

Milliman analysis: Pension funding ratio climbs to 95.2% at year-end 2013



Combination of an 87-basis-point surge in interest rates and an 11.2% investment gain powers a historic year in pension funded status improvement

2013 ends with one-year funded status gain of \$318 billion, making it the best year for pension plans in the 13-year history of the Milliman 100 PFI

Forecast for end of year 2014 and 2015

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YEAR IN REVIEW

Finally, a win-win year for the corporate pension plans of the Milliman 100 Pension Funding Index (PFI) as liabilities decreased by \$190 billion and assets increased by \$128 billion. This is the first time since our year-end 2007 report that liabilities decreased and assets increased in the same year. Interest rates rose in 2013 after four consecutive years of declines from 2009 to 2012. Investment returns for the Milliman 100 plans exceeded expectations in 2013, as they have done in four out of the last five years.

The funded status of the 100 largest corporate defined benefit pension plans improved by \$318 billion during 2013 as measured by the PFI. The year ended on an optimistic note as the index captured four consecutive months of funded status gains starting with September. Historically low interest rates were the dominant factor in 2012, but interest rates have since rebounded in 2013, increasing 87 basis points

HIGHLIGHTS

	\$ BILLION			
	MV	PBO	FUNDED STATUS	FUNDED PERCENTAGE
NOVEMBER 2013	1,440	1,533	(93)	93.9%
DECEMBER 2013	1,450	1,523	(73)	95.2%
MONTHLY CHANGE	+10	(10)	+20	+1.3%
YTD CHANGE	+128	(190)	+318	+ 18.0%

NOTE: NUMBERS MAY NOT ADD UP PRECISELY DUE TO ROUNDING

for the year and leading to large liability declines. Higher-than-expected investment returns added to the funded status improvement, as monthly returns were greater than expected in nine out of 12 months during 2013. The funded ratio was 95.2% as of December 31, 2013, an astounding 18 percentage points higher than the 77.2% funded ratio at the beginning of 2013. More than five years have elapsed since the PFI funded ratio last exceeded 95%, when it settled at 99.4% in September 2008. Many plan sponsors will now have their sights set on attaining fully funded status for their plans in 2014.

