$20 BILLION CLUB: 2025 UPDATE

FUNDED STATUS INCHES UP
AS DISCOUNT RATES HIT 15-YEAR HIGHS

RUSSELL INVESTMENTS RESEARCH

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Funded status inches up as discount rates hit 15-year highs

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Financial market observers will be familiar with the 2024 market headlines: the Fed cut rates twice, the Magnificent 7 rallied and the U.S. economy showed resilience. But how did this translate to the largest U.S. corporate pension plans? Not in the ways you might think. Despite two rate cuts, pension discount rates *increased* by about 50 bps. Despite the S&P 500 gaining over 20%, pension asset returns were mediocre at just above 2% on average. And with the rise in rates and ongoing risk transfer activity, total liabilities dropped to their lowest level in the 20 years we have tracked this data. Assets were also down, a mere 2/3 what they were at the end of 2021. Still, for corporate DB sponsors nothing matters more than the bottom line – the funded status. On this point the overall picture improved for the 22 US-listed companies with the largest global DB liabilities, as **the average funded ratio increased 1.6% from 95.0% to 96.6%,** just shy of the high at the end of 2022**.** The funding deficit in dollar terms decreased from $43 billion to $29 billion.

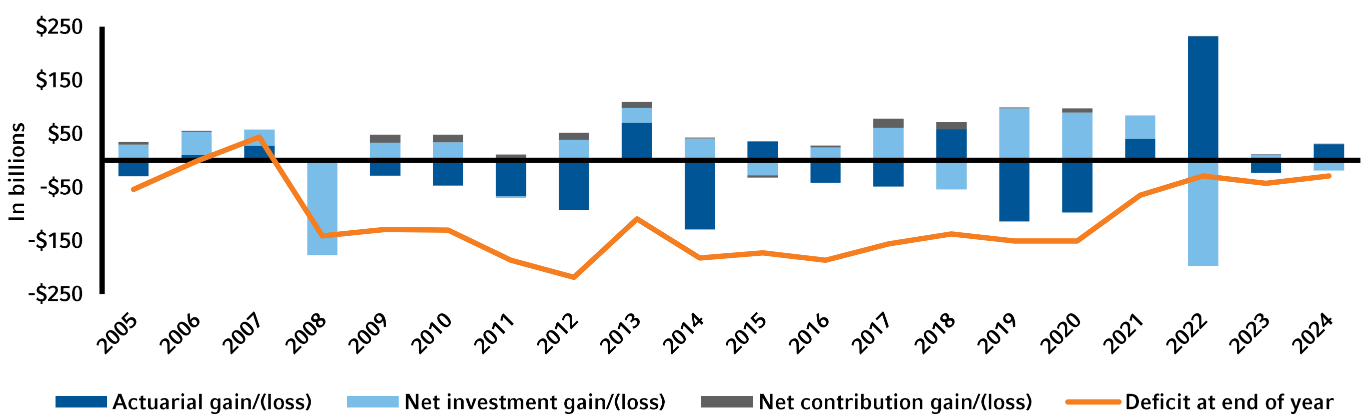
We track these large corporate pension sponsors since they are the bellwether for the corporate DB industry. From them, we see new trends emerging and find perspective with the plans we manage or advise on. Understanding trends among this group can help all corporate DB sponsors in their fiduciary and settlor roles.

This is the first paper published each year (since 2011) that shares a summary of actual disclosed pension data from 10-k filings. Industry estimates of funded status experience vary. This report is intended to set the record straight.

Specifically, we are interested in how these companies have performed in the current economic environment, and what strategies they have used to navigate their way toward achieving their goals.

