

Milliman analysis: Corporate pension funded ratio approaches 90% in July due to robust investment performance



The funded status improved by \$23 billion in July and by a stunning \$388 billion since July 31, 2012; the resulting \$158 billion pension deficit for the Milliman 100 PFI is lowest since June 2011

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The funded status of the 100 largest corporate defined benefit pension plans improved by \$23 billion during July as measured by the Milliman 100 Pension Funding Index (PFI). The deficit dropped to \$158 billion from \$182 billion at the end of June, primarily to due to a robust investment gain of more than 2% during July. The PFI funded ratio improved to 89.7%, up from 88.2% at the end of June.

HIGHLIGHTS

| | \$ BILLION | | | FUNDED PERCENTAGE |
|----------------|------------|-------|---------------|-------------------|
| | MV | PBO | FUNDED STATUS | |
| JUNE 2013 | 1,356 | 1,538 | (182) | 88.2% |
| JULY 2013 | 1,382 | 1,540 | (158) | 89.7% |
| MONTHLY CHANGE | +26 | +3 | +23 | +1.5% |
| YTD CHANGE | +60 | (172) | +233 | +12.5% |

NOTE: NUMBERS MAY NOT ADD UP PRECISELY DUE TO ROUNDING

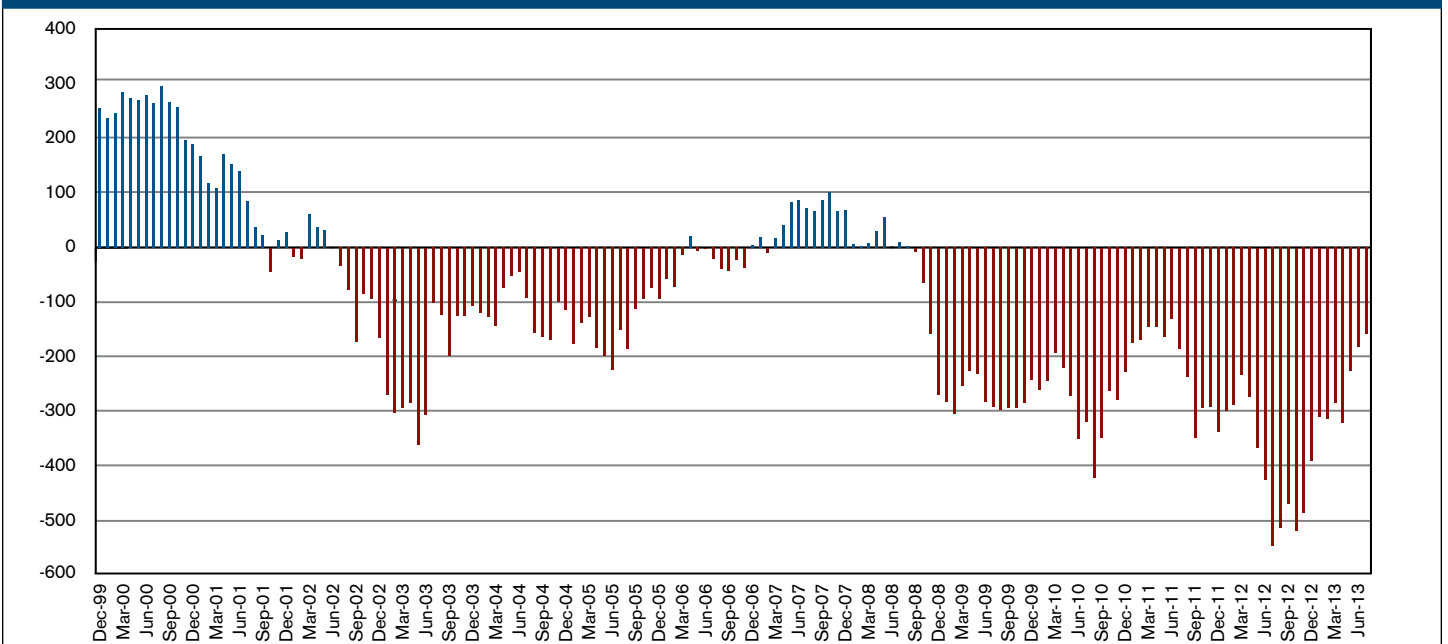
The projected benefit obligation (PBO), or pension liabilities, increased to \$1.540 trillion from \$1.538 trillion at the end of June. This change was based on a negligible one basis point decrease in the monthly discount rate, which dropped to 4.73% for July, from 4.74% for June.

\$1.382 trillion, up from \$1.356 trillion at the end of June. By comparison, the 2013 Milliman Pension Funding Study reported that the median expected investment return during 2012 was 0.60% (7.5% annualized). July was the best performing month for investments so far in 2013.

