



BlackRock[®]

Beyond full funding

Key themes for U.S.
corporate pensions in 2026

Foreword

It's been eight years since we began our annual corporate pensions themes series. Over that time, funded status has improved meaningfully — from roughly 87% in 2018 to around 108%¹ today.

That shift matters. Moving from deficit to surplus is a significant achievement and creates a real opportunity for plan sponsors to lock in gains and simplify portfolios.

While improved funding introduces new considerations — including surplus management and more precise LDI — the core objective remains clear: Preserve funded status and reduce risk.

There are, of course, strategic choices to consider. Some sponsors have used surplus to pursue more transformative actions. Others may focus on refining LDI to further reduce surplus volatility. In our view, the key question is not how complex portfolios need to become, but how effectively sponsors can translate improved funding into durable outcomes.

Above all, the landscape today speaks to the power of partnership. Plan sponsors are seeking greater scale, broader investment capabilities, and enhanced risk management while managing rising technology and talent costs. We are proud that so many institutions trust BlackRock to operate as an extension of their team to deliver the scale, insight, and agility they need to meet increasingly complex objectives.

We hope you find this year's themes valuable and thought-provoking, and we look forward to continuing the conversation.

Armando Senra

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¹ Source: BlackRock U.S. LDI Pension MarketWatch, February 2026.

Executive summary

U.S. corporate pensions plans entered 2026 from a position of strength, with average funded ratios around 108% on a PBO basis.

Our 2026 themes focus on investments, plan management, and governance to help well-funded plans go “beyond full funding.” We recommend the following actions.

1 Prioritize curve-aware hedging in LDI programs; consider lower credit-spread hedges and/or diversifying credit exposures.

2 Size private markets allocations with liquidity in mind, accounting for benefit payments and rebalancing constraints.

3 Plan deliberately for surplus deployment, across a variety of ideas including improving benefits, preparing for PRT, or reverting the surplus back to the organization.

4 Engage a strategic partner to help align investment strategy, increase knowledge sharing, act as an extension of internal teams, and deliver cost savings.

Authors

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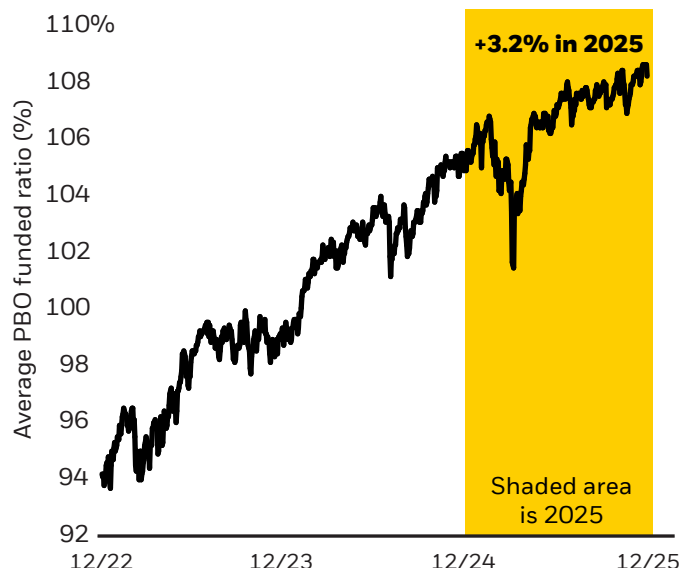
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Introduction

Exhibit 1a: Positive asset performance lifted the average PBO Funded Ratio to ~108%

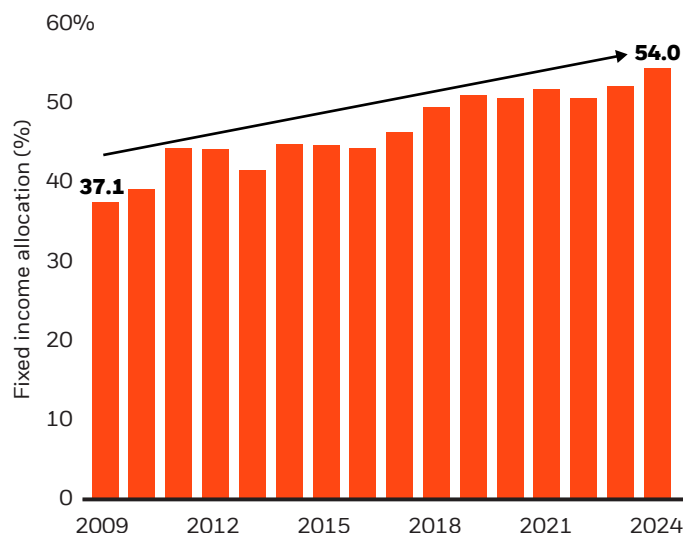


Source: BlackRock U.S. Pension Funding Update as of December 31, 2025. Average PBO Funded Ratio is an average of the top 200 U.S. Corporate Pension plans by size based on 10-K data as of December 31, 2024.

According to BlackRock’s [U.S. LDI Pension MarketWatch](#), in 2025 the average funding ratio of U.S. corporate defined benefit (DB) plans improved to ~108% on a PBO basis, as shown in Exhibit 1a. As a result, many plans are focused on investing to preserve strong funded ratios and planning optimal ways to use a surplus — but not in the ways many would expect.

Typically, healthy funded ratios have implied heavy allocations to liability-driven investment (LDI) assets. However, as shown in Exhibit 1b, while LDI allocations among the top 100 U.S. corporate plans have increased significantly

Exhibit 1b: While average LDI allocations have significantly increased over the past 15 years, the growth has slowed since 2019



Source: BlackRock, S&P Capital IQ as of December 31, 2024. Top 100 Corporate Pension Plans by size. BlackRock estimate for 2024 based on average asset allocation changes of BlackRock’s U.S. Corporate plan discretionary clients.

over the past 15 years, the movement into LDI has slowed since 2019, indicating that some sponsors are holding on to growth assets. There are several reasons behind the slowing growth of LDI, including the declining marginal surplus-risk benefit of adding additional assets to LDI, the fact that some sponsors may be choosing to have the investment portfolio do the work of improving funded status, and some plans may be intentionally building a larger surplus.

