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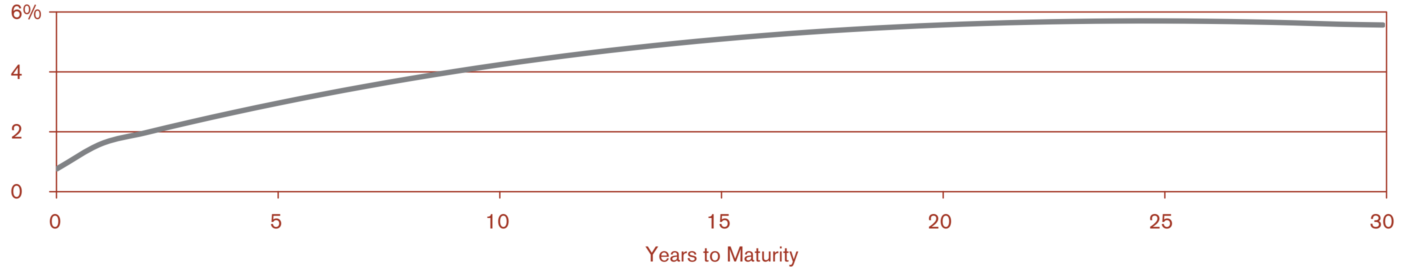
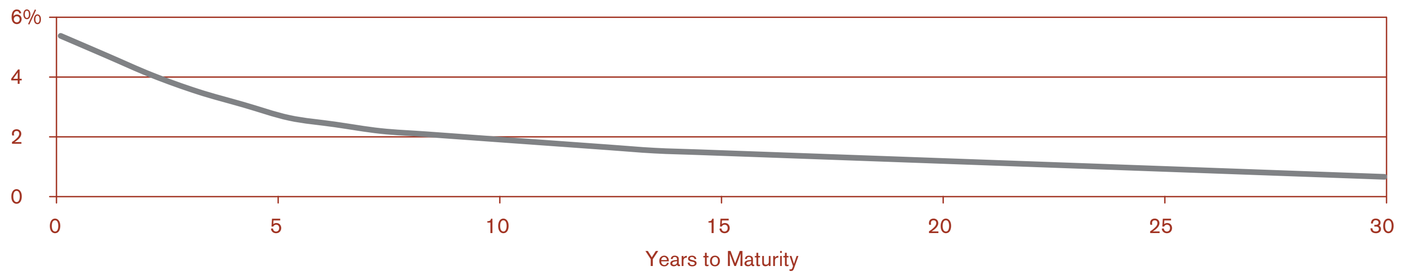
A Primer on Yield Curves

A yield curve is a line that plots the yield rates, at a set point in time, of zero-coupon bonds with differing maturities.

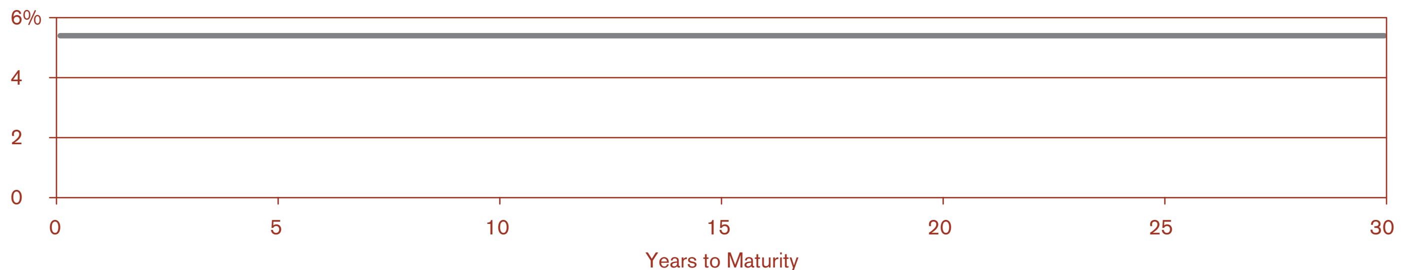
An upward sloping yield curve is one in which longer-maturity bonds have a higher yield than shorter-term bonds.



An inverted yield curve is one in which the shorter-term yields are higher than the longer-term yields.



A flat yield curve is one in which the shorter- and longer-term yields are very close to each other.



An upward sloping yield curve is the most common shape because longer-maturity investors generally demand a premium to compensate for risks associated with time.

As a rule, the more mature a pension plan is, the more its discount rate will be reliant on the shorter-term bonds. Less mature plans are more sensitive to the longer-term yields.

This is a supplement to *Prism*, a quarterly publication of Sibson Consulting and Segal Marco Advisors that examines the effect of changes in the assets and liabilities of a model defined benefit plan on its funded ratio over the four most recent quarters, viewing such changes through a marked-to-market lens. Issues of *Prism* can be accessed from a page on the Sibson website.

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