DB Pulse // 1Q 2025 in Review

Research, regulations, returns and trends

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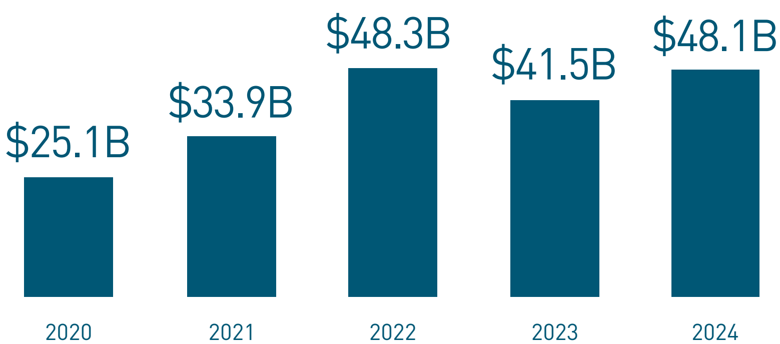
Corporate Dashboard

Discount Rate (%)

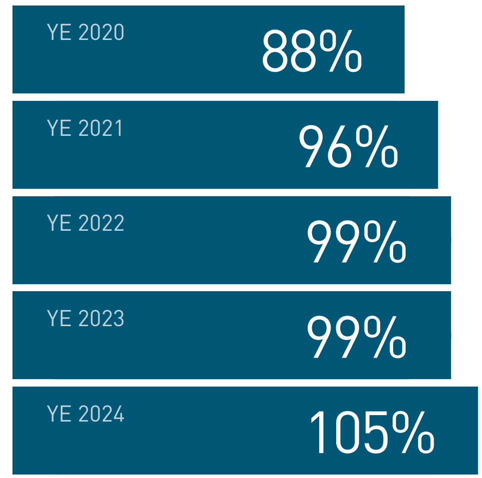
With the US Federal Reserve at a potential inflection point in its rate cutting cycle, sponsors may want to further decrease interest rate exposure and diversify their LDI portfolio.

US Single Premium Buy-Out Sales

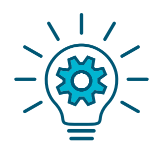


PRT transactions continued at a steady pace, but legal pressures could slow the trend.

Funded Ratio



The combination of lower liabilities and strong equity market gains improved funded status for most sponsors in 2024, with the **average large plan up 6%.**



Plan sponsors may want to consider a "hibernation" approach, and ensure their portfolio has sufficient return-seeking assets to keep pace with liability growth.

Sources: Top LHS: FTSE Pension Liability Index - Short Discount Rate. Top RHS: Milliman Pension Funding Index, January 2025, Milliman 2024 Corporate Pension Funding Study. Bottom LHS: LIMRA March 17, 2025.

Public Plan Spotlight

Public Pension Funded Ratio

75.5%
Funded status at
FYE 2023

80.2%
Funded status at
FYE 2024

- Solid equity returns in FY 2024 significantly improved public plan funded status. However, many plans still face large deficits, with nearly $1.4 trillion worth of deficit at FYE 2024.
- While better funded status may tempt some sponsors to reduce contributions or increase benefits, underfunded plans should stay the course with prudent contribution and design policies.

Asset Allocation

- Sponsors have increased allocations to alternatives and illiquid assets to help support expected return assumptions.
- Sponsors in cashflow negative positions should consider how to reduce illiquid positions over coming years to help meet benefit payment needs.

Expected Return on Assets Assumptions July 2024

4.31%	6.91%	8.25%
Minimum	Average	Maximum

Sources: Top LHS: Equable Pension Plan Funded Ratio Rankings 2024 – January 8, 2025, funding deficit noted from NASRA Public Fund Survey, November 2024. Top RHS: NASRA, Public Fund Survey November 2024. Bottom: MFS Analysis of 220 public plan expected return assumptions for FYE 2023 based on NASRA data as of July 2024.

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DB Regulatory and Legislative Happenings

PBGC Premiums Due Earlier

The PBGC issued Technical Update 25-1 which confirmed that PBGC premiums for plan years beginning in 2025 are generally due a month earlier than usual (September 15 for calendar year plans).

