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OCTOBER 2025

INSIGHT US PENSION MONITOR
SURPLUSES ARE CHANGING THE GAME

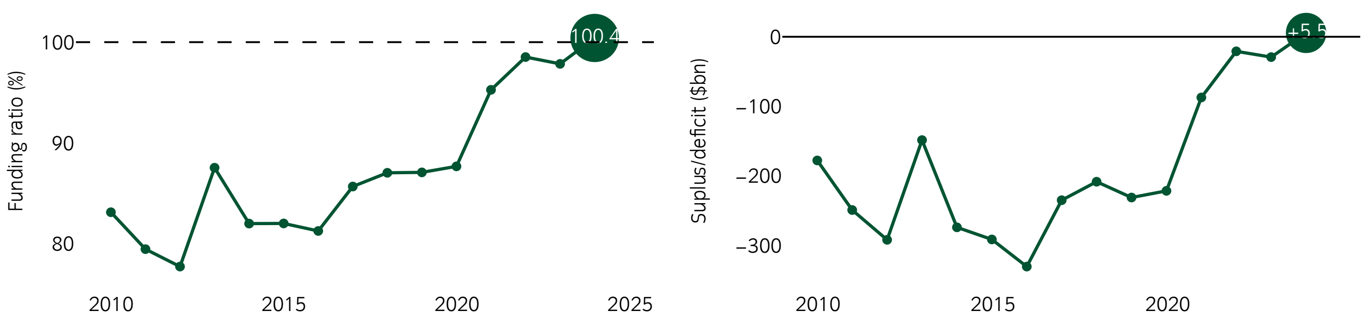
Insight's latest Global Pension Monitor shows that many US DB corporate pension plans are finally in surplus, and hedge rations have risen. However, elevated payout ratios may flag building liquidity risks.

THE AVERAGE US CORPORATE DEFINED BENEFIT PLANS ARE IN SURPLUS

After decades of dealing with funding deficits, many US corporate DB pension plans have achieved surplus positions, according to our latest research. The average funding ratio, based on corporate plans of S&P 500 companies, reached just over 100% at the end of 2024, for a collective surplus of $5.5bn (Figure 1).

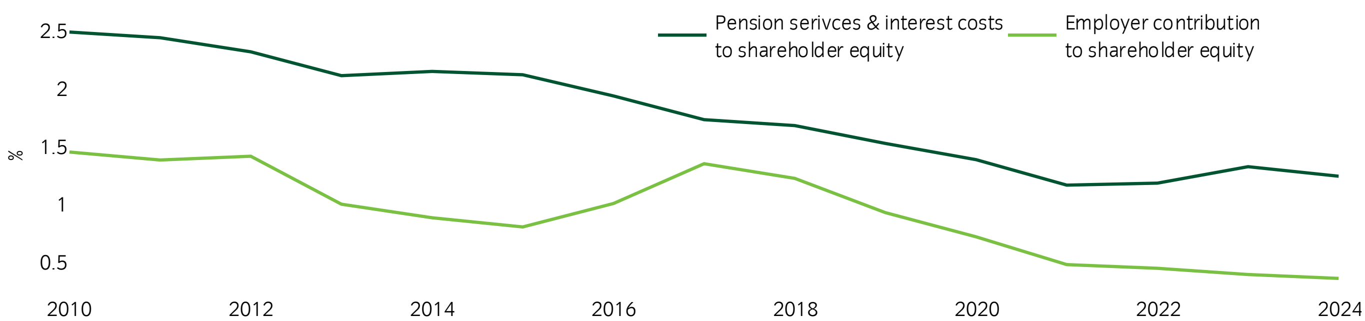
This improvement has partly been driven by rising discount rates (the average of which increased from 2.7% in 2020 to 5.2% in the 2024, the highest since 2010). Strong investment performance was the other major factor.

Figure 1: US Corporate DB pension plans are now, on average, managing surplus funding positions[1]



These improvements have helped ease pressure on corporate sponsors. Pension service and interest costs (as a share of shareholder equity) eased in 2024 after rising modestly following the disruption of the pandemic, due to smaller absolute accruals as well as improved valuations. The burden of employer contributions has also continued to ease over time (Figure 2) as funding positions subsequently rebounded but also from additional rounds of funding relief enacted in 2021.

Figure 2: Corporate sponsors are less burdened by the DB plans[1]



