

Pension Plan Funded Status Increases Slightly Due to Asset Increases Outpacing Liability Increases in Q2 2014

During the second quarter of 2014 (Q2 2014), the funded status of the model pension plan examined in each issue of *Prism* increased by 1 percentage point: from 92 percent to 93 percent. This increase was driven by an asset return of 4 percent and a liability increase of 3 percent. See Graph 1.

About Prism

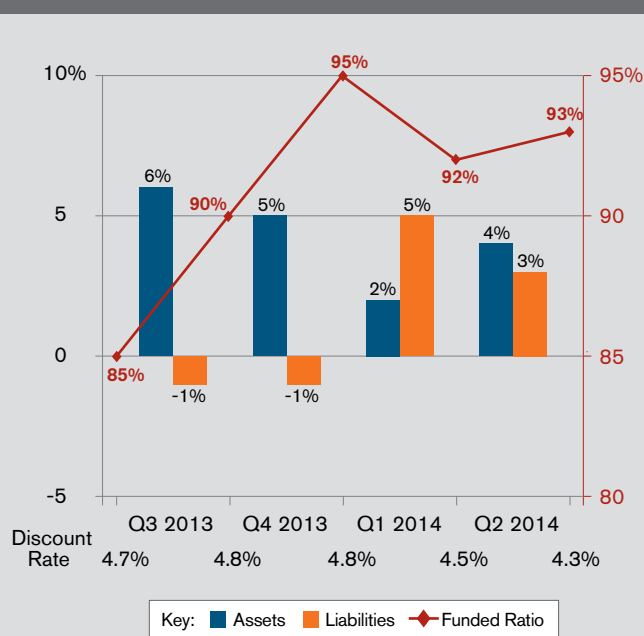
Prism examines the effect of changes in the assets and liabilities of a model pension plan on its funded ratio over the four most recent quarters, viewing such changes through a marked-to-market lens. The primary focus is to understand the combined impact of asset movement and interest rate shifts on perhaps the most important financial metric to plan sponsors: the plan's funded status.

Aspects of Investment Performance

Global equities have kept up their momentum during Q2. Non-U.S. equities (5.03 percent) modestly outperformed domestic equities (4.87 percent). Within the U.S., large caps beat small caps while growth and value stocks performed roughly in line with one another. Outside of the U.S., emerging-market stocks outpaced their developed-market counterparts.

On the fixed-income side, global bonds, as measured by the Citigroup World Government Bond Index (WGBI), also continued their strong run, posting a 2.27 percent gain. See Graph 2. All three major segments of the index, U.S., eurozone, and Japan, recorded positive performance for Q2er.

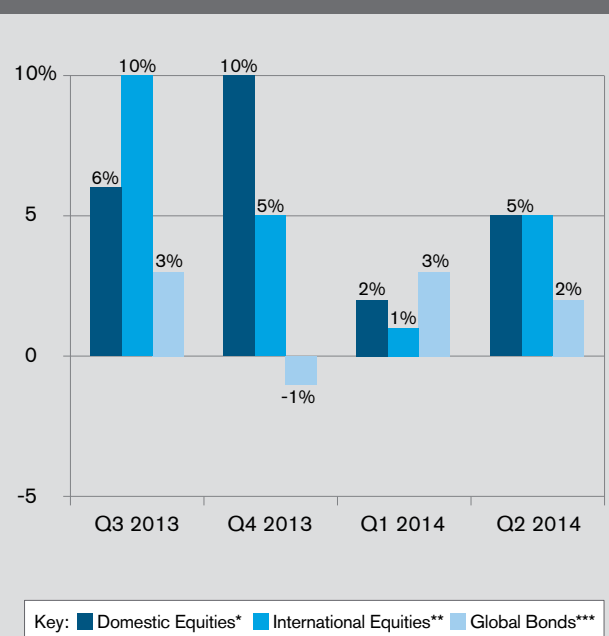
Graph 1: Change in Assets,* Liabilities and Funded Ratio**



* The model plan's portfolio has a simple, passively invested asset allocation of 45 percent to domestic equities, 15 percent to international equities and 40 percent to global bonds.

** This is the ratio of a defined benefit (DB) plan's assets to accrued liabilities. The funded ratio data in the graph is the ratio at a point in time at the beginning or end of the quarter. The funded percentage for the model DB plan was reset as of January 1, 2014 to reflect the average actual funded percentage of large pension plans.