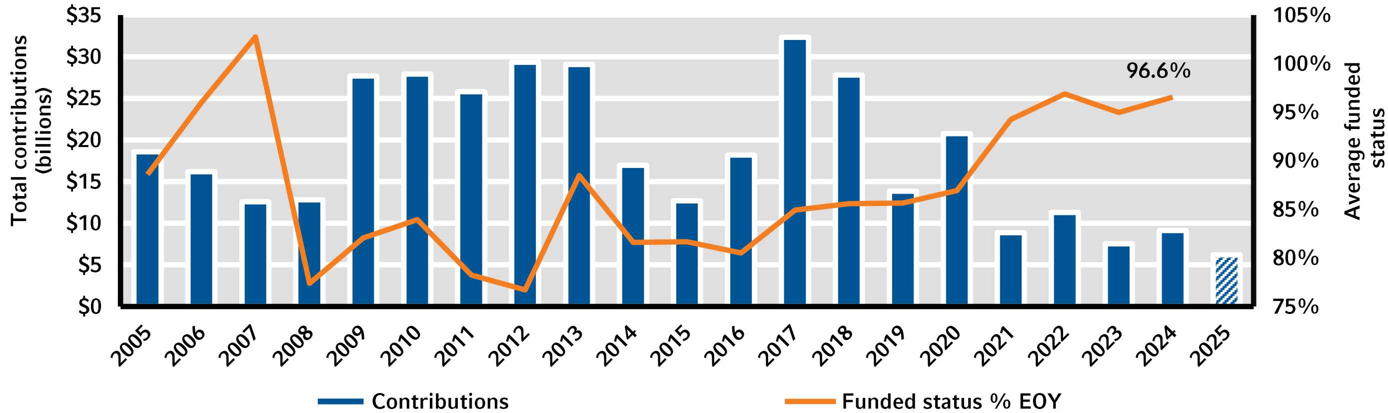
Exhibit 1 illustrates the funded status experience and attribution for this group since 2005. The orange line shows the dollar surplus or deficit, with the bars indicating the key drivers of change (i.e., attribution) in each year. The changes for 2024 were relatively small, as liability interest costs offset investment gains, and contributions were almost

Exhibit 1: Combined surplus/(deficit) of the $20 billion club, 2005-2024



Source: Russell Investments, Corporate 10-k filings

Exhibit 2: Contributions 2005-2024



Source: 10-k filings. The 2025 column is the sum of all the individual companies' expected 2025 contributions.

completely offset by service cost. As usual, actuarial gain/loss is at least partially offset by investment gain/loss. In this case actuarially gains (due to discount rate increases) overcame net investment losses to lead to a deficit reduction.

Exhibit 2 shows that employer contributions were once again low in 2024, but not quite as low as 2023. Still, contributions are substantially lower than before 2021, when funded status was much lower on average. 2025 contributions are expected to be about the same.

> *Actuarial gains overcame net investment losses to reduce deficits.*

The average increase in funded ratio among these sponsors was 1.7%, with only a handful seeing a decrease in 2024. The companies with the largest funded ratio gains were **Honeywell** (+9.5%), **Merck** (+5.7%) and **Johnson & Johnson** (+4.3%), which also happen to be the companies with the highest global pension funded ratios (all now above 105%). Four other companies saw their global pension funded ratio tip above 100% - **3M**, **IBM, Northrup Grumman**, and **Raytheon Technologies** – bringing the total now to seven among this group.

Both assets and liabilities in aggregate decreased, leading the assets to their lowest level since 2009 and liabilities their lowest since 2005.

Exhibit 3 shows how liabilities, assets and surplus performed during 2024.