Given these circumstances, our 2026 DB themes are focused on investments, plan management, and governance to help well-funded plans go “beyond full funding.”

Investments	<p>1 Managing LDI portfolios late in the credit cycle As the Fed transitions from tightening to easing, LDI portfolios face a new challenge in capturing higher yields while managing potential credit spread widening.</p>
	<p>2 Best practices in private markets for well-funded plans Private markets may continue to have a role in portfolios, even for well-funded plans. Implementation decisions are driven by investment objective, size and liquidity needs.</p>
Plan management	<p>3 How overfunded plans are using their surplus In an update on our 2025 U.S. Corporate Pension Themes “Utilizing surpluses in DB plans,” we provide case studies highlighting various ways to use a surplus.</p>
Governance	<p>4 Engaging a strategic partner – why the trend and what constitutes a great outcome in these relationships A growing number of plan sponsors with large and more complex plans are contemplating outsourcing aspects of their investment management across a range of services.</p>

On the next page, we dig into each of these themes we think will shape the market in the coming year.

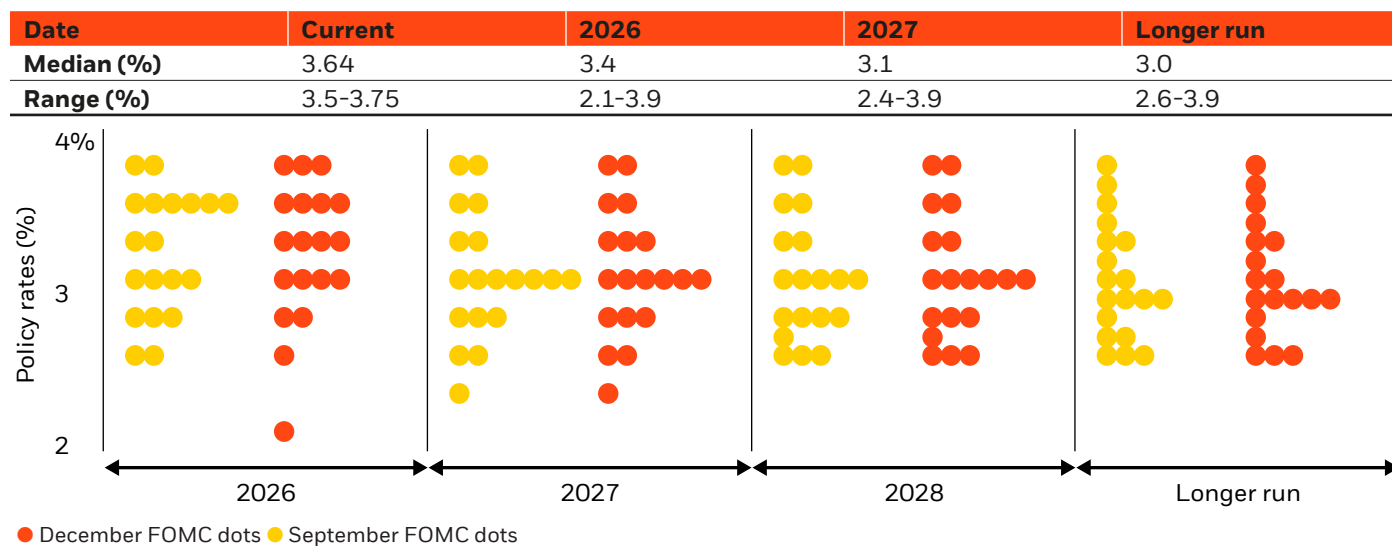
1 Managing LDI portfolios late in the credit cycle

We expect the Treasury yield curve to continue to steepen which will likely renew pension plans' focus on hedging interest-rate risk. These potential yield curve movements reinforce the need for precise LDI exposures versus liabilities across the curve.

Exhibit 2a shows Federal Reserve Open Market Committee (FOMC) dot plot votes for rate policy over the next two years. Median expectations as of the time of writing are for one 25 basis point rate cut in 2026, with up to a 150-basis point range of potential paths. Yet the movement of longer rates is less certain. Exhibit 2b shows the movement of 10-year Treasury yields in past rate-cutting cycles stretching back to 1989. Only in

recessionary periods (orange line) did long rates fall after the first Fed rate cut, and in non-recessionary periods (yellow line) long rates actually rose. BlackRock is not expecting a recession in the U.S. in 2026 (indeed, a growth breakout is conceivable), which implies long rates may remain somewhat elevated and hence the yield curve may continue to steepen. Sponsors should be careful not to over-hedge at the long end of the curve to help avoid unexpected funded-ratio outcomes. Being over-hedged at the long end versus targets when the curve steepens can result in more than 1% of funded ratio underperformance versus an LDI portfolio that is evenly hedged across the curve.²

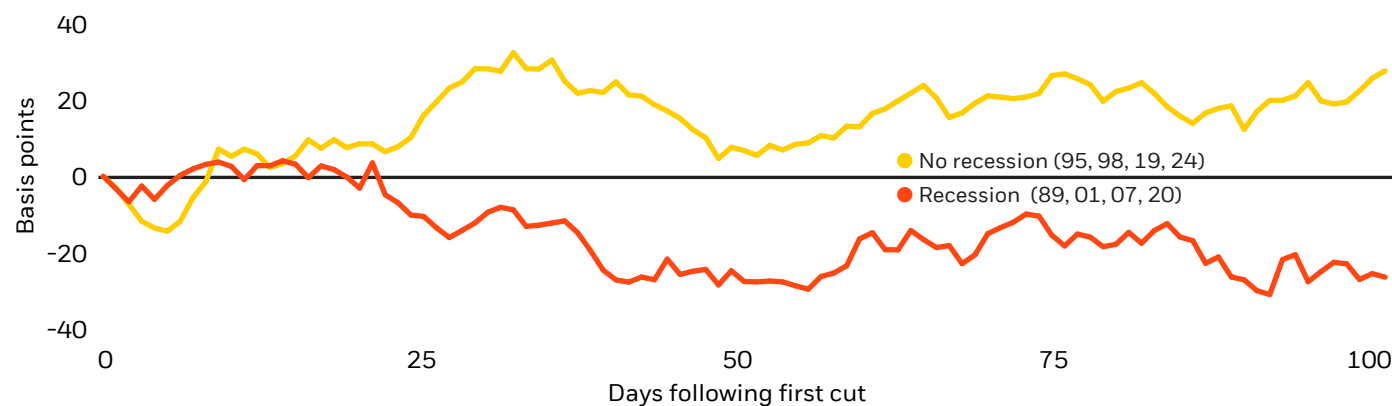
Exhibit 2a: Short-term rate cuts are likely to continue into 2026...