Graph 2: Investment Performance



* Russell 3000

** Morgan Stanley Capital International All Country World Index Ex-U.S. (MSCI ACWI Ex-U.S.)

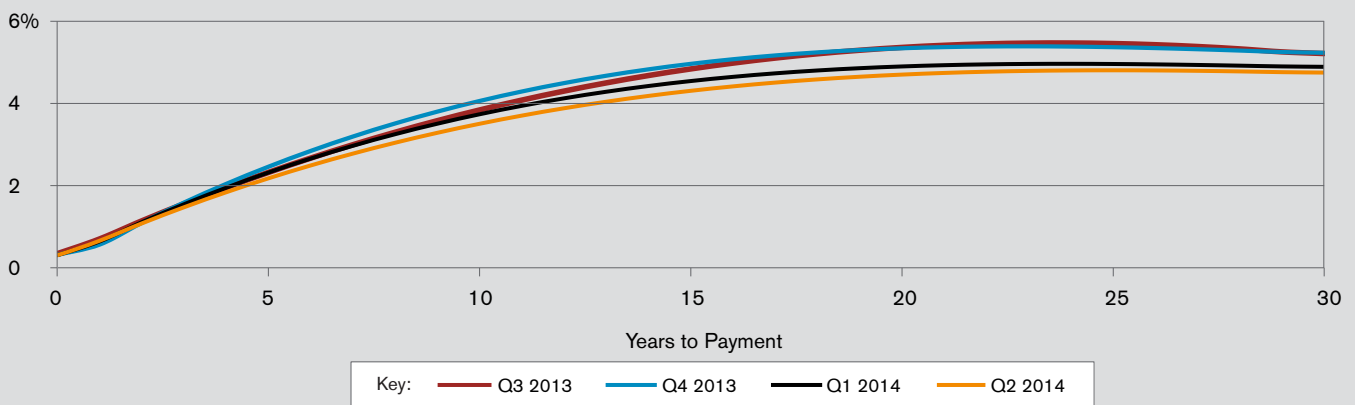
*** Citigroup World Government Bond Index (WGBI) Unhedged, which includes U.S. and international bonds

Changes in the Yield Curve

High-quality corporate yields decreased by 20 basis points.* This decrease was comprised of a 20 basis point drop in Treasury rates and an immaterial change in credit spreads. The overall shape of the yield curve remained similar to the previous quarter: an upward sloping yield curve which peaks at about 25 years, and then levels off, as illustrated by the above-median curves shown in Graph 3.

The decrease in the yield-curve level during Q2 2014 resulted in a decrease in the effective interest rate and, consequently, increased the model pension plan's liability by about 3 percent. Any change in the shape of the yield curve could have different impact on liabilities for plans with different maturities. (For background on yield curves, see the following webpage: <http://www.sibson.com/publications/presentations/2014PrismYCprimer.pdf>)

Graph 3: Changes in the Yield Curve*



* This curve reflects the average yield, at each duration, for corporate bonds rated AA that have yields above the median for that duration.

Important: Examine Your Own DB Plan's Experience

Plan sponsors should examine changes in their own DB plans' assets, liabilities and funded ratios both from the vantage point of accounting and funding metrics. Individual plan results will differ from this model for a host of reasons, including different funded positions, liability duration and contribution patterns.



Segal Rogerscasey and Sibson Consulting can help employers to project their DB plans' funded ratios through asset-liability modeling (ALM). For more information about ALM, contact your Segal Rogerscasey investment consultant or your Sibson retirement consultant.

* As a reminder, 10 basis points (bps) equals 0.1 percent.

Segal Rogerscasey provides consulting advice on asset allocation, investment strategy, manager searches, performance measurement and related issues. The information and opinions herein provided by third parties have been obtained from sources believed to be reliable, but accuracy and completeness cannot be guaranteed. *Prism* and the data and analysis herein is intended for general education only and not as investment advice. It is not intended for use as a basis for investment decisions, nor should it be construed as advice designed to meet the needs of any particular investor. Please contact Segal Rogerscasey or another qualified investment professional for advice regarding the evaluation of any specific information, opinion, advice or other content. Of course, on all matters involving legal interpretations and regulatory issues, plan sponsors should consult legal counsel.