PRESS RELEASE: US pension plan managers foresee increased risks to both assets and liabilities in 2025

- *Majority of US pension plan managers surveyed expect their plan's risk profile to increase in 2025*
- *Top risk concerns include market volatility, rising pensioner longevity, and inflation, thus threatening both asset and liability risks*
- *But only one in three (32%) managers evaluate both the risks of assets and liabilities, and only one in five (18%) assess both combined*

Coming into 2025, many US pension plan managers are looking at what poses the biggest risks to their plans on both the assets side and the liabilities side. In fact, 84% of US pension plan managers expect the coming year to bring an elevated risk profile, according to a new online survey* from Ortec Finance, a leading global provider of risk and return management solutions for pension funds. The survey targeted senior pension fund executives in the US whose plans collectively manage $670.4 billion in assets.

In 2024, the bulk of those surveyed already saw risks rising. Half (50%) of those surveyed said their risk profile increased slightly last year and 6% reported their risk increased considerably. Around two fifths (42%) reported their risk profile remained the same and only 2% said their risk decreased.

Managers expect these rising risk profiles to continue into the coming year. Of those surveyed at the beginning of Q4 2024, 58% said the risk profile of their pension fund will increase slightly for the coming 12 months, with another 26% believing their risk profile will increase dramatically. Only 16% believe their risk profile will stay the same in 2025.

Diving into the largest risk drivers, managers report a mixture of concerns which stand to impact both the assets of their pension funds as well as their expected liabilities. When asked to rank their largest risk concerns, the top five risks in order of concern are: cybersecurity, market volatility, regulatory, rising longevity, and inflation. At the bottom of the risk concerns are climate change and geopolitical risks.

From the assets side, market volatility and inflation stand to potentially erode asset value, while from the liabilities side, rising longevity poses a risk of increasing liability value. Looking closer in on the liabilities side, 66% of those surveyed believe the increasing number of retirees relative to the number of new hires in Defined Benefit plans poses a significant or slight risk to the Defined Benefit Pensions industry.

Their top five risk concerns may result in both lower assets and also higher liabilities in 2025. The combination of decreased assets and increased liabilities can lead to a dampening of the overall funding health of a plan.

Despite the presence of risks for both assets and liabilities coming into 2025, the grand majority of those surveyed assess the risks of either assets (38%) or of liabilities (30%), but not both. Less than a third (32%) of those surveyed assess the risks of both assets and liabilities with only 18% of the managers saying they assess the risks of both assets and liabilities in a combined manner. The other 14% said they do assess both assets and liabilities but in isolation from one another.

Richard Boyce, Managing Director North America at Ortec Finance explains the value of assessing assets and liabilities together saying, "at Ortec Finance, we believe assessing the risks of both assets and liabilities in combination is crucial to get the full picture on the health of a pension fund. If the impacts of risk drivers are only understood for one side of the funding health equation, then it is possible to misrepresent the overall effect.

"Take as an example, the scenario of a pension fund assessing interest rate risk as the Federal Reserve [central bank for international edition] is signaling rate hikes. For the assets side, increased rates can potentially erode asset value as equity markets respond negatively and bond prices decline. Whereas on the liabilities side, increased rates can mean a higher discount rate and thus also a lower liability value. If a fund is not assessing both assets and liabilities, then it is difficult to conclude the overall impact of interest rate hikes on the plan's funding ratio. We believe it is important to assess both in combination."

Ortec Finance provides solutions for pension plans to help address issues including low yields, complex liabilities, increasing investment performance analysis demands, and climate change related risks and opportunities. For more information on its software and services go to [Pension Funds | Ortec Finance]

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Notes to editors:

* Independent research company PureProfile surveyed 50 senior pension fund executives in the US across public, corporate, endowment and Taft-Hartley multi-employer pension plans managing around $670.4 billion worth of assets. The survey was conducted in November '24.

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About Ortec Finance

Ortec Finance is the leading provider of technology and solutions for risk and return management. It is Ortec Finance’s purpose to enable people to manage the complexity of investment decisions.

This is accomplished via the delivery of leading technologies and solutions for investment decision-making to financial and real estate institutions around the world. Ortec Finance’s strength lies in an effective combination of advanced models, innovative technology, and in-depth market knowledge. This combination of skills and expertise supports investment professionals in achieving a better risk-return ratio and thus better results.

Headquartered in Rotterdam, The Netherlands, Ortec Finance has offices in Amsterdam, London, Zurich, New York, Toronto, Singapore, and Melbourne. Ortec Finance helps 600+ clients manage their $15 trillion assets under management.