

A background image featuring a dark blue gradient with a faint, stylized financial chart or candlestick pattern in a lighter blue color, suggesting a market or investment theme.

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2025 View on U.S. Pensions with Alternative Fixed Income Approaches

Executive Summary

Plan sponsors face a unique set of challenges that require a more dynamic approach to asset allocation. In this Q&A, the experts at MetLife Investment Management (MIM) explore how the interest rate environment and market volatility are prompting sponsors to pursue de-risking strategies by increasing and diversifying fixed-income allocations. We explore the innovative solutions investment managers are providing to help mitigate risk and diversify retirement portfolios to meet greater demands for steady cashflows from an aging population.

What is the most significant issue facing U.S. retirement plan sponsors today?

For pensions, funded status has improved across all plan types: corporate pensions, state and local government plans, and Taft-Hartley pensions are all better off. Focusing on corporate pensions as an example, plans have improved markedly over the past 10 years—peaking at 107.2% in February of 2025—up from the lowest levels estimated at 74.7% in June 2016.¹ This improvement has been driven by strong equity returns, higher bond yields, and higher discount rates that have reduced liabilities. These factors, alongside broader economic conditions present an opportunity to potentially reduce investment risk.

For savings plans, the primary challenge is developing viable retirement income solutions for an aging workforce. Pension coverage will continue to decrease, putting more burden on 401(k) plans to provide income.

“Now is an opportune time for pension plan sponsors to consider de-risking strategies, increasing bond allocations and reducing exposure to equities.”

—Jeff Passmore, CFA,
Lead LDI Strategist

What are the economic factors impacting pension investing?

Interest rates have reached levels not seen since the financial crisis. Ten-year Treasury yields have remained consistently near or above the 4% level since August of 2023, reflecting part of a multiyear recovery from the lows experienced during the Covid-19 pandemic.

This higher level for rates increases the relative attractiveness of bonds and decreases the cost of pension derisking. Many expect the next big rate move will be lower. The Fed's pause provides an opportunity to derisk at favorable prices.

What other changes are driving shifts in asset allocations and investment strategies for plans, sponsors and participants?

The aging population is posing challenges to pensions and savings plans.

Pension plans are increasingly looking to bonds to help meet rising levels of benefit payments. The bond strategies that best fit plans today have a shorter duration than they did a decade ago due to pension closings and benefit freezes. This trend will continue as pension populations age faster than the general population. Plan sponsors are shifting toward intermediate bonds to address these shorter-term needs.

As bonds play a more prominent role in asset allocations, sponsors are also looking for diversification within fixed income. This includes segments of the market that provide both yield advantages and risk management. Investment-grade private credit is one solution to consider. MetLife Investment Management is one of the largest originators of investment-grade private credit. MIM has a long history of managing these bonds through credit cycles using deep industry knowledge, in-depth underwriting, and strong covenants.

Savings plans are seeing more assets move into bonds as workers near retirement. Target date funds can benefit from more sophisticated fixed-income solutions with simultaneous goals of providing lower volatility while still meeting income needs.

One way to potentially enhance incremental income and add diversification is with the addition of private credit. When strategically combined with traditional bond investments, private credit offers a compelling mix of reliable cash flow, capital preservation, low volatility, diversification benefits, and attractive yield premiums.

We offer a practical roadmap to a diversified allocation strategy in <INSERT LINK>: This strategy includes 20% in investment-grade private credit, 60% intermediate corporate bonds, and 20% in asset-backed securities. This blend leverages the strengths of each segment—private credit for yield enhancement, intermediate corporate bonds for liquidity and stability, and asset-backed securities for additional diversification and income potential. While this may not a solution for every plan, it highlights how a portfolio can be built with these different securities.

What role do you see private equity, private credit, and alternative investments playing in pension plan portfolios as they plan for the future?

We see interest in diversifying portfolios, especially fixed-income allocations. However, plan sponsors are increasingly focused on liquidity. Some are using the concept of an illiquidity budget as they consider how much they can allocate to new investment options that have less liquidity than publicly traded stocks and bonds.

MIM is actively empowering clients and consultant partners with insights about our private credit underwriting process. Site visits, deep industry expertise, and long-standing borrower relationships are integral to our origination. These bonds have covenants that facilitate management through maturity, even during credit stress. Yet, we also understand private credit's liquidity constraints, offering strategic guidance to navigate these challenges effectively.

¹Sources: Bloomberg, MIM analysis. As of 3/31/25

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