Source: LSEG Datastream, BlackRock as of December 11, 2025.

Exhibit 2b: However, longer-term rates may not fall... and could even rise

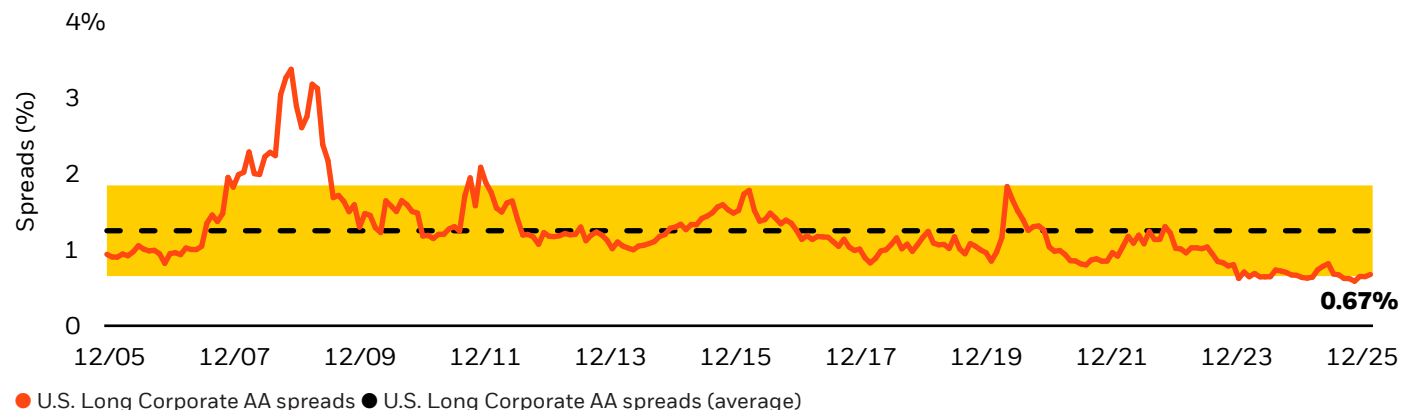
Average change in 10Y Treasury rate following the first Fed rate cut (1989-2024)



Source: Bloomberg, BlackRock. Cutting cycles defined by the change of Federal Reserve Fed funds rate during the following period: 1989-2024. As of September 25, 2024. Past performance does not guarantee or indicate future results.

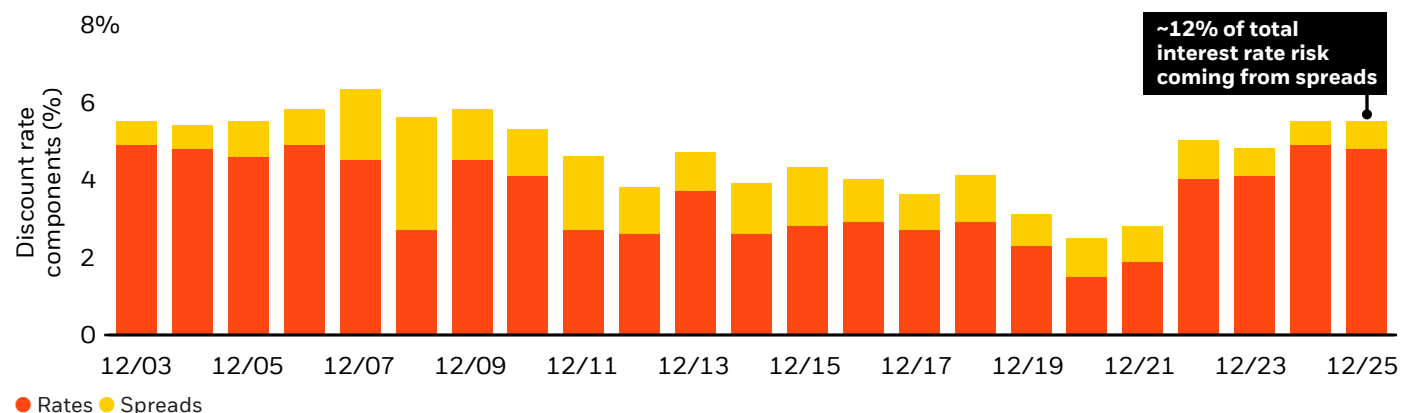
² Source: BlackRock, as of October 31, 2025. The funded ratio was estimated to be 108% as of October 31, 2025. Liability modeled using a set of mid-duration generic liability cashflows valued with the Bank of America Merrill Lynch AA-Rated US Corporate Market-Weighted Yield Curve. Assumes 100% liability-hedging asset allocation and compares one portfolio that targets 100% interest rate hedge evenly across the curve versus another portfolio that targets 100% interest rate hedge but over-hedges at the long end of the curve. The curve steepener scenario assumes a 40-basis point decline from the 2- to 10-year yield and a 75-basis point increase from the 10- to 30-year yield.

Exhibit 3a: While strong inflows, limited long-end supply, and solid company fundamentals have kept credit spreads resilient...



Source: BlackRock, as of December 31, 2025. Spread modeled as OAS for the Bloomberg Long Corporate AA Index.

Exhibit 3b: Credit spreads are now a far smaller proportion of the liability discount rate



Source: Bloomberg, BlackRock as of December 31, 2025. Liability discount rate components were calculated by taking the Yield to Worst – the OAS of the Bloomberg Barclays Long Corporate AA Index. Spread component was modeled as the OAS.

