

Milliman analysis: Corporate pension funded ratio in September exceeds 91%, a level last observed in 2008



Pension funded status improves by \$32 billion during September

The \$132 billion pension deficit for the Milliman 100 PFI is a stellar improvement over the \$469 billion pension deficit experienced just one year ago

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The funded status of the 100 largest corporate defined benefit pension plans improved by \$32 billion during September as measured by the Milliman 100 Pension Funding Index (PFI). The deficit dropped to \$132 billion from \$164 billion at the end of August, primarily due to a robust investment gain of more than 2% during September. The PFI funded ratio increased to 91.4% from 89.3% at the end of August.

HIGHLIGHTS

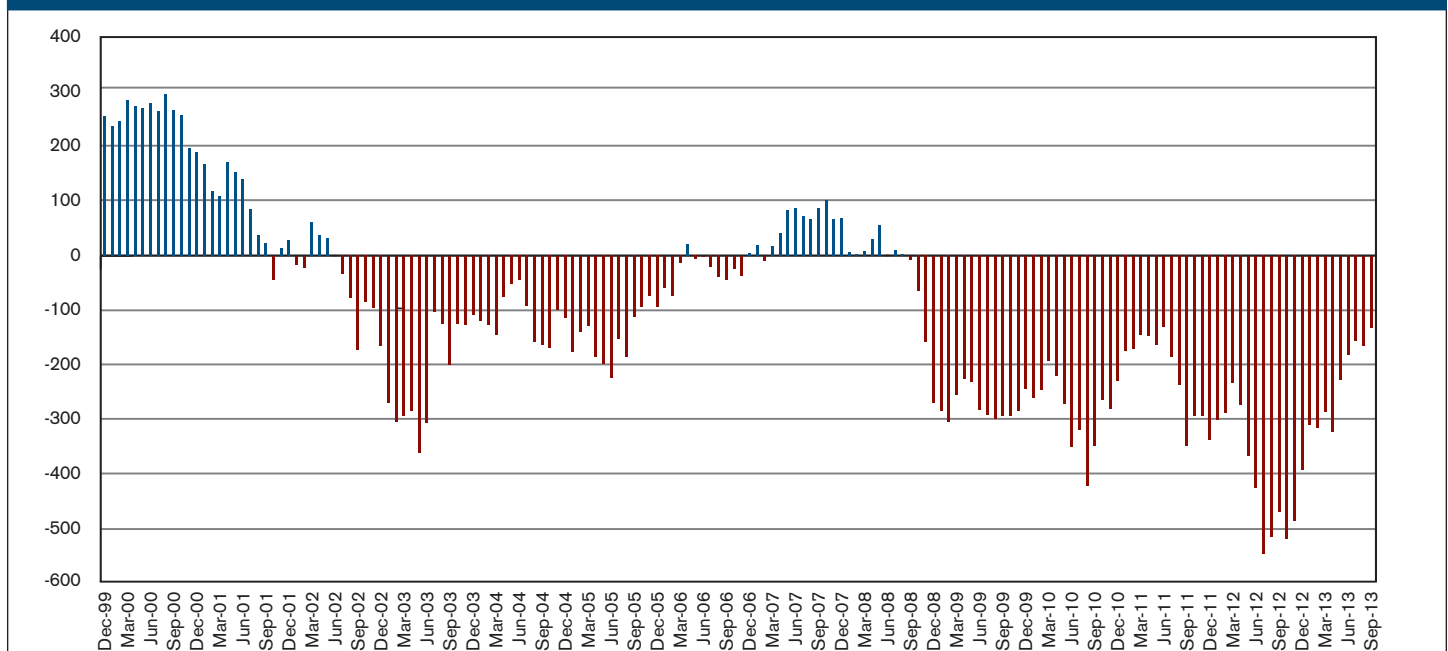
	\$ BILLION			
	MV	PBO	FUNDED STATUS	FUNDED PERCENTAGE
AUGUST 2013	1,369	1,532	(164)	89.3%
SEPTEMBER 2013	1,396	1,527	(132)	91.4%
MONTHLY CHANGE	+27	(5)	+32	+2.1%
YTD CHANGE	+74	(185)	+259	+14.2%

NOTE: NUMBERS MAY NOT ADD UP PRECISELY DUE TO ROUNDING

The projected benefit obligation (PBO), or pension liabilities, decreased to \$1.527 trillion from \$1.532 trillion at the end of August. This change was based on a meager three-basis-point increase in the monthly discount rate to 4.80% for September, from 4.77% for August.

The market value of assets increased by \$27 billion as a result of September's investment gain of 2.10%. The Milliman 100 PFI asset value improved to \$1.396 trillion, up from \$1.369 trillion at the end of August. By comparison, the 2013 Milliman Pension Funding Study reported that the median expected investment return during 2012 was 0.60% (7.5% annualized).