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

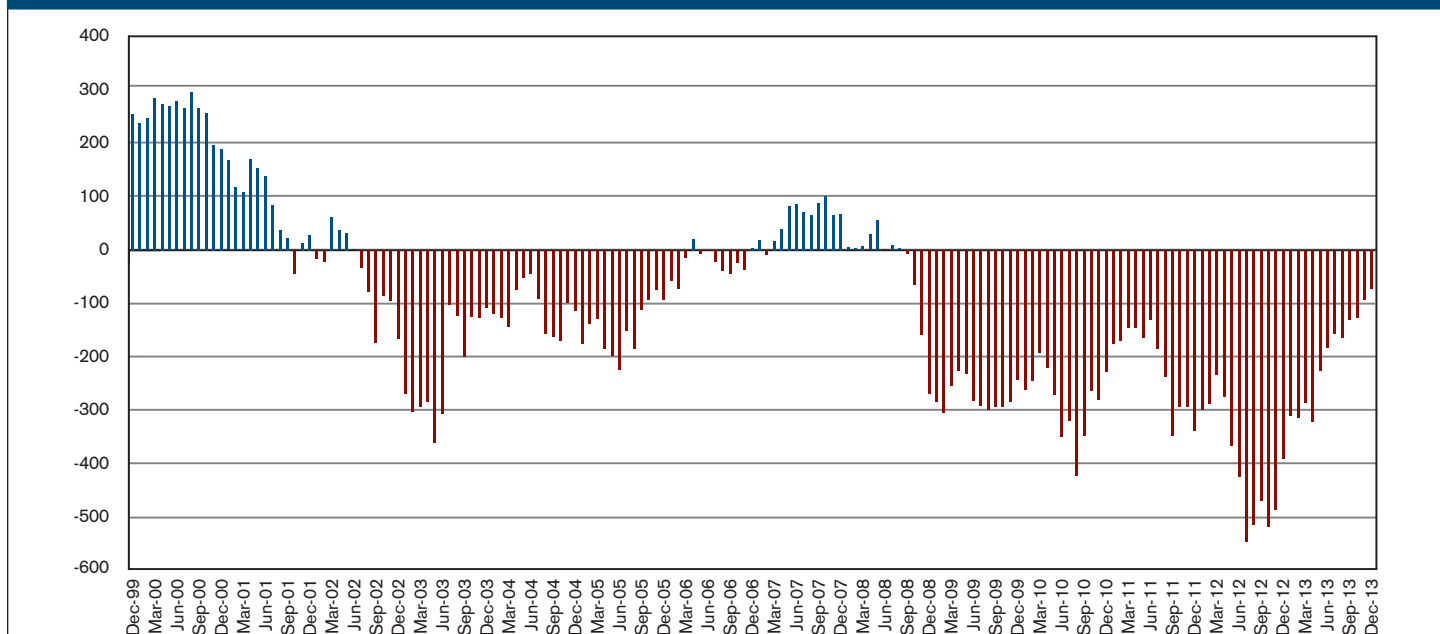
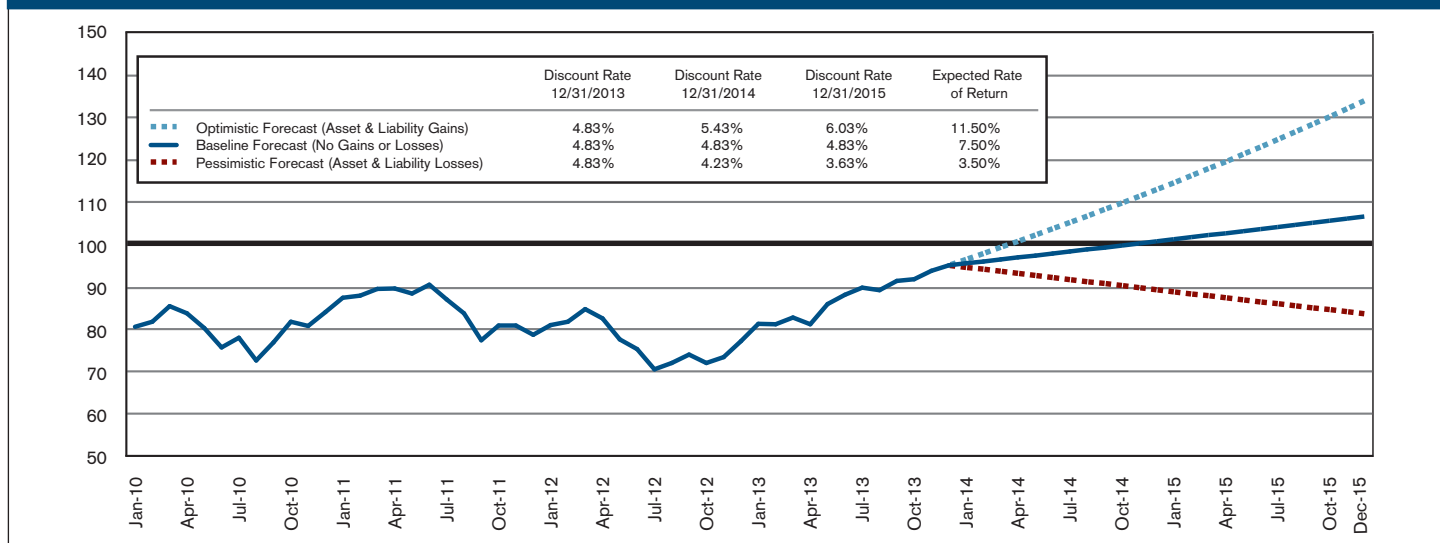


FIGURE 2: MILLIMAN 100 PENSION FUNDING INDEX – PENSION FUNDED RATIO



During 2013, the cumulative investment return was 11.2% while the cumulative liability return (i.e., the projected benefit obligation decrease) was negative 7.4%. The discount rate for the December 2013 funded status surged 87 basis points to 4.83% from 3.96% at the end of 2012, and the median expected investment return for 2012 was 7.5%, as reported in the [Milliman 2013 Pension Funding Study](#).

The \$318 billion funding improvement during 2013 resulted in a year-end funded status deficit \$72.9 billion, the smallest deficit at year-end since year-end 2007, when the deficit was \$68.0 billion. The gain in funded status during 2013 resulted in a credit to corporate balance sheets at the end of the 2013 fiscal year and is expected to produce an estimated decrease of \$33.5 billion in pension expense for 2014.

