Will stock market rally save pensions?

The surging stock market rally not only is repairing personal balance sheets and 401(k) accounts. It is also defusing the corporate pension crisis.

The funded status of the typical US corporate pension plan in February rose 0.4 percentage points to 88 percent, according to monthly statistics published by BNY Mellon Asset Management.

This is the sixth consecutive monthly improvement, boosting the funded status for these pension plans to their best levels since October 2008, according to the BNY Mellon.

This year alone the funded ratio for the typical corporate plan has improved 3.7 percentage points.

The major reason for the improvement: Higher stock prices.

In February, assets for the typical corporate pension plan rose 2.3 percent, thanks to a 3.6 percent rise in US equities and a 3.3 percent gain in international stocks, according to the report.

Liabilities increased 1.7 percent during the month as the Aa corporate discount rate fell 10 basis points to 5.54 percent from 5.64 percent.

BNY Mellon explains that plan liabilities are calculated using the yields of long-term investment grade corporate bonds. Lower yields on these bonds result in higher liabilities.

"U.S. corporate pension plans have seen a steady stream of good news since August 2010, when the funded status of these plans was hovering slightly above 70 percent," said Peter Austin, executive director of BNY Mellon Pension Services, the pension services arm of BNY Mellon Asset Management. "This rapid improvement in funded status has prompted a growing number of pension sponsors to reassess their asset allocation strategies."

One approach includes reductions in plan funding volatility through higher allocations to fixed income and/or interest rate risk hedging programs, according to the BNY Mellon report. Another approach is continued reliance on return-seeking asset classes, such as equities and alternative investments such as hedge funds and private equity to drive funding improvement.

BNY Mellon also noted in its report that target funding strategies are also gaining traction as plan fiduciaries recognize the need to be prepared to make timely and informed decisions.

It stresses that plan sponsors want to avoid a repeat of the financial crisis, when funding levels fell 15 to 20 percentage points.