> *Seven companies now have global pension funded ratios above 100%...*

Exhibit 3: 2024 global pension assets and liabilities development

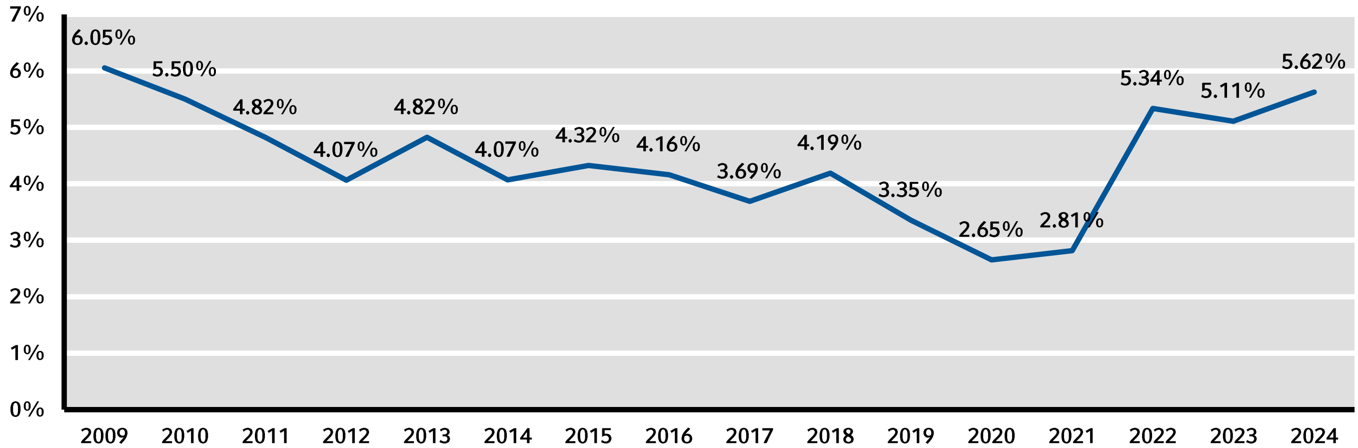
LIABILITIES	$ BILLION
Liability (Projected Benefit Obligation) at Start of Year	708.5
Accrual of new benefits (Service Cost)	7.6
Benefits paid	(46.6)
Interest payable on liability (Interest Cost)	33.0
Impact of change in interest rates and in actuarial assumptions (Actuarial Loss)	(29.8)
Miscellaneous other	(22.3)
Liability (Projected Benefit Obligation) at End of Year	650.4

ASSETS	$ BILLION
Assets (Fair Value) at Start of Year	665.6
Employer contributions	9.1
Benefits paid	(46.0)
Investment return on plan assets	13.7
Miscellaneous other	(21.0)
Assets (Fair Value) at End of Year	621.4

SURPLUS / (DEFICIT)	$ BILLION
Excess of assets above (below) liabilities at Start of Year	(42.9)
Excess of employer contributions over service cost	1.5
Actuarial gain (loss)	29.8
Investment returns less interest cost	(19.3)
Miscellaneous other	1.9
Excess of assets above (below) liabilities at End of Year	(29.0)

Source: Corporate 10-K Filings, Russell Investments calculations

Exhibit 4: Average discount rates



Source: 10-k filings.

Discount rates stay high despite rate cuts

It may seem puzzling that in a year where the Federal Reserve started cutting rates, corporate pension discount rates rose. But the very short-term rates that the Fed has direct control over do not necessarily impact rates along the full yield curve in the same way. Most pension cash flows are much further into the future, with average durations close to 10 years (with some much higher).

During 2024, the 10-year treasury rate, which is driven more by market supply and demand, actually rose by about 70 basis points, which when paired with rate cuts, steepened out the once-inverted yield curve. Coupled with a tightening of corporate yield spreads, the average increase of 50 bps in discount rate used for pension liabilities makes more sense. This trend is shown in **Exhibit 4**.

> *During 2024, the 10-year treasury rate, which is driven more by market supply and demand, actually rose by about 70 basis points…*

Investment earnings low despite equity rallies

The year 2024 was a banner year for U.S. large cap equity, particularly the so-called Magnificent 7 stocks spurred on by the artificial intelligence boom. You might expect that this directly led to large investment gains for pension plans, but there is much more to the story.

