



2Q 2021

# Pension Fiscal Fitness Monitor

## US pension funding ratios decreased over the second quarter of 2021

LGIM America 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 second quarter of 2021. LGIM America estimates the average funding ratio declined from 90.7% to 89.9% over the quarter based on market movements.

Equity markets saw persistent gains over the quarter with global equities<sup>1</sup> increasing 7.5% and the S&P 500 increasing 8.6%, resulting in plan assets with a traditional “60/40” asset allocation rising 5.2% in total. However, falling discount rates offset equity gains by declining roughly 45 basis points over the quarter, contributing to higher liability values. These changes resulted in a 0.8% decrease in funding ratio over the second quarter of 2021.

Chris Wroblewski, Solutions Strategist, said, “We estimate that funding ratio levels for the typical plan with a traditional asset allocation decreased over the second quarter, primarily due to lower discount rates leading to higher liability values, offsetting the strong global equity performance.”

Wroblewski added, “The second quarter saw liability increases outpace the positive equity performance, resulting in lower funded status outcomes. The decline in Treasury yields over the quarter led to lower discount rates, and ultimately, drove liability values higher. Volatility experienced in the Treasury market shows the importance of decoupling risks that can impact pension plan funded status, such as interest rate and credit spread risk. Separating these risks can help plans design and implement a more appropriate LDI strategy. Adopting a completion framework is one-way pension plans can manage uncompensated risk more effectively through volatile market environments.”

The Pension Fiscal Fitness Monitor assumes a typical liability profile using an approximate duration of 12 years and 60% MSCI AC World Total Gross Index/40% Bloomberg Barclays US Aggregate Index (“60/40”) investment strategy, and incorporates data from LGIM America research, ICE indices and Bloomberg.

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### About LGIM America

LGIM America (LGIMA) was founded in 2006 with the purpose of helping people achieve their long-term financial goals. We offer a range of strategies to help our institutional clients (corporations, healthcare agencies, non-profit, education, public plans and Taft-Hartley) manage their investment objectives, which can range from market-based alpha-oriented strategies to those that are designed to be more liability-centric, derivative overlays, or indexed solutions. Encouraging a diverse and inclusive environment coupled with a solutions-focused culture allows us to increase our breadth of knowledge and the likelihood of improved client outcomes and stronger financial performance. We have teams of experienced, innovative professionals committed to helping plan sponsors meet their pension promises, managing investment exposures efficiently to seek enhanced returns while mitigating risks, and working to generate returns while making a positive societal difference. As of March 31, 2021, LGIM America had \$241 billion assets under management.

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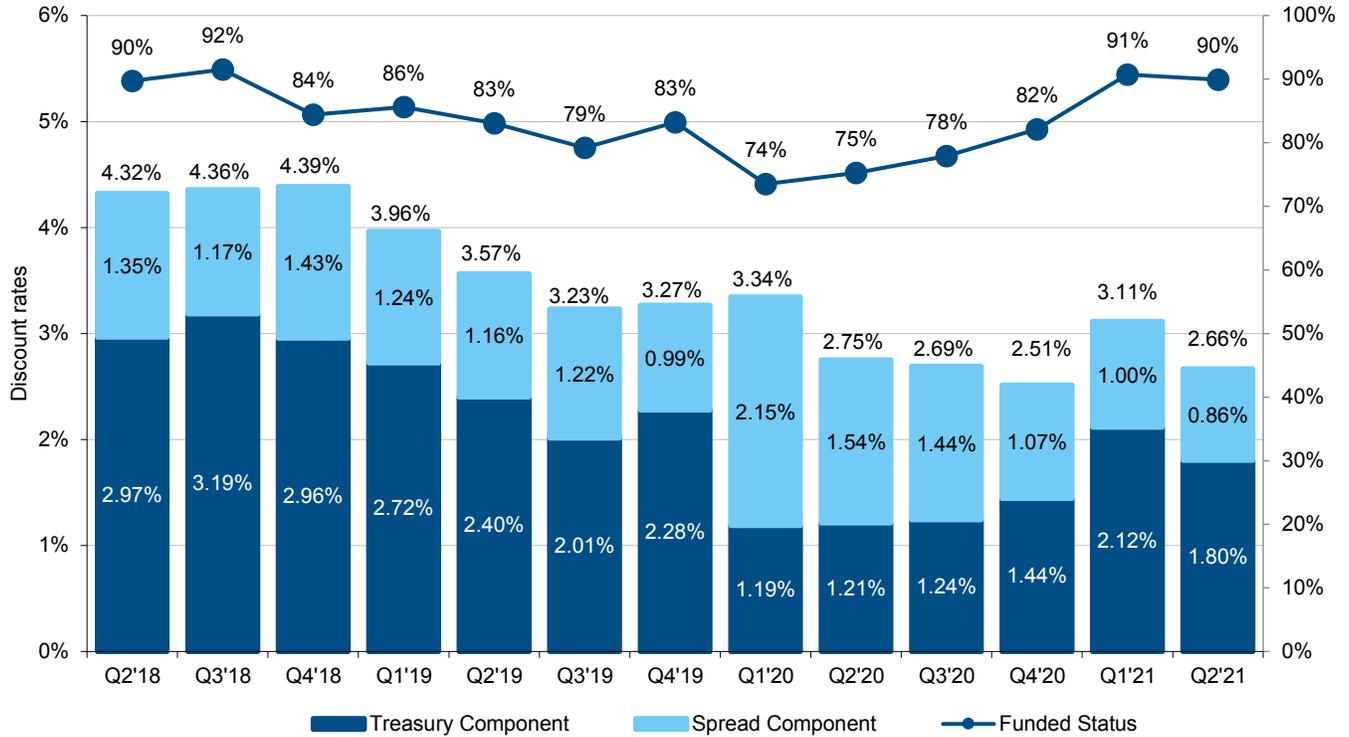
**Pension funded status market summary:**