This early payment date has arisen because of a provision in the Bipartisan Budget Act of 2015 (BBA of 2015) that moved the due date up by one month to allow for premium payments to count as revenue for the prior fiscal year.

While this provision has been known since BBA of 2015 was passed, the practical application is now at hand for plan sponsors.

Risk Transfer Litigation Continues

Pension risk transfer litigation continued to gain traction with a class action lawsuit filed in January 2025 by a group of retirees against Verizon Communications and its independent fiduciary State Street Global Advisors. Unlike other PRT litigation, the annuity provider (Prudential in this case) has not been named as a defendant.

This suit comes on the heels of suits in 2024 that accuse the insurer involved in the deals with investing in lower quality, higher risk assets that increased risks to the retirees.

Potential Public Plan Design Changes

A recent proposal (HB 1602) in North Dakota would create a defined contribution plan for new state employees and allow for current employees who are covered by a defined benefit plan to be covered by the new DC plan.

The New Hampshire legislature proposed a similar bill (HN 581-FN) that would establish a DC plan for new state employees (currently most state employees are covered under a DB plan).

Relevant 2025 DB Plan Limits

PBGC flat rate premium: $106 per participant (up from $101 in 2024)

PBGC variable rate premium: $52 per $1000 of unfunded vested benefits (per participant cap of $717) (the rate has remained the same, but the cap has increased from $686 in 2024)

PBGC multiemployer plan flat rate premium: $39 (up from $37 in 2024)

401(a)(17) compensation limit: $350,000 (up from $345,000 in 2024)

Highly Compensated Employee threshold: $160,000 (up from $155,000 in 2024)

DB plan benefit limit under 415(b): $280,000 (up from $155,000 in 2024)

Sources: Premium Filing Due Date Change for 2025 Plan Years | Pension Benefit Guaranty Corporation, Verizon sued over $5.9B pension risk transfer deal with Prudential by ex-employees, American Society of Pension Professionals and Actuaries "DC Plans for New Public Employees in 2 States if Bills Enacted", January 29, 2025. Premium Rates | Pension Benefit Guaranty Corporation.

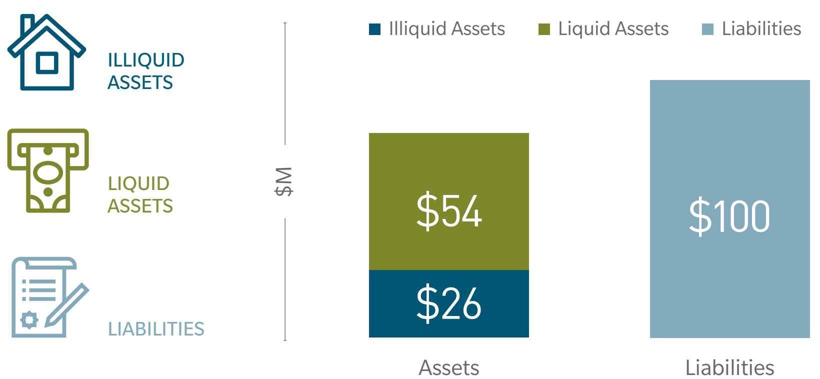
Looming Liquidity Pinch for Public Plans

PUBLIC

With many mature public plans at or near maximum allocations for alternative assets, liquidity risks could increase in coming years.

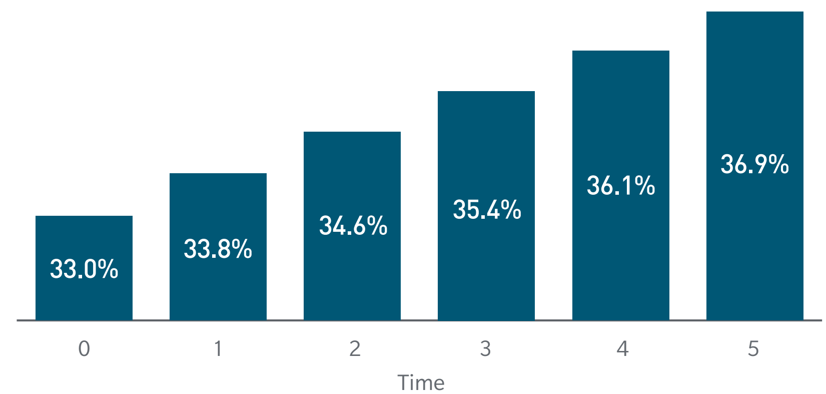
Consider the following example:

- Plan 80% funded.
- Allocation 67% liquid/ 33% illiquid assets *(e.g. private assets, real estate, etc.)*
- Plan has benefit payments exceeding employer and employee contributions.