On the credit side, most customized LDI programs for well-funded plans have relatively high allocations to investment-grade credit to help match the rate and spread sensitivity of credit curves used to value U.S. corporate pension liabilities. However, as shown in Exhibits 3a and 3b above, investment-grade spreads, and the proportion of the overall hedge coming from spreads, are both near pre-Global Financial Crisis lows.

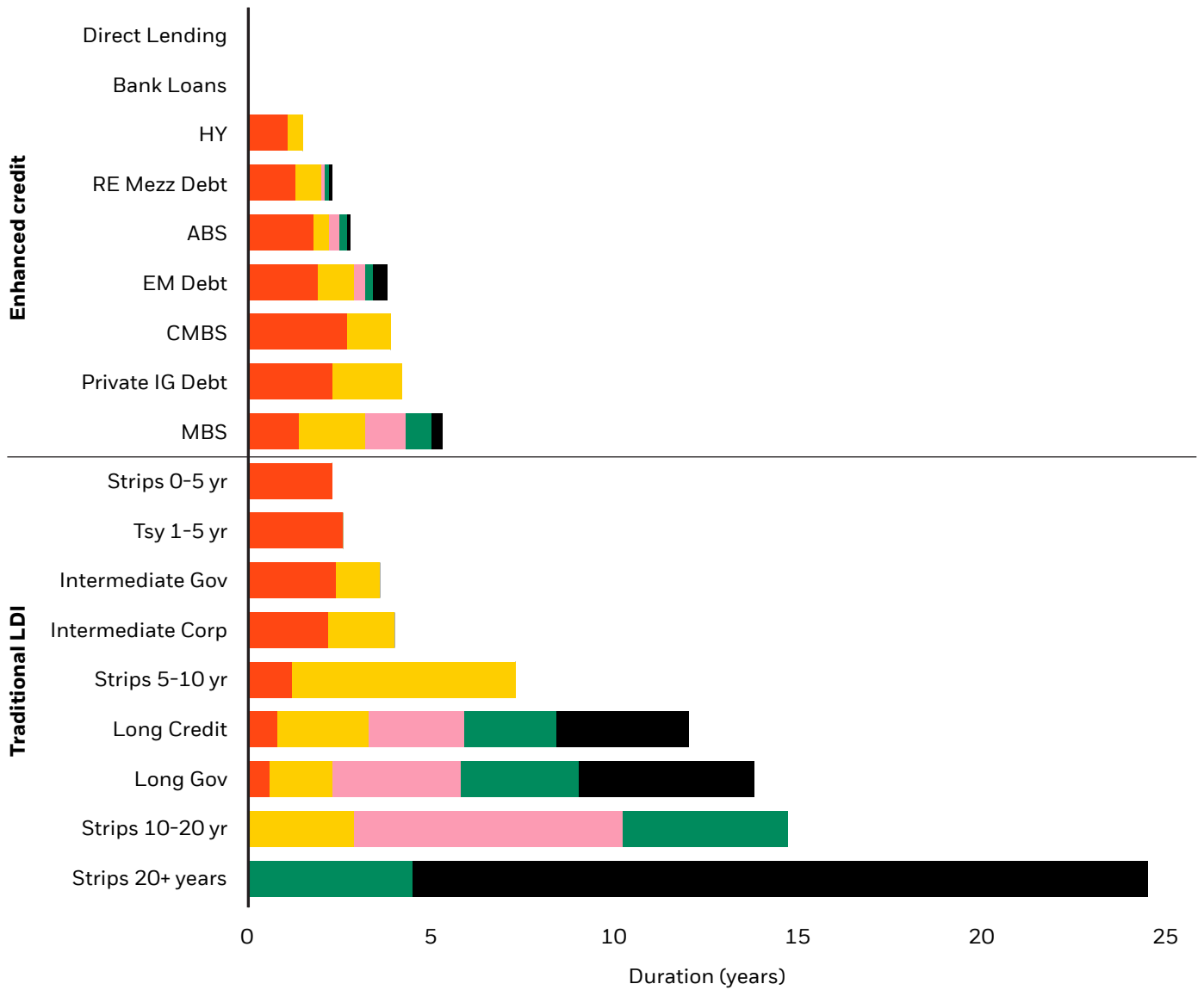
In the coming year, we believe it is worth considering increasing the proportion of the hedge coming from rates and reducing the portion coming from investment-grade spreads, especially for clients with significant growth allocations. If spreads were to widen, this would likely cause investment grade credit to underperform the Treasury or rate-hedging parts of the LDI program. In one scenario, if spreads were to widen back to historical averages (approximately a 50-basis point increase), the funded ratio of a portfolio with a higher credit spread hedge is projected to underperform the funded ratio of a

portfolio with a lower credit spread hedge by approximately 0.8%.³ Treasuries also tend to do well in risk-off environments and can provide downside mitigation to funded ratios, which may be particularly attractive with equities near all-time highs.

To diversify investment-grade credit exposure, some plans are broadening the definition of LDI assets to include private credit, securitized assets (MBS, ABS, CMBS), and other spread sectors (EMD, HY, loans). For U.S. pension plans, these asset classes may be attractive because their credit characteristics are similar to corporate-pension liabilities. In some cases, they can also offer higher return potential to help offset the natural return shortfall of rates exposure relative to liabilities, which are valued using high-quality corporate bond curves. Exhibit 4 shows the duration exposure across a range of these diversifying asset classes. Much of the exposure is at the shorter end of the curve, which becomes increasingly accessible as plans mature and liability durations shorten.

³ Source: BlackRock, as of October 31, 2025. The funded ratio was estimated to be 108% as of October 31, 2025. Liability modeled using a set of mid-duration generic liability cashflows valued with the Bank of America Merrill Lynch AA-Rated US Corporate Market-Weighted Yield Curve. Assumes 100% liability-hedging asset allocation and compares one portfolio that targets 80% credit spread hedge (i.e. high) versus another portfolio that targets 50% credit spread hedge (i.e., low).