- Positive asset portfolio returns (60/40) were more than offset by increasing Liability values, resulting in a lower funded status for the average plan
- Equity markets were strong with global equities up 7.5% and the S&P 500 up 8.6%

Funded status risk	Q2 2021
Equities	↑
Interest rates	↓
Credit spreads	↓

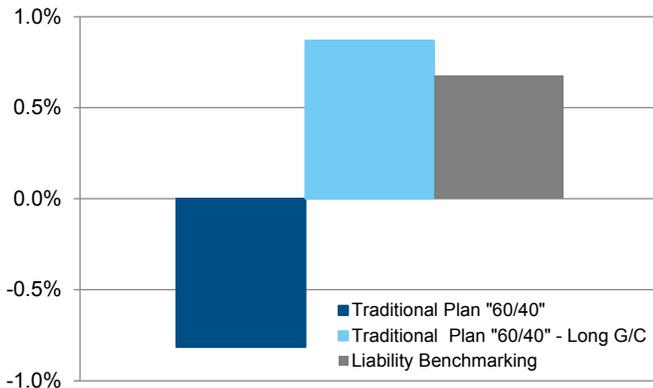
Sources: LGIM America, ICE indices and Bloomberg. Data as of June 30, 2021.

**Discount rates (end of quarter)**



Sources: LGIM America, ICE indices and Bloomberg. Data as of June 30, 2021.

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



Sources: LGIM America, ICE indices and Bloomberg. Data as of June 30, 2021.

**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 global equity exposure – 60% and 40%. We define two different LDI approaches as follows:

- Traditional: Allocating 60% to global equities and 40% to either aggregate fixed income or Long G/C
- Liability Benchmarking: Custom liability benchmark and derivative overlay designed within a total portfolio context
  - Custom 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	Liability Hedging Assets
60/40 Aggregate	60% MSCI AC World Total Gross Index	40% Bloomberg Barclays US Aggregate Index
60/40 Long G/C	60% MSCI AC World Total Gross Index	40% Bloomberg Barclays US Long Gov/Credit Index
Liability Benchmarking		
40% Equities / 90% IR Hedge	60% MSCI AC World Total Gross Index	33% Bloomberg Barclays US Long Credit A-AAA Index, 27% Treasuries and Futures

1. “Global equities” referred to here is represented by the MSCI AC World Total Gross Index

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These results are based on simulated or hypothetical performance results that have certain inherent limitations. Unlike the results in an actual performance record, these results do not represent actual trading. Because these trades have not actually been executed, these results may have under- or over-compensated for the impact, if any, of certain market factors, such as lack of liquidity. Simulated or hypothetical trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. No representation is being made that any account will or is likely to achieve profits or losses similar to these being shown.

Unless otherwise stated, references herein to “LGIM”, “we” and “us” are meant to capture the global conglomerate that includes Legal & General Investment Management Ltd. (a U.K. FCA authorized adviser), LGIM International Limited (a U.S. SEC registered investment adviser and U.K. FCA authorized adviser), Legal & General Investment Management America, Inc. (a U.S. SEC registered investment adviser) and Legal & General Investment Management Asia Limited (a Hong Kong SFC registered adviser). The LGIM Stewardship Team acts on behalf of all such locally authorized entities.