Assuming benefits paid from contributions and liquid assets, the allocation to illiquid assets will increase over time, even as plan deficit is closed.

Projected Illiquid Assets as % of Total



The end result is that illiquid assets increase as liquidity needs continue to rise in a mature plan. Effect on asset allocation could be further exacerbated in a market stress scenario.

Sponsors should have a clear game plan on how to unwind illiquid positions to align with their cash flow profiles.

Source: MFS Analysis: For purposes of projection, discount rate and investment return assumed to be 7%. Benefit payments and contributions assumed to be $7M and $5M respectively. Service cost assumed to be $2M annually. Liabilities rolled forward using standard actuarial techniques. As shown on page 3, the average public DB plan asset allocation includes 25.8% of alternatives and 7.7% real estate, totaling approximately 33%.

Relevant Index Returns

As of March 31, 2025

BENCHMARK	10 YEARS	5 YEARS	3 YEARS	1 YEAR	YTD	3 MONTHS
BALANCE						
Illustrative derisked corporate DB	3.20%	1.13%	-0.64%	3.73%	2.36%	2.36%
Illustrative Public Plan	7.78%	12.19%	5.13%	6.71%	-0.56%	-0.56%
EQUITY						
S&P 500	12.50%	18.59%	9.06%	8.25%	-4.27%	-4.27%
Russell 2000®	6.30%	13.27%	0.52%	-4.01%	-9.48%	-9.48%
MSCI EAFE	5.40%	11.77%	6.05%	4.88%	6.86%	6.86%
MSCI Emerging Markets	3.71%	7.94%	1.44%	8.09%	2.93%	2.93%
FIXED INCOME						
Bloomberg US Aggregate	1.46%	-0.40%	0.52%	4.88%	2.78%	2.78%
Bloomberg US Government Credit Long	1.01%	-3.74%	-4.51%	1.72%	3.57%	3.57%
ALTERNATIVES						
Red Rocks Private Equity	8.58%	17.14%	5.67%	6.46%	-3.59%	-3.59%
Credit Suisse Hedge Fund Index	4.47%	7.12%	6.46%	8.66%	2.41%	2.36%
Bloomberg Commodity Index	2.77%	14.51%	-0.77%	12.28%	8.88%	8.88%
NCREIF Fund ODCE	5.64%	2.91%	-4.25%	2.13%	1.16%	1.16%
CORPORATE PLAN LIABILITIES						
FTSE Pension Liability Index Long	0.84%	-4.65%	-6.87%	-1.73%	1.70%	1.70%
FTSE Pension Liability Index Short	1.75%	-1.55%	-2.41%	2.02%	2.34%	2.34%

Past performance is no guarantee of future results. It is not possible to invest in an index.

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Source: SpAR, FactSet Research Systems Inc. Illustrative derisked corporate DB plan assumed to be 15% S&P 500, 5% MSCI EAFE, 25% Bloomberg US Aggregate, 55% Bloomberg US Government Credit Long Index. Illustrative Public plan assumed to be 30% S&P 500, 10% MSCI EAFE, 5% Russell 2000, 15% Bloomberg US Aggregate, 5% Bloomberg US High Yield, 18% Red Rocks Private Equity, 3% MSCI World Infrastructure, 8% NNCREIF Fund ODCE, 3% Bloomberg Commodity Index, 3% Cash.Corporate plan liabilities based on FTSE pension liability index as of 3/31/2025. Credit Suisse Hedge Fund Index returns as of 2/28/2025. Returns shown assume asset allocation rebalanced monthly.

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