Exhibit 4: Duration profile of liability-aware asset classes



Key rate exposure: ● 5 yr ● 10 yr ● 15 yr ● 20 yr ● 25+ yr

Source: BlackRock, Bloomberg, Morningstar data as of December 31, 2025. For further detail on broadening the definition of LDI assets, see: <https://www.blackrock.com/institutions/en-us/insights/thought-leadership/enhanced-credit-for-corporate-pensions>.



2 Best practices in private markets for well-funded plans

Many institutional investors have turned to private markets in search of higher returns, in exchange for decreased liquidity. When most DB plans were underfunded and had long investment horizons, private markets were a natural fit.

As funded ratios have improved, however, one would assume pension plans' need for additional returns from private markets would gradually diminish. As we described in our 2024 U.S. Corporate Pension Themes, candidates for private market allocations are likely to have one or more of the following characteristics:

Outcome	Characteristic	Detail
Seek more return	Underfunded	Hence need a higher return to improve funded ratio
	Open to new entrants	Which implies higher service cost as a percentage of the PBO, hence the need for higher returns to maintain or improve funded ratio
	Not contributing cash	Meaning the plan needs investment returns to do most of the work to improve the funded ratio
Accept more liquidity risk	Not planning a PRT	Which lends itself to a longer time horizon and less need for liquidity
Embrace complexity	Have size and/or scale	Larger plans, and/or plans that are supported by a well-resourced advisor or OCIO, tend to have more freedom to seek portfolio and manager diversification beyond listed asset classes

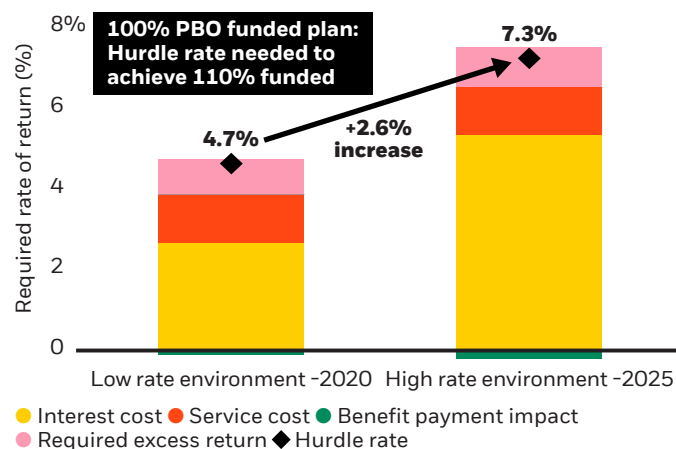
Assumptions, opinions and estimates are provided for illustrative purposes only. They should not be relied upon as recommendations to buy or sell securities. Forecasts of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. The above table serves as a general summary and is not exhaustive.

In 2026 we believe the circumstances, even for well-funded plans, are different, and a wider range of pension plans may want to consider private-market allocations.

Exhibit 5a shows the hurdle rates or required returns for a sample plan that was 100% PBO funded in 2020 (a low-rate environment), versus the hurdle rate of the same 100% PBO funded plan in 2025 (a higher-rate environment). All other things equal, the required return for our fully funded plan to achieve 110% PBO funded in 10 years (assuming no

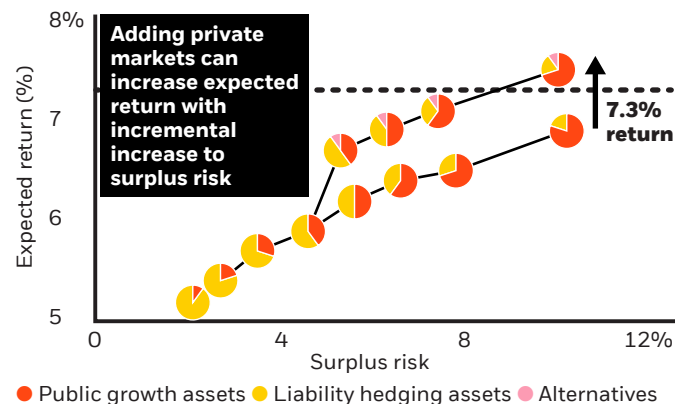
contributions) has projected to increase by 2.6 percentage points, from 4.7% to 7.3%. The primary change has been a significant increase in the interest-cost component of the hurdle rate — liability growth due to the passage of time — driven by the increase in bond yields over the past several years. With higher valuations across public asset classes, private markets may now be necessary even for well-funded pension plans to keep up with liability growth while avoiding the need to contribute.

Exhibit 5a: Higher rate environment has increased the required return for well funded plans...



Source: BlackRock, for illustrative purposes only. Analysis as of October 31, 2025, hurdle rate calculated by BlackRock using 100% funded status; 1.2% service cost and 0% contribution for the purpose of this analysis. Liability hurdle rate is comprised of service cost (annual benefit accrual rate), interest cost (yield on the liability), PBGC premiums and benefit payment drag. PBGC premiums. Benefit payment drag calculated as Liability Cash Flow (1/starting assets – 1/starting liability). Return required to reach 110% funded ratio in 10 years.

Exhibit 5b: ...private markets can help bridge the return gap



Based on BlackRock's Q3 2025 30-year capital market assumptions and Aladdin Risk Model. All investing is subject to risk, including possible loss of money invested. The hypothetical returns shown are not a guarantee of future results. Returns are net of fees which include a deduction of advisory fees and asset class/product level fees. Neither asset allocation nor diversification can guarantee profit or loss. Returns reflect the reinvestment of dividends, capital gains, and interest but do not reflect the impact of taxes. There is no guarantee that BlackRock's CMA or the Aladdin risk model will achieve results shown, and actual volatility returns could be significantly higher or lower than presented. The hypothetical results shown are for illustrative purposes only.

Exhibit 5b shows the expected return and surplus risk of different illustrative mixes of public growth assets, liability-hedging assets, and private-market assets. Based on BlackRock's [capital market assumptions](#), adding private market assets can help well-funded plans get much closer to their now significantly higher hurdle rates.

Given the size and scope of private markets, the breadth of opportunities is too vast for us to cover in detail here, but BlackRock's 2026 Private Markets [Outlook](#) offers in-depth analysis. For those corporate DB plans that want or *need* private assets, we observe the following.

