Gallagher

Insurance | Risk Management | Consulting

Navigating Pension Funding Risks: What Plan Sponsors Should Be Thinking About for 2026

By Michael Clark and Chris Snel

If 2024 was the year of surprises for pension plans, 2025 has been the year of recalibration. After a few volatile years in rates, markets, and inflation expectations, corporate pension plan sponsors are once again evaluating how funded status, investment strategy, and risk management all fit together. As we look toward 2026, it's worth taking a step back to understand what's driving pension funding risk today—and what actions might make sense for plan sponsors to consider before the next market turn.

The Interest Rate Crossroads

Interest rates remain one of the biggest variables affecting pension health. After two years of elevated yields, many plans are still near their strongest funded positions in over a decade. But with signs that more rate cuts could be on the horizon, today's "high-rate" environment may not last forever. Any opportunity to chip away at the size of the pension plan provides an opportunity for immediate PBGC cost savings.

That means sponsors should be asking:

- **Is now the right time to offer a lump sum window?** If we find ourselves in a declining interest rate environment in 2026, economically it could be advantageous for plan sponsors to offer lump sums to participants.
- **Should we accelerate annuity buy-outs?** Insurer appetite is there, and quotes have become even more competitive; a stable rate environment makes pricing more predictable—but a shift downward in rates could make future buyouts more expensive.
- **How well funded is our plan on a termination basis?** The combination of strong equity markets, relatively higher rates and insurer competition over the past years has positioned many plans to be fully funded on a termination basis. Plan sponsors with a goal of termination in mind may find themselves closer to the goal than think.
- **What's our funded status sensitivity to a 1% change in discount rates?** A small move in discount rates could meaningfully affect both liabilities and investment strategy decisions.

De-Risking Through Investments

Many sponsors have moved toward liability-driven investing (LDI) over the past several years—but 2025 is testing those strategies. Strong equity performance and volatile bond markets including yield curve changes and shortening credit spreads, have left some plans out of alignment with their glidepaths. As funded status improves, more sponsors are "locking in" gains by shifting to fixed income or adding duration.

For 2026, it's worth revisiting your investment policy to confirm:

- Target allocations still reflect current funded levels.
- Risk budgets account for potential rate declines.
- Hedging strategies are flexible enough to adapt as markets shift.
- Any gaps in the LDI investment strategy leaving undesired risk of a non-parallel yield curve shift.
- Funded status sensitivity to widening of credit spreads.

© 2025 Arthur J. Gallagher & Co.

Gallagher

Insurance | Risk Management | Consulting

A proactive investment review now can prevent reactive decisions later if rates fall or market volatility spikes. This is especially true for well-funded plans and plans that are either (a) contemplating plan termination or (b) already started the termination process.

The Path Ahead: Balancing Opportunity and Prudence

The coming year could present a window of opportunity to further de-risk or transfer obligations under favorable conditions. But every action—whether a buy-out, lump sum offer, or investment shift—should fit within the broader long-term strategy for the pension plan and the sponsoring organization.

It's not about timing the market perfectly—it's about positioning the plan so that future moves (by the Fed or by markets) don't force your hand.

Three Key Takeaways for Plan Sponsors:

1) Review your funding position while rates remain high. Strong funded status can open doors for risk transfer or investment de-risking before market conditions change.
2) Evaluate lump sum or annuity opportunities early. The math may not be this favorable again if rates begin to trend lower in 2026.
3) Align your investment strategy with your long-term goals. De-risking isn't one-size-fits-all—ensure your glidepath, liquidity needs, and sponsor risk tolerance are all in sync.

Bottom line: 2025 has offered a rare window for plan sponsors—strong funded positions, manageable risks, and flexible options. The sponsors who take a thoughtful look now can enter 2026 with more control, less volatility, and a clearer view of how to achieve their goals and objectives.

This material was created to provide information on the subjects covered, but should not be regarded as a complete analysis of these subjects. The information provided cannot take into account all the various factors that may affect your particular situation. The services of an appropriate professional should be sought regarding before acting upon any information or recommendation contained herein to discuss the suitability of the information/recommendation for your specific situation.

Consulting and insurance brokerage services to be provided by Gallagher Benefit Services, Inc. and/or its affiliate Gallagher Benefit Services (Canada) Group Inc. Gallagher Benefit Services, Inc., a non-investment firm and subsidiary of Arthur J. Gallagher & Co., is a licensed insurance agency that does business in California as "Gallagher Benefit Services of California Insurance Services" and in Massachusetts as "Gallagher Benefit Insurance Services."

Investment advisory services are offered by **Gallagher Fiduciary Advisors, LLC ("GFA"),** an SEC registered investment advisor that provides retirement, investment advisory, discretionary and independent fiduciary services. Registration as an investment adviser does not imply any specific level of skill or training and does not constitute an endorsement of the firm by the SEC. **GFA** is a limited liability company with Gallagher Benefit Services, Inc. as its single member. **GFA** may pay referral fees or other remuneration to employees of Arthur J. Gallagher & Co. or its affiliates or to independent contractors; such payments do not change our fee. Neither Arthur J. Gallagher & Co., **GFA**, their affiliates nor representatives provide accounting, legal or tax advice. GFA CD (4978549)(exp112027)

© 2025 Arthur J. Gallagher & Co.