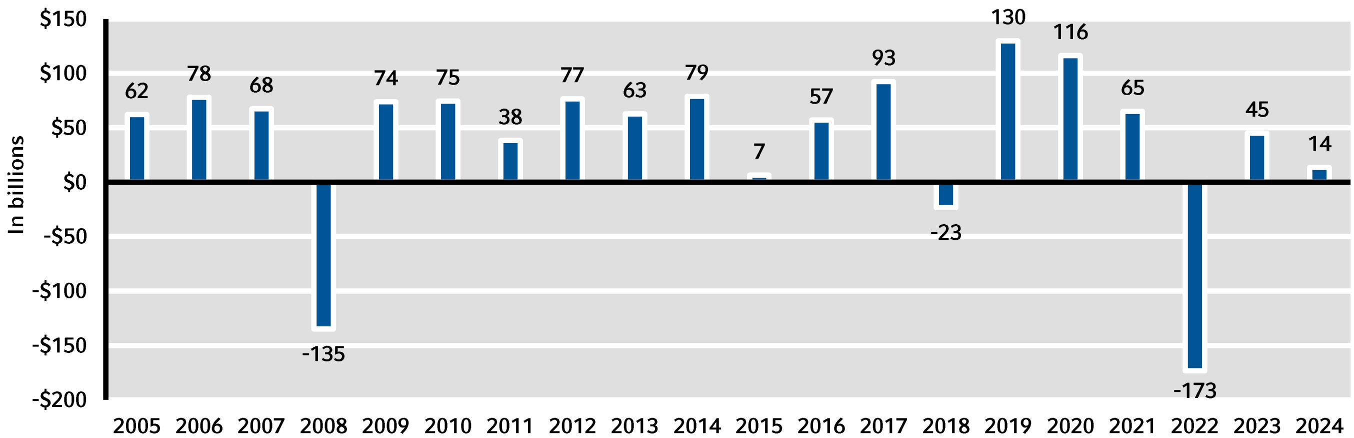
These large plans are maturing, and many are focused on stabilizing funded status through LDI strategies. The average fixed income allocation in this group is almost 60%, with most of the remaining return-seeking assets in alternative strategies like real estate or private equity. This doesn't leave much room for public equities like U.S. large cap. In fact, last year's filings show that the average allocation to U.S. equity for these plans was just under 10%.

Investment returns in 2024 were more muted for other asset classes, and negative for most fixed income categories. Overall the impact on average investment return for these sponsors was positive, but just barely. After netting out the interest cost of liabilities as shown in Exhibit 1, the impact is actually negative for funded status.

Exhibit 5 shows the pattern of investment earnings since 2005 for this group. The investment experience was one of the lowest in the last 20 years. Only in three years (2008, 2018 and 2022) did these plans experience investment losses.

> *Only three years (2008, 2018 and 2022) experienced investment losses.*

Exhibit 5: Investment earnings



Source: 10-k filings.

Other activity

Expected return on assets (EROA) assumptions increased again this year, but not as dramatically as last year when they jumped nearly 60 bps on average, the first increase in at least ten years. The average EROA assumption increased from 6.70% to 6.84%.

IBM completed a large $6 billion annuity purchase for their U.S. plan through Prudential, one year after re-opening the plan to make use of the pension surplus in the U.S. plan. This represents just over 10% of global pension liabilities. They also completed a $1.2 billion annuity purchase for their Canadian plan.

AT&T, **Lockheed Martin** and **GE** (among others with smaller plans) were sued for allegedly breaching their fiduciary duties by hiring Athene in annuity purchase transactions. We have seen industry skepticism of the merit of these claims, but as of this writing no resolution or dismissal has been reached.

3M completed a $2.5 billion annuity purchase through Met Life.

GM completed a $0.7 billion annuity purchase for salaried employees in the U.S.

> *We now track 22 corporations, generally included for having global pension liabilities exceeding $20 billion.*

Membership of the $20 billion club

Corporate mergers and divestitures continue to take place among this group. The split of Solventum from **3M** took place in 2024, and along with a $2.5 billion annuity purchase, this will be the last year 3M is included in our study. **General Electric** finalized its split into three entities – **GE Aerospace**, **GE Health Care**, **GE Vernova** – each large enough to be included in this group.

This year we tracked 22 corporations, generally included for having global pension liabilities exceeding $20 billion:

1. 3M
2. AT&T
3. Boeing
4. Caterpillar
5. Dow Chemical
6. Exxon Mobil
7. FedEx
8. Ford Motor
9. GE Aerospace
10. GE HealthCare
11. GE Vernova
12. General Motors
13. Honeywell International
14. IBM
15. Johnson & Johnson
16. Lockheed Martin
17. Merck
18. Northrop Grumman
19. Pacific Gas & Electric
20. Pfizer
21. Raytheon Technologies
22. United Parcel Service

Related reading

Field, A. (2024, October). "$20 billion club strategy: Pension plan strategy through investment, benefits, and funding policies". *Russell Investments Research*.

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