- **Increased availability and use of evergreen and semi-liquid private market funds:** For many years, the gap in liquidity between public and private assets was quite distinct. Public assets could generally be traded daily. Closed-end private assets, on the other hand, would often have only quarterly liquidity, with initial lockups of a year or longer. Pension funds, which generally have higher liquidity needs than other institutional investors, sometimes struggled to justify large private-market allocations, due to the risk that they could be stuck with an excessively high allocation to private markets in a liquidity event (e.g., lump sum or PRT) or a public-market drawdown. More recently, however, there has been an explosion in availability and use of evergreen and semi-liquid private market funds⁴ that can help complement continued growth in secondary-market offerings. The lines between public and private assets have arguably blurred, such that today there is a range of private financing solutions across the liquidity spectrum. We believe that the emergence of evergreen and semi-liquid products will increase flexibility for pension funds to consider private-market allocations.

- **Private debt:** Macro and policy volatility in 2025 posed a headwind to syndicated loan issuance. However, in our experience, periods of elevated market volatility have generally been followed by periods where private credit's share of the total leveraged-finance market has grown rapidly. We see attractive opportunities in asset-based financing and high-grade areas of private credit. The asset class also tends to exhibit spread characteristics that are attractive to corporate plans, which value their liabilities using a corporate yield curve.

- **Infrastructure:** Because infrastructure is essential to the economy and our daily lives, it offers cashflows that are less tied to economic cycles and are longer-term in nature, like pension liabilities. New and emerging investment opportunities include artificial intelligence (AI) and digital infrastructure, where global data center demand is projected to grow at a compound annual rate of 20% through 2030 and require \$1.5 trillion of investment.⁵ As supply chains have moved onshore, investment is also needed in key logistics infrastructure such as railways and ports.

- **Private equity:** Private equity is in transition, in our view. After years of strong fundraising and performance, private equity investors and managers have turned their focus to liquidity. The return of capital to limited partners is essential to allow them to deploy into new vintages and emerging investments. We see value in providing this liquidity. Secondary markets are attractive to us, given that well-below-average deal volume in primary exits has led to an oversupply of motivated sellers, and steeper discounts to investors willing to provide liquidity. Co-investments have become more prominent as investors seek more control, transparency, and cost-efficiency.



⁴ Source: Preqin, October 2025. The total NAV of evergreen funds now exceeds \$400 billion across more than 700 products. Product types include BDCs, Interval Funds Non-traded REITs, tender Offers, ELTIFs, and LTAFs. ⁵ Source: McKinsey & Co. as of February 2025, assumes US\$10M/MW on incremental 150GW of DC demand.

3 How overfunded plans are using their surplus

In our 2025 U.S. Corporate Pension [Themes](#), we undertook a comprehensive review of the ways sponsors can use their pension surplus and identified seven possibilities.

- 1. Hibernate the plan on balance sheet** — Manage overfunded plans as is, and let the surplus provide a cushion to help ensure assets are available to pay current and future pension benefits and avoid variable-rate PBGC premiums.
- 2. Reopen the plan to new participants** — Where a plan that was previously closed to new entrants is reopened, with the surplus helping mitigate the cash burden of funding additional benefits, at least for an initial period. IBM’s decision to reopen its \$24.4 billion⁶ overfunded DB plan effective January 1, 2024 was the highest-profile recent example.
- 3. Enhance benefits for existing participants** — Where the surplus is used to help fund additional benefits as a way to retain talent.
- 4. Put surplus to work for permissible corporate activities** — Surpluses can be a useful asset in [merger and acquisition](#) (M&A) activity, particularly if the prospective buyer has an overfunded plan and the acquisition target has an underfunded one. In these cases, using surplus assets can help reduce the cost of the overall M&A transaction.
- 5. Fund additional benefits beyond the pension** — Sponsors can use surpluses to fund additional benefits beyond the pension. As one example, under IRC [Section 420\(f\)](#), employers may use surplus pension assets to prefund retiree health benefits, otherwise known as 401(h) accounts.
- 6. Offer lump sums or PRT** — Both initiatives are typically undertaken when the sponsor wants to reduce or eliminate the financial risk of the plan to the company, but may require additional assets to settle the transaction. A surplus can help reduce or eliminate the need to pay for these premiums from corporate cash.
- 7. Bring surplus back to the organization** — Surpluses can be brought back to the sponsor, but this requires a plan termination, and there can be severe tax penalties.

Below are two hypothetical case studies that highlight possible ways to utilize a surplus.⁷

Offer lump sums or PRT

Both lump sums and PRTs can have material investment implications for DB portfolios, and sponsors should ensure careful planning and coordination between the plan actuary, fiduciary advisors, insurers, and asset managers. Exhibit 6 below is a hypothetical example of the changes that may be required in the investment portfolio for a partial PRT transaction that also involves a lump-sum offer.

To fund a PRT transaction, insurers typically prefer long-duration investment grade bonds, such as those found in LDI programs, because they most closely match the assets on their balance sheet that will fund transferred obligations. Given this, as seen in the hypothetical ‘Baseline Plan’ in the left panel of Exhibit 6, sponsors may wish to adjust their asset allocation so that almost all of the PRT amount can be funded from the LDI program. This may require selling growth assets, which could take some time to execute cost-effectively.

The middle panel of Exhibit 6 illustrates how the shape of the liability is projected to change — essentially resulting in a large cash flow in year zero and lower liabilities in the future. When calculating lump-sum payment amounts, IRC [Section 417\(e\)](#) requires plans to select a “lookback month” and a “stability period” to determine which interest rate applies. This often means that lump-sum amounts are fixed and known months before they need to be paid, and thus are no longer interest-rate sensitive in the same way as the remaining annuity liability. Given this, in this example it makes sense to move the lump sum proceeds out of the LDI program and into cash or short-duration bonds. The yield on the cash or short-duration bond vehicle also matters, since ideally the cash allocation will outperform any ongoing interest credits that may continue to accrue for a cash-balance liability.