The market value of assets increased by \$26 billion as a result of July's investment gain of 2.04%. The Milliman 100 PFI asset value increased to

Over the last 12 months (August 2012 to July 2013), the cumulative asset return for these pensions has been 8.22% and the Milliman 100

FIGURE 1: MILLIMAN 100 PENSION FUNDING INDEX PENSION SURPLUS/DEFICIT



PFI funded status deficit has improved by \$388 billion primarily due to rising interest rates. The discount rate as of a year ago on July 31, 2012 was 3.92%, the lowest ever recorded in the 13-year history of the Milliman 100 PFI. The funded ratio of the Milliman 100 companies has improved over the past 12 months to 89.7% from 70.5%. The last 12 months were the best 12-month period for corporate pension funded status in the history of our study (with funded status gains in nine out of the 12 prior months).

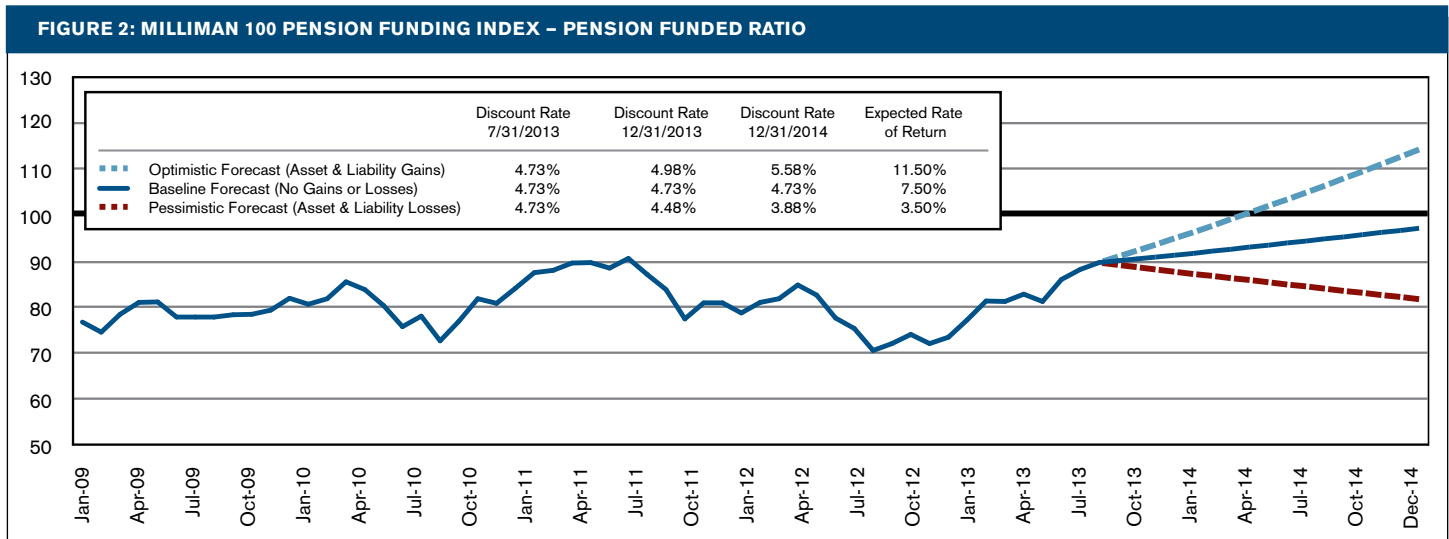
2013-2014 PROJECTIONS

If the Milliman 100 PFI companies were to achieve the expected 7.5% (as per the 2013 pension funding study) median asset return for their pension plan portfolios and the current discount rate of 4.73% was maintained during years 2013 and 2014, we forecast the funded status of the surveyed plans would increase. This would result in a projected pension deficit of \$128 billion (funded ratio of 91.7%) by the end of 2013 and a projected pension deficit of \$44 billion (funded ratio of 97.2%) by the end of 2014. For purposes

of this forecast, we have assumed 2013 aggregate contributions of \$74 billion and 2014 aggregate contributions of \$81 billion.

Under an optimistic forecast with rising interest rates (reaching 4.98% by the end of 2013 and 5.58% by the end of 2014) and asset gains (11.5% annual returns), the funded ratio would climb to 96% by the end of 2013 and 114% by the end of 2014. Under a pessimistic forecast with similar interest rate and asset movements (4.48% discount rate at the end of 2013 and 3.88% by the end of 2014 and 3.5% annual returns), the funded ratio would decline to 87% by the end of 2013 and 82% by the end of 2014.

