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A Rare Moment for DB Plans: Why Now Is the Time to Act

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For hospitals and other healthcare industry sponsors and trustees of Defined Benefit (DB) plans, today's markets present a rare convergence of favorable conditions due to strong equity performance and relatively high interest rates. In addition, the pension risk transfer annuity market is exceptionally competitive with many new entrants.

Healthcare industry sponsors of pension plans often have a unique advantage over other plan sponsors because they can manage their pension investments alongside their endowments. By looking at their investment portfolios holistically, these groups can maintain a consistent level of risk and expected return for the organization. Done well, healthcare industry sponsors can strengthen their balance sheets, and improve their long-term financial sustainability.

The current market environment makes taking this holistic approach much more compelling.

What's driving this Opportunity?

Across the board, several market factors have aligned:

- **Equity Markets at Historic Highs**
  Strong equity performance has lifted plan assets and contributed meaningfully to improved funded status.
- **A More Favorable Yield Curve**
  After years of very low long-term interest rates, today's steeply upward sloping yield curve allows for more predictable fixed income performance and more effective liability hedging.
- **Tight Credit Spreads & Strong Annuity Pricing**
  While credit spreads are very narrow, reducing expected returns from fixed income, this has also helped to create attractive annuity pricing. This is a critical factor for sponsors exploring liability settlements or retiree carve-outs.
- **Multi-Year Highs in Funded Status**
  Many plans—especially those that have frozen benefit accruals or followed disciplined investment policies—are in their strongest financial position in over a decade.

Strategic Considerations

Let's break down what these conditions mean for plan sponsors:

- **Frozen plans should be actively planning for termination**
  Favorable funded status and annuity pricing mean this is the most cost-effective time in recent memory to settle liabilities.
- **Even ongoing plans should revisit hedge ratios**
  With liabilities more stable and equity valuations high, sponsors should consider increasing LDI allocations and managing funded status volatility more precisely.
- **Annuity buyouts can be accretive**
  Some annuity purchases today can settle more liability than assets exchanged, enhancing funded status.

- **Prepare to use excess assets wisely**
  Planning now for surplus—via reversion, retiree medical, or other benefits—can ensure compliance and optimize value.
- **Reshape total organization investment risk**
  Reduced risk in pension plans can allow for increased risk-taking in endowments and other asset pools if the objective is to keep enterprise risk stable.

Final Thoughts

Every DB plan is different, but the message is the same: this is a moment to act. Whether you're managing a frozen ERISA plan on the brink of termination, or an ongoing plan looking to reduce volatility—today's market conditions offer rare strategic leverage to better the hospital's outcomes.

What you do in the next 6–12 months could materially define your plan's financial future for the next decade.