In the right panel of Exhibit 6, we illustrate the remaining expected liability after the hypothetical retiree lift-out has been completed, as well as the remaining assets that need to be invested against it. Most often, this will result in a need to re-risk the asset allocation, and the LDI program would likely need a longer-duration exposure because cash flows of active and terminated vested participants tend to occur further into the future. In many situations, a transition manager can help reduce costs and ensure a detailed level of reporting is available to account for these asset movements.

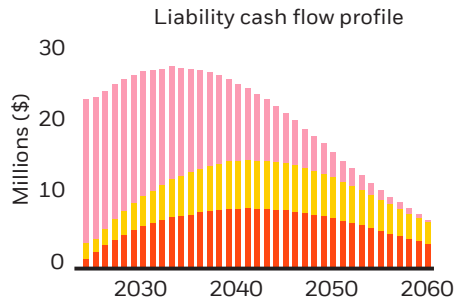
⁶ IBM 2024 [Form 10-K](#). Specific companies are mentioned for educational purposes only and should not be deemed as a recommendation to buy or sell any securities. ⁷ Case studies shown for illustrative purposes only, and were selected to demonstrate ways sponsors might use a pension surplus. There is no guarantee that an actual strategy will be executed or executed as shown, or that if executed, will be profitable. Case studies does not predict future results, even if a similar strategy is used.

Exhibit 6: Three phases for the investment portfolio in a partial PRT transaction

Baseline plan

Liability (PBO): \$396.8M

Liability duration: 11.5 years

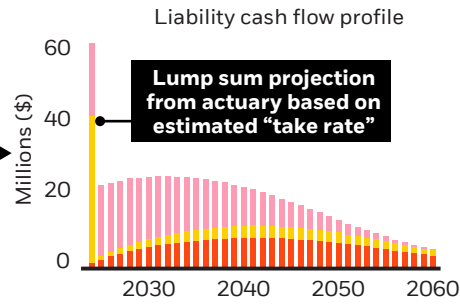


● Active ● Terminated vested ● Retired

Impact of lump sum window

Liability (PBO): \$396.0M

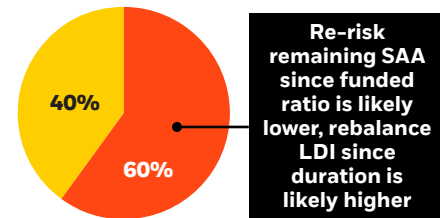
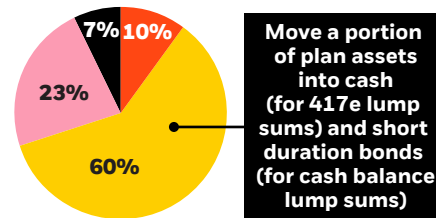
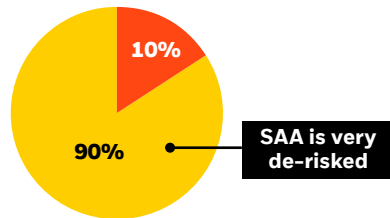
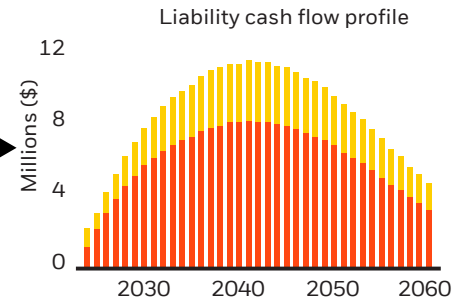
Liability duration: 10.0 years



Impact of retiree lift out

Liability (PBO): \$139.0M

Liability duration: 15.3 years



● Public growth assets ● Liability hedging assets ● Short duration bonds ● Cash

Hypothetical projections are provided for illustrative purposes only and are not meant to be representative of actual performance returns of, or to project or predict returns for, any account, portfolio, strategy or asset allocation. The displayed hypothetical portfolio is subject to a number of significant limitations. It is illustrative of a pension plan or strategy that does not exist, and therefore does not reflect the deduction of any fees or expenses, including advisory, management and performance fees, as well as brokerage fees, commissions and other expenses that might normally apply. In addition, the allocation decisions reflected in the hypothetical returns were not made under actual market conditions and cannot completely account for the impact of financial risk in actual portfolio management. **Source:** BlackRock. For illustrative purposes only. Actual movements into cash and short duration bonds will be determined by the estimated size of lump sum payments once Section 417(e) lump sum interest rates are 'locked'. Liability cash flows assume 50% lump sum take rate for terminated vested participants. Liability and duration values shown are on a PBO basis and uses the Bank of America Merrill Lynch A-AA-AAA Corporate Curve (Market Weighted). See also <https://www.blackrock.com/institutions/en-us/insights/2025-corporate-pensions-theme>.

In 2025 we saw several notable trends in the PRT market.

- Total PRT sales were down significantly in the first three quarters of 2025, which industry participants speculated was due to elevated litigation concerns. However, a surge in fourth-quarter PRTs, including a number of jumbo transactions, likely resulted in total activity between \$45 and \$50 billion for 2025 – similar to 2024. There was growing interest in buy-ins, a form of partial risk transfer where investment, longevity, and inflation risk was transferred to the insurer while the sponsor kept control of the assets and continues to pay benefits.
- As of October 2025, just over two-thirds of all PRT transactions were retiree lift-outs, partial transfers of pension risk that leave the sponsor responsible for managing assets and liabilities for the remaining active and terminated vested population. Only one-quarter of all PRT transactions were full plan terminations.
- According to the Milliman Pension Buyout Index, insurer pricing for competitive retiree lift-out PRT transactions is average 100.1% of PBO, as of December 2025, which is slightly below what was seen in 2024 at 101.2%

