



Retirement News Highlights

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Inflation could give DB plans a boost, Cerulli says

Rising rates drive down defined-benefit plan liabilities and raise their funded ratios.

By InvestmentNews

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Corporate defined-benefit plans may be breathing a sigh of relief as inflation marches higher. Increasing inflation is driving down the liabilities of DB plans, which is raising their funded ratios, according to a study by Boston-based research firm Cerulli Associates.

“As of February 2022, the funded ratio of the 100 largest corporate pension plans reached 102.4%, according to Milliman’s Corporate Pension Funding Index (PFI) — the highest it has been since 2007,” Cerulli said in a release, noting that it expects corporate pensions to increase their allocations to fixed income to de-risk portfolios.

Cerulli also noted that the American Rescue Plan Act of 2021 lets plan sponsors to amortize their funding shortfalls over 15 years rather than seven, allowing for further portfolio de-risking, and includes a provision on interest-rate smoothing using a 25-year average.

The law “can materially decrease the required minimum plan contributions,” Cerulli said.

“Corporate DB sponsors must remain aware of the inflationary climate as it relates to their current allocations, but inflation ultimately will assist with funding status,” it said.

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