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



THIRD QUARTER 2013 SUMMARY

The quarter ended September 30, 2013, saw the funded status deficit decline by \$50 billion. This was primarily due to strong investment performance for the months of July and September. Interest rates also experienced upward movements, albeit on a smaller scale, during the third quarter of 2013. The asset return over the last quarter was 3.27% and the discount rate had increased six basis points. The funded ratio of the Milliman 100 companies improved to 91.4% at the end of September from 88.2% at the end of June.

Over the last 12 months (October 2012 to September 2013), the cumulative asset return for these pensions has been 7.01% and the Milliman 100 PFI funded status deficit has improved by \$337 billion, primarily due to rising interest rates. The discount rate as of a year ago on September 30, 2012, was 4.08%. The funded ratio of the Milliman 100 companies has improved over the past 12 months to 91.4% from 74.0%.

2013-2014 PROJECTIONS

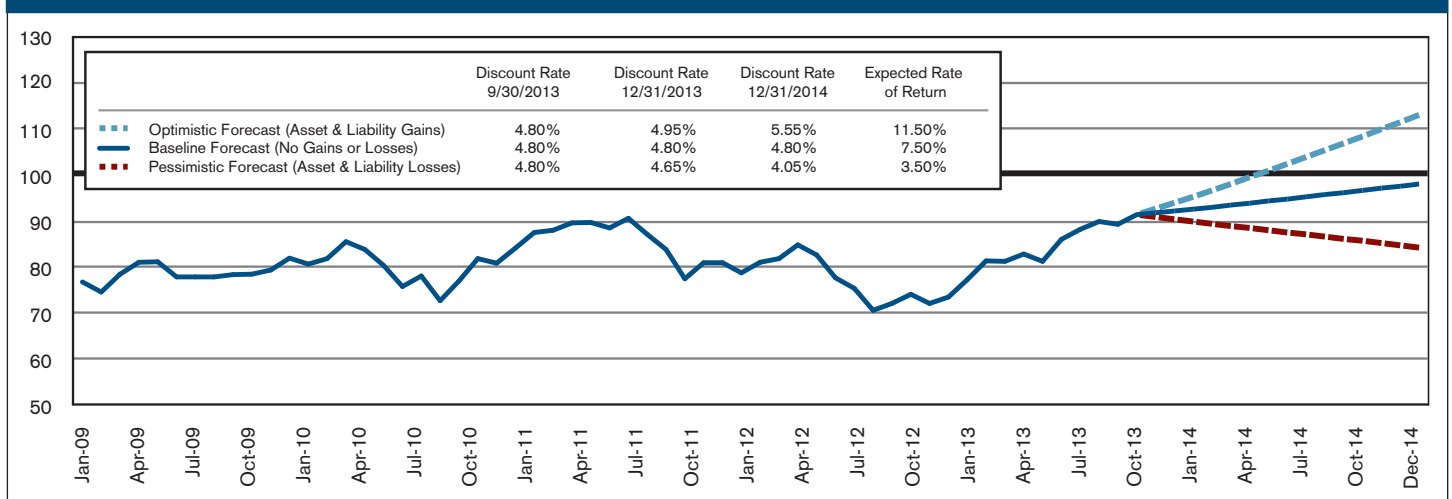
If the Milliman 100 PFI companies were to achieve the expected 7.5% (as per the 2013 pension funding study) median asset return for their pension plan portfolios and the current discount

rate of 4.80% 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 \$113 billion (funded ratio of 92.6%) by the end of 2013 and a projected pension deficit of \$29 billion (funded ratio of 98.1%) 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 4.95% by the end of 2013 and 5.55% by the end of 2014) and asset gains (11.5% annual returns), the funded ratio would climb to 95% by the end of 2013 and 113% by the end of 2014. Under a pessimistic forecast with similar interest rate and asset movements (4.65% discount rate at the end of 2013 and 4.05% by the end of 2014 and 3.5% annual returns), the funded ratio would decline to 90% by the end of 2013 and 84% by the end of 2014.

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



MILLIMAN 100 PENSION FUNDING INDEX – SEPTEMBER 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
SEPTEMBER	2012	1,335,728	1,804,898	(469,170)	N/A	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	1,356,420	1,537,932	(181,512)	44,380	88.2%
JULY	2013	1,384,839	1,540,452	(155,613)	25,899	89.9%
AUGUST	2013	1,368,743	1,532,490	(163,747)	(8,134)	89.3%
SEPTEMBER	2013	1,395,754	1,527,475	(131,721)	32,026	91.4%

PENSION ASSET AND LIABILITY RETURNS

END OF MONTH	YEAR	ASSET RETURNS		DISCOUNT RATE	LIABILITY RETURNS	
		MONTHLY	YEAR-TO-DATE		MONTHLY	YEAR-TO-DATE
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	2.22%	5.65%	4.73%	0.51%	-7.99%
AUGUST	2013	-1.04%	4.55%	4.77%	-0.17%	-8.14%
SEPTEMBER	2013	2.10%	6.74%	4.80%	0.03%	-8.12%

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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