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MILLIMAN 100 PENSION FUNDING INDEX – JULY 2013 (ALL DOLLAR AMOUNTS IN MILLIONS)

| END OF MONTH | YEAR | MARKET VALUE OF ASSETS | PROJECTED BENEFIT OBLIGATION (PBO) | FUNDED STATUS | CHANGE IN FUNDED STATUS | FUNDED RATIO |
|--------------|------|---------------------------|---------------------------------------|---------------|----------------------------|--------------|
| JULY | 2012 | 1,306,535 | 1,852,645 | (546,110) | N/A | 70.5% |
| AUGUST | 2012 | 1,319,055 | 1,832,240 | (513,186) | 32,924 | 72.0% |
| SEPTEMBER | 2012 | 1,335,728 | 1,804,898 | (469,170) | 44,016 | 74.0% |
| OCTOBER | 2012 | 1,334,050 | 1,851,841 | (517,791) | (48,621) | 72.0% |
| NOVEMBER | 2012 | 1,341,551 | 1,827,021 | (485,470) | 32,321 | 73.4% |
| DECEMBER | 2012 | 1,322,002 | 1,712,697 | (390,695) | 94,775 | 77.2% |
| JANUARY | 2013 | 1,342,030 | 1,651,004 | (308,974) | 81,721 | 81.3% |
| FEBRUARY | 2013 | 1,351,607 | 1,665,403 | (313,796) | (4,822) | 81.2% |
| MARCH | 2013 | 1,366,947 | 1,651,385 | (284,438) | 29,358 | 82.8% |
| APRIL | 2013 | 1,389,460 | 1,710,739 | (321,279) | (36,841) | 81.2% |
| MAY | 2013 | 1,383,901 | 1,609,793 | (225,892) | 95,387 | 86.0% |
| JUNE | 2013 | 1,356,393 | 1,537,932 | (181,539) | 44,353 | 88.2% |
| JULY | 2013 | 1,382,346 | 1,540,452 | (158,106) | 23,433 | 89.7% |

PENSION ASSET AND LIABILITY RETURNS

| END OF MONTH | YEAR | ASSET RETURNS | | DISCOUNT RATE | LIABILITY RETURNS | |
|--------------|------|---------------|--------------|---------------|-------------------|--------------|
| | | MONTHLY | YEAR-TO-DATE | | MONTHLY | YEAR-TO-DATE |
| JULY | 2012 | 1.28% | 5.31% | 3.92% | 8.11% | 18.12% |
| AUGUST | 2012 | 1.02% | 6.38% | 3.99% | -1.01% | 16.93% |
| SEPTEMBER | 2012 | 1.32% | 7.79% | 4.08% | -1.39% | 15.30% |
| OCTOBER | 2012 | -0.07% | 7.72% | 3.96% | 2.69% | 18.40% |
| NOVEMBER | 2012 | 0.62% | 8.39% | 4.05% | -1.25% | 16.92% |
| DECEMBER | 2012 | -0.30% | 8.07% | 3.96% | -4.20% | 12.01% |
| JANUARY | 2013 | 1.64% | 1.64% | 4.22% | -3.30% | -3.30% |
| FEBRUARY | 2013 | 0.84% | 2.49% | 4.16% | 1.18% | -2.15% |
| MARCH | 2013 | 1.26% | 3.78% | 4.22% | -0.53% | -2.67% |
| APRIL | 2013 | 1.77% | 5.62% | 3.98% | 3.90% | 1.12% |
| MAY | 2013 | -0.28% | 5.33% | 4.41% | -5.59% | -4.53% |
| JUNE | 2013 | -1.87% | 3.36% | 4.74% | -4.12% | -8.46% |
| JULY | 2013 | 2.04% | 5.46% | 4.73% | 0.51% | -7.99% |

ABOUT THE MILLIMAN 100 MONTHLY PENSION FUNDING INDEX

For the past 13 years, Milliman has conducted an annual study of the 100 largest defined benefit pension plans sponsored by U.S. public companies. The Milliman 100 Pension Funding Index projects the funded status for pension plans included in our study, reflecting the impact of market returns and interest rate changes on pension funded status, utilizing the actual reported asset values, liabilities, and asset allocations of the companies' pension plans.

The results of the Milliman 100 Pension Funding Index were based on the actual pension plan accounting information disclosed in the footnotes to the companies' annual reports for

the 2012 fiscal year and for previous fiscal years. This pension plan accounting disclosure information was summarized as part of the Milliman 2013 Pension Funding Study, which was published on March 25, 2013. In addition to providing the financial information on the funded status of U.S. qualified pension plans, the footnotes may also include figures for the companies' nonqualified and foreign plans, both of which are often unfunded or subject to different funding standards than those for U.S. qualified pension plans. They do not represent the funded status of the companies' U.S. qualified pension plans under ERISA.

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Milliman 100 Pension Funding Index

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