Bring surplus back to the organization

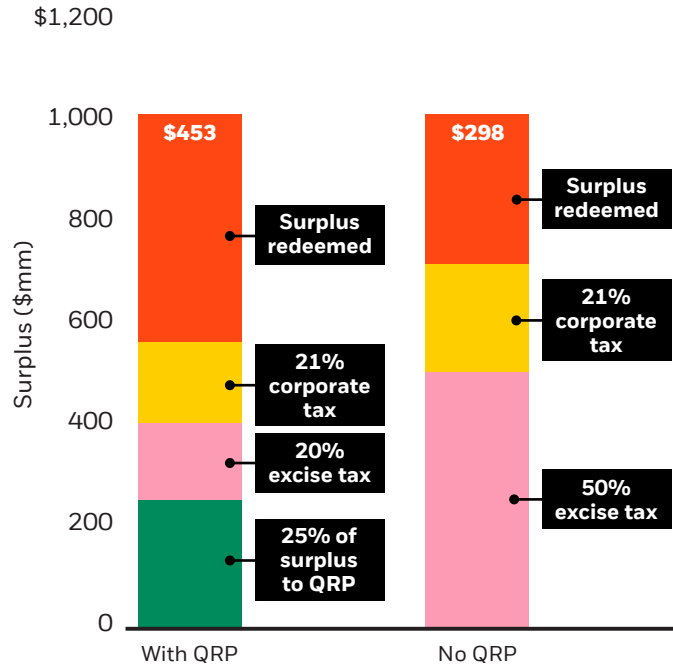
Employers generally cannot withdraw money from an ongoing DB plan, except when contributions are attributable to a “mistake of fact.” In all other situations, withdrawals require a plan termination, and, as specified in IRC Section 4980, there can be severe tax penalties. Our 2025 Themes described in detail the three common paths for terminating the plan and accessing at least a portion of the surplus.

The most high-profile recent example of a sponsor seeking to revert its surplus back to the organization in the U.S. was Kodak. On December 2, 2025 it announced it had completed the process to revert a surplus of \$1.023 billion. To maximize the surplus redeemed and minimize the excise tax impact, Kodak used at least 25% of its surplus assets remaining after termination costs to create a Qualified Replacement Plan (QRP) for active employees and new hires that did not take a lump sum. If no QRP were created, the surplus redeemed to the company would have been reduced due to higher excise tax. Exhibit 7 quantifies the difference in surplus redeemed in each of these scenarios.

Given the creation of a QRP, Kodak disclosed that it redeemed \$453 million of the \$1.023 billion surplus to “create a stronger financial foundation” for the company while satisfying all pension benefits owed to participants. We estimate the excise tax in this scenario amounted to just under \$205 million. If, however, Kodak did not create a QRP, the excise tax bill would increase to around \$511 million, and we estimate it would have only been able to revert \$298 million in surplus.

Exhibit 7: Estimated surplus redeemed with QRP vs no QRP

Use of Kodak's \$1.023bn pension surplus



Source: BlackRock, for illustrative purposes only. Surplus and tax implications were estimated using Kodak's Form 8K as of November 26, 2025 and Form 10K as of December 31, 2024. Corporate Tax is estimated assuming the entire balance, after the QRP is established and Excise Tax is paid, is taxed at a 21% rate. See also: <https://www.blackrock.com/institutions/en-us/insights/2025-corporate-pensions-themes>.



4 Engaging a strategic partner – why the trend and what constitutes a great outcome in these relationships

The number of pension plans choosing to focus on their core businesses and delegate authority to manage pension assets to a third party – otherwise known as an Outsourced Chief Investment Officer (OCIO) – has grown steadily over the past 20 years. According to Cerulli,⁸ 39% of U.S. DB plans are managed in an OCIO model, up from 29% in 2020. Close to half of these plans moved away from a traditional advisory-only investment consultant, and another one-third had previously had an internal investment office overseeing the assets.

Historically, OCIO services were predominantly sought by smaller plans (those with less than \$1 billion in assets). They had a variety of catalysts for doing so: The desire to seek better investment performance, a lack of resources to manage increasingly complex portfolios and operations, the need for scale to negotiate favorable fee terms, and the technology to monitor and manage exposures in real time. More recently, we have observed larger and more complex plans (some with over \$10 billion in assets) contemplating outsourcing aspects of their investment management.

In our experience, the critical ingredients for achieving a great outcome in strategic partnerships include.

- **Alignment of investment strategy with goals** – Moving to a strategic partnership model may not necessarily mean changes to investment strategy, but ongoing review is often necessary to ensure the plans remain on track to achieve investment goals.

Plans most often focus on seeking funded ratio improvements net of contributions while minimizing surplus risk, and more consistent performance against asset-based benchmarks net of fees.

- **Smooth transition across investments, governance, and operations** – Transitions require careful choreography and exceptional client service. It is important to establish clear roles and responsibilities for delegated services, mitigate disruptions to existing processes, explore efficiencies, and leverage integrated operational and risk – management technology. Retaining key relationships with service providers and counterparties is also essential.

- **Knowledge sharing and extension of staff services** – Clients can access a broader set of resources and thought leadership from an OCIO to help address their most important investment and organizational challenges, as well as evolving needs. These capabilities span governance and investment policy insights, capital markets expertise, peer research, and portfolio analytics, while also supporting stakeholders beyond the investment committee, including internal staff and other key constituencies.

- **Cost savings** – Transforming the portfolio and the organization can reduce investment product expenses and the direct and indirect costs of running aspects of the enterprise investment office, may lead to significant cost savings.

Looking ahead

Another year of strong capital market returns in 2025 helped propel funded ratios for many U.S. pension plans beyond full funding. As such, one might have assumed that the majority of investment changes in the coming year would simply be to allocate more assets to LDI programs. However, we believe we have shown that the themes for U.S. pension plans in 2026 are far more nuanced.

We believe late cycle dynamics – signs of weakness in the labor market, sticky long rates, and historically tight credit spreads – require precision in LDI programs.

Higher hurdle rates and the increased availability of semi-liquid and evergreen products are likely to result in renewed interest in alternative asset classes. Sponsors should continue exploring creative ways to deploy their surpluses, or at least plan for future initiatives to maximize value. Lastly, we see the trend towards OCIO continuing – with strategic partnership dialogues deepening as plan sponsors weigh outsourcing aspects of their investment office functions.

We look forward to continuing to be part of the conversation.

⁸ Source: The Cerulli Report: U.S. Outsourced Chief Investment Officer Function 2025.

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