

Milliman analysis: Corporate pension funded status improves in June by \$47 billion as higher interest rates reduce pension obligations and assets



Second consecutive month of bonds selloff activity drives interest rates higher, leading to significant reduction in pension liabilities

\$179 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 \$47 billion during June as measured by the Milliman 100 Pension Funding Index (PFI). The deficit dropped to \$179 billion from \$226 billion at the end of May, as a sell-off in bonds continued and the benchmark corporate bond interest rates used to value pension liabilities rose. Declines in both the equity and fixed income markets resulted in a reduction in plan assets during June. The PFI funded ratio improved to 88.3%, up from 86.0% at the end of May.

The projected benefit obligation (PBO), or pension liabilities, decreased by \$72 billion during June, lowering the Milliman 100 PFI value to \$1.538 trillion from \$1.610 trillion at the end of May. A 33-basis-point improvement in the monthly discount rate to 4.74% for June, from 4.41% for May, drove the change.

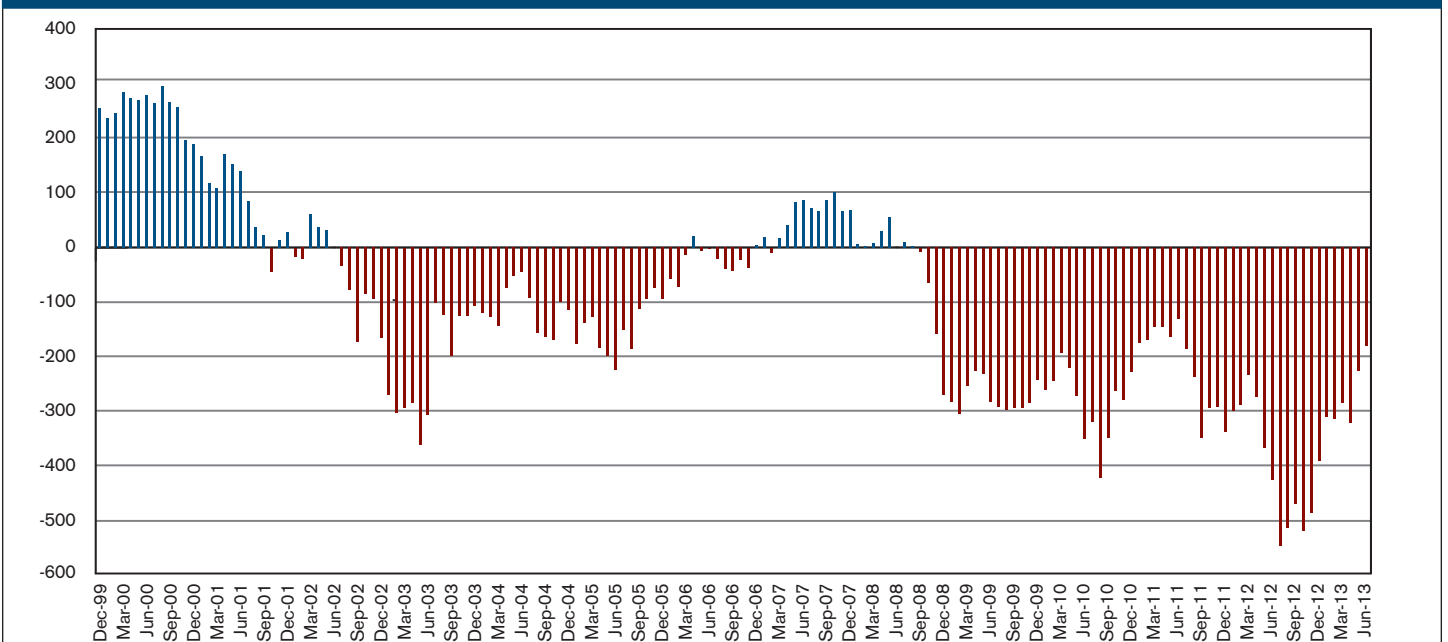
The market value of assets decreased by \$25 billion as a result of June's investment loss of 1.71%. The Milliman 100 PFI asset value decreased to \$1.359 trillion, down from \$1.384 trillion at the end of May. By comparison, the 2013 Milliman Pension Funding Study reported that the median expected investment return during 2012 was 0.60% (7.5% annualized). Despite

HIGHLIGHTS

	\$ BILLION			FUNDED PERCENTAGE
	MV	PBO	FUNDED STATUS	
MAY 2013	1,384	1,610	(226)	86.0%
JUNE 2013	1,359	1,538	(179)	88.3%
MONTHLY CHANGE	(25)	(72)	+47	+2.3%
YTD CHANGE	+37	(175)	+211	+11.1%

NOTE: NUMBERS MAY NOT ADD UP PRECISELY DUE TO ROUNDING

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



June's poor investment performance, assets have returned a respectable 3.53% thus far.

