis points, as Treasury rates fell 39 basis points on average and credit spreads widened 6 basis points. These changes resulted in a 5.9% increase in plan liabilities. Overall, plan assets with a traditional “60/40” asset allocation rose 1.0%, resulting in a 3.9% decrease in funding rations over the third 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 decreased over the third quarter, primarily due to plan liabilities increasing at a faster pace than plan assets.”

Carr added, “The third quarter saw significant volatility in US interest rates. Plans that adopted a well-designed LDI program were likely better protected; as a result, those plans experienced fewer drawdowns in funded status over the period. Adopting a more tailored fixed income allocation through a Completion framework can help protect funded status drawdowns and complement a plan’s de-risking glidepath.”

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 registered investment advisor specializing in designing and managing investment solutions across active fixed income, index strategies, multi-asset, liability driven investment, and sustainable investment strategies for the US institutional market. With over $202 billion in assets under management as of June 30, 2019, LGIMA is a wholly-owned subsidiary of Legal & General Investment Management US (Holdings) Inc., which is in turn, wholly owned by Legal & General Investment Management (Holdings) Ltd. (LGIM(H)). LGIM(H) also owns our affiliates Legal & General Investment Management Ltd. and LGIM International Ltd. Legal & General's worldwide assets under management are approximately $1.4 trillion as of June 30, 2019. For more information on LGIMA, visit http://www.lgima.com/.

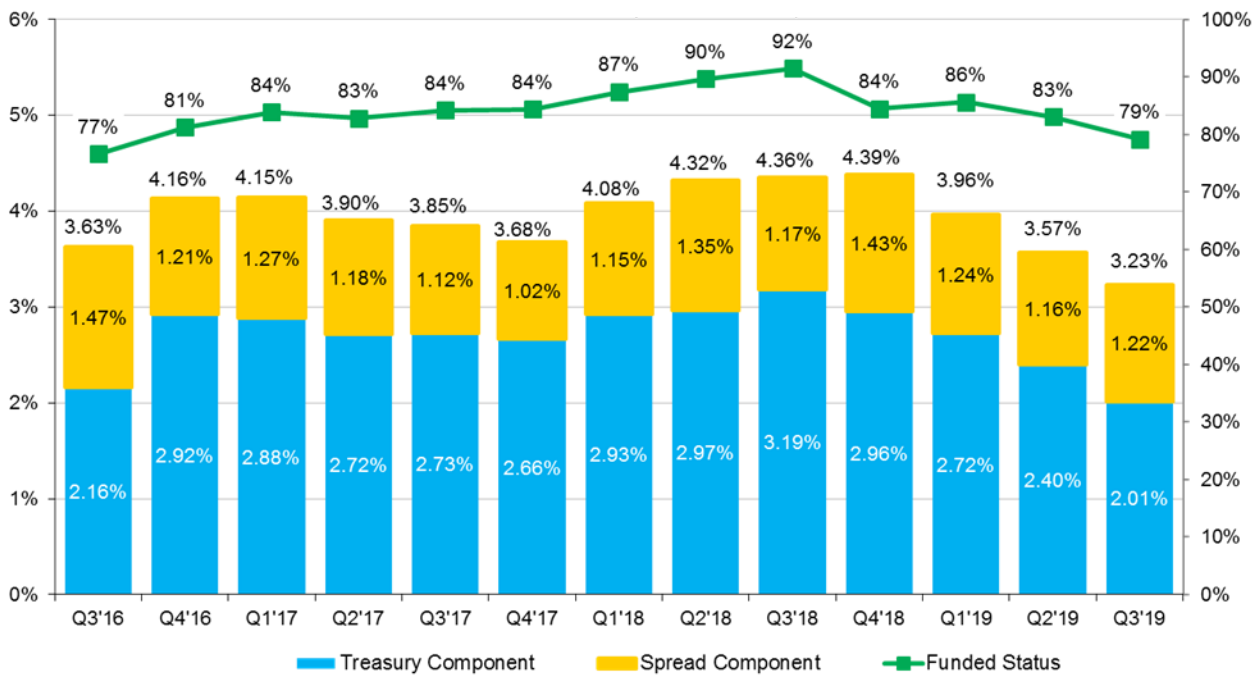
Pension funded status market summary:

- Positive asset portfolio returns (composed of a 60/40 mix of global equities and US Aggregate bonds) were offset by increasing Liability values, resulting in decreasing funding ratios
- Equity markets were range bound, with global equities up 0.10% and the S&P 500 up 1.70%
- Treasury rates decreased by 39 basis points as credit spreads widened 5 basis points

Funded status risk	Q3 2019
Equities	↑
Interest rates	↓
Credit spreads	↑

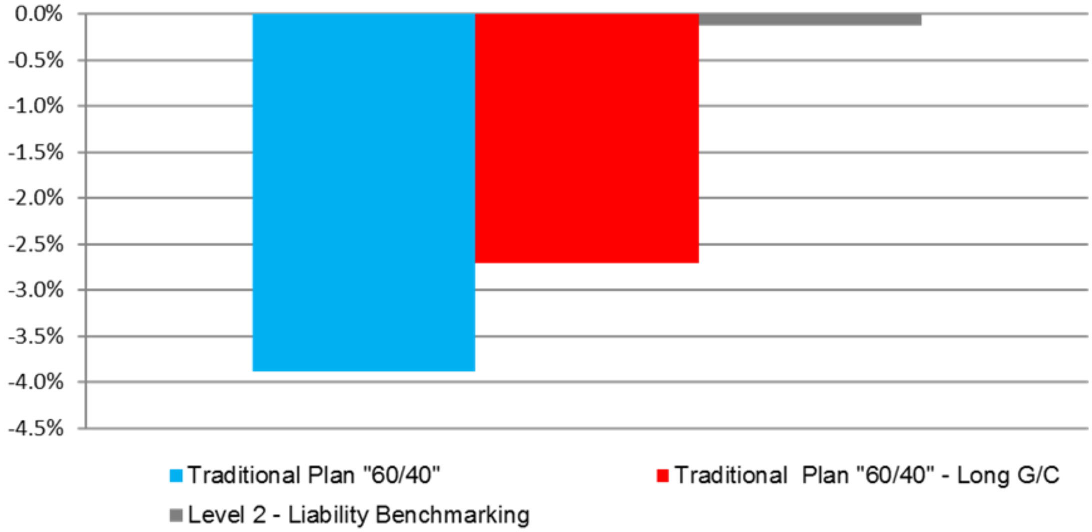
Source: LGIMA, ICE indices, and Bloomberg

Discount rates (end of quarter)



Source: LGIMA, ICE indices, and Bloomberg

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



Source: LGIMA, ICE indices, and Bloomberg as of September 30, 2019

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

Disclaimers