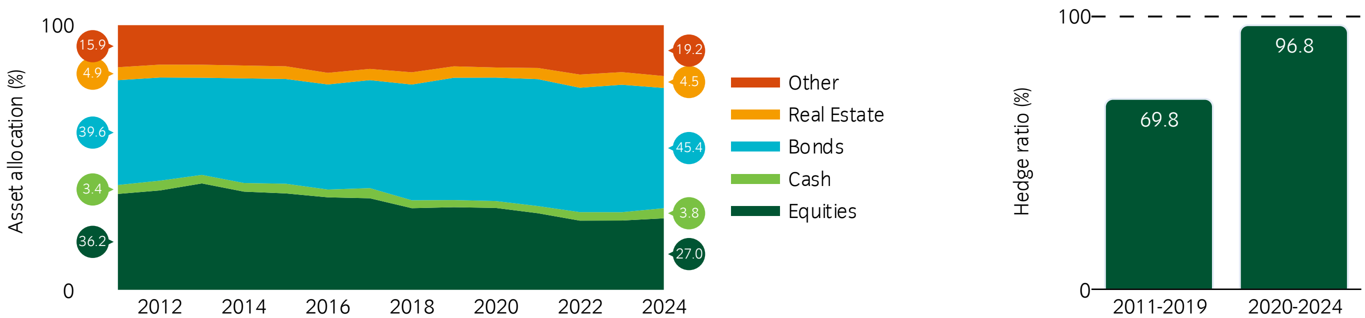
Globally, our study indicates that declining pension expense has contributed 15% of the improvement in global EBIT margins in 2024[2].

[1] Source: Frankfurt School of Finance and Management, Bloomberg, Insight, December 2024. S&P 500 Index companies with defined benefit pension plans.
[2] Source: Frankfurt School of Finance and Management, Bloomberg, Insight. Based on companies in the S&P 500, FTSE 100, Nikkei 225 and Dax 40.

CORPORATE DB INVESTMENT STRATEGIES HAVE CHANGED ACCORDINGLY

As their funding positions have improved, US corporate DB asset allocations are changing in an effort to reduce funded status volatility and drawdown risk. Plans have been scaling back their equity exposure and increased their fixed income allocations. They have also increased their exposure to less liquid alternative asset classes such as private credit. The result has been a sharp increase in hedge ratios (Figure 3).

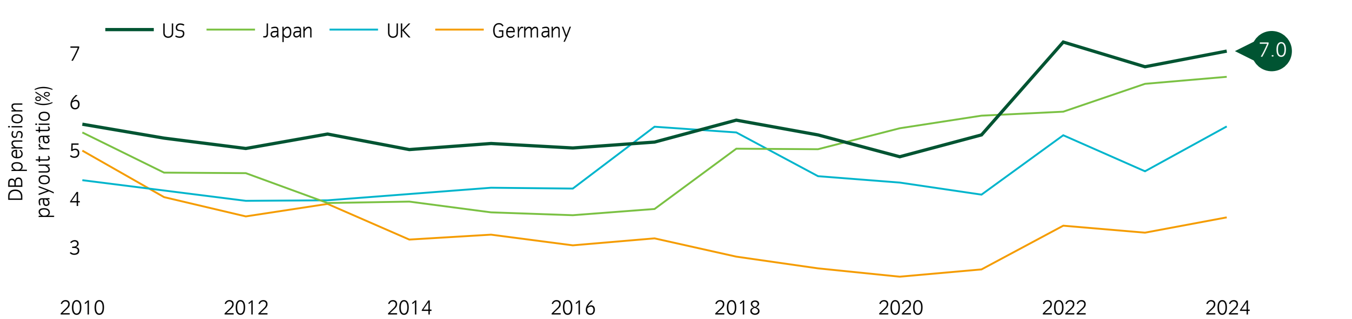
Figure 3: Plans have shifted their exposure toward fixed income and increased their hedge ratios[3]



LIQUIDITY CHALLENGES MAY BE AN UNDERAPPRECIATED RISK

Our study indicates that US DB pension market has the largest average payout ratio in the world. It indicates the world's most mature pension market. It also implies growing risks from forced selling to meet benefit payments. During bouts of market volatility, forced selling of assets can incur high transaction costs, mean missing out on recovery rallies and heavily compromising growth potential.

Figure 4: The US market's payout ratio has been rising, indicating building cashflow risks[3]



CONCLUSION: THE CHALLENGE FOR US DB PLANS IS EVOLVING

Plan sponsors are now considering how to manage their new funding status positions and their cashflow burdens. Insight is working with clients to help them adapt.

As pension plans move deeper along their glide paths into decumulation, we find that their needs change profoundly, and they increasingly value solutions that maximize precision and the certainty of achieving their objections. As part of this, we are discussing broadening the LDI toolkit to incorporate to incorporate overlays and cashflow driven investment solutions.

We are discussing surplus driven investing solutions, such as self-management as an alternative to rushing into a pension risk transfer, to deliver potential economic benefits to the sponsor and pension members alike. Overlays can manage the hedge with greater efficiency, precision and help address more complex liability risks. Cashflow driven investment solutions aim to turn liquidity from a risk to a strategic advantage, by structuring portfolios to meet benefit payments through contractual income and maturity payments, without trading frictions while protecting residual growth assets from forced selling risks.

[3] Source: Frankfurt School of Finance and Management, Bloomberg, Insight, December 2024. S&P 500 Index companies with defined benefit pension plans. Hedge ratio based on percentage change in assets and liabilities.

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Insight pioneered liability driven investing (LDI) beginning in Europe in 2003. Our LDI and CDI solutions are fully integrated into a plan's funding strategy and evolve as circumstances change. We offer a full set of capabilities to address client objectives through a multi-dimensional framework designed to maximize the certainty of achieving our clients' desired outcomes.

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