SECOND QUARTER 2013 SUMMARY

2013 has been characterized by rising interest rates and asset performance on par with expectations. Plan assets earned above-expected returns for the first four months of the year but since have given back some of their upside in the last two months. The assets lost 0.24% of their March 31 value in the second quarter. The primary reason for the second quarter's remarkable results is an increase in interest rates of 76 basis points since April 30. The quarter ended June 30, 2013, saw the funded status deficit reduced to \$179 billion from \$284 billion. The funded ratio of the Milliman 100 companies increased to 88.3% at the end of June from 82.8% at the end of March.

Over the last 12 months (July 2012 to June 2013), the cumulative asset return for these pensions has been 7.60% and the Milliman 100 PFI funded status deficit has improved by \$245 billion. The discount rate as of a year ago on June 30, 2012, was 4.32%. The funded ratio of the Milliman 100 companies has improved over the past 12 months to 88.3% from 75.3%.

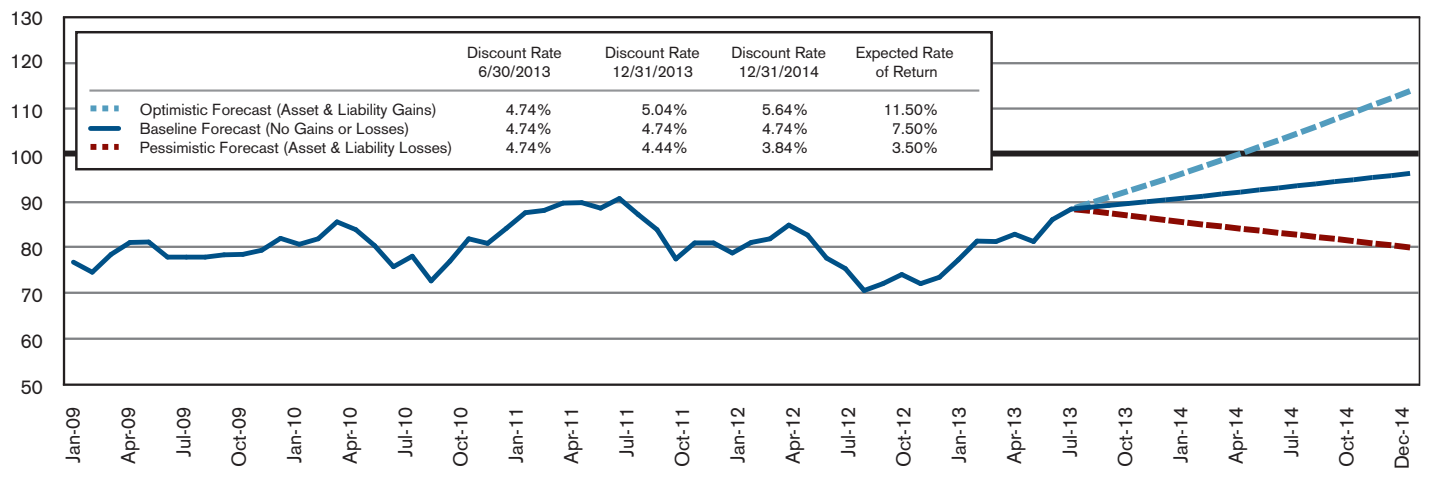
2013-2014 PROJECTIONS

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 4.74% were 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 \$143 billion (funded ratio of 90.7%) by the end of 2013 and a projected pension deficit of \$61 billion (funded ratio of 96.1%) 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 5.04% by the end of 2013 and 5.64% 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 (4.44% discount rate at the end of 2013 and 3.84% by the end of 2014 and 3.5% annual returns), the funded ratio would decline to 85% by the end of 2013 and 80% by the end of 2014.

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FIGURE 2: MILLIMAN 100 PENSION FUNDING INDEX – PENSION FUNDED RATIO



MILLIMAN 100 PENSION FUNDING INDEX – JUNE 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
JUNE	2012	1,290,860	1,714,945	(424,085)	N/A	75.3%
JULY	2012	1,306,535	1,852,645	(546,110)	(122,025)	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	1,383,983	1,609,793	(225,810)	95,469	86.0%
JUNE	2013	1,358,668	1,537,932	(179,264)	46,546	88.3%

PENSION ASSET AND LIABILITY RETURNS

END OF MONTH	YEAR	ASSET RETURNS		DISCOUNT RATE	LIABILITY RETURNS	
		MONTHLY	YEAR-TO-DATE		MONTHLY	YEAR-TO-DATE
JUNE	2012	1.79%	3.98%	4.32%	5.03%	9.26%
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	-0.27%	5.33%	4.41%	-5.59%	-4.53%
JUNE	2013	-1.71%	3.53%	4.74%	-4.12%	-8.46%

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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