2013 began on a positive note with discount rates generally rising and above average pension investment returns during the first quarter. The funded ratio reached 82.8% at the end of March. Funded status reversed its course during April as discount rates fell below 4%. Thereafter, the PFI funded status resumed its ascent as discount rates rose in spite of subpar investment performance during the months of May and June. The funded ratio stood at 88.2% at the mid-year mark. A strong second half propelled plans forward as investment returns picked up again and interest rates inched forward some more. The funded ratio broke new ground for the year at the end of September, piercing above 91%. Finally, a strong fourth quarter of robust investment performance and further interest rate climbs helped to close out the year on a positive note as the funded ratio increased to 95.2%.

Pension plan accounting information disclosed in the footnotes of the Milliman 100 companies' annual reports for the 2013 fiscal year is expected to be available during the first quarter of 2014 as part of the 2014 Milliman 100 Pension Funding Study.

DECEMBER 2013 REVIEW

The funded status of the 100 largest corporate defined benefit pension plans improved by \$20 billion during December as

measured by the PFI. The deficit declined to \$73 billion from \$93 billion at the end of November, due to strong asset returns and a slight rise in the benchmark corporate bond interest rates used to value pension liabilities. The PFI funded ratio increased to 95.2% from 93.9% at the end of November.

The projected benefit obligation (PBO), or pension liabilities, decreased to \$1.523 trillion from \$1.533 trillion at the end of November. This change was based on a five-basis-point increase in the monthly discount rate to 4.83% for December, from 4.78% for November.

The market value of assets increased by \$10 billion as a result of December's investment gain of 0.80%. The PFI asset value climbed to \$1.450 trillion, up from \$1.440 trillion at the end of November. By comparison, the 2013 Milliman Pension Funding Study reported that the monthly median expected investment return during 2012 was 0.60% (7.5% annualized).

2014-2015 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 for the remainder of the projection period and the current discount rate of 4.83% were maintained during years 2014 and 2015, we forecast the funded status of the surveyed plans would increase. This would result in a projected pension surplus of \$14 billion (funded ratio of 100.9%) by the end of 2014 and a projected pension surplus of \$106 billion (funded ratio of 106.8%) by the end of 2015. For purposes of this forecast, we have assumed 2014 and 2015 aggregate contributions of \$81 billion.

Under an optimistic forecast with rising interest rates (reaching 5.43% by the end of 2014 and 6.03% by the end of 2015) and asset gains (11.5% annual returns), the funded ratio would climb to 113% by the end of 2014 and 134% by the end of 2015. Under a pessimistic forecast with similar interest rate and asset movements

MILLIMAN 100 PENSION FUNDING INDEX – DECEMBER 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
DECEMBER	2012	1,322,002	1,712,697	(390,695)	N/A	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	1,384,867	1,540,452	(155,585)	25,927	89.9%
AUGUST	2013	1,368,799	1,532,490	(163,691)	(8,106)	89.3%
SEPTEMBER	2013	1,397,997	1,527,475	(129,478)	34,213	91.5%
OCTOBER	2013	1,429,024	1,555,573	(126,549)	2,929	91.9%
NOVEMBER	2013	1,439,667	1,532,786	(93,119)	33,430	93.9%
DECEMBER	2013	1,450,090	1,522,964	(72,874)	20,245	95.2%

PENSION ASSET AND LIABILITY RETURNS

END OF MONTH	YEAR	ASSET RETURNS		DISCOUNT RATE	LIABILITY RETURNS	
		MONTHLY	YEAR-TO-DATE		MONTHLY	YEAR-TO-DATE
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%	5.66%	4.73%	0.51%	-7.99%
AUGUST	2013	-1.04%	4.56%	4.77%	-0.17%	-8.14%
SEPTEMBER	2013	2.26%	6.92%	4.80%	0.03%	-8.12%
OCTOBER	2013	2.34%	9.42%	4.67%	2.19%	-6.11%
NOVEMBER	2013	0.86%	10.36%	4.78%	-1.12%	-7.16%
DECEMBER	2013	0.80%	11.24%	4.83%	-0.30%	-7.44%

(4.23% discount rate at the end of 2014 and 3.63% by the end of 2015 and 3.5% annual returns), the funded ratio would decline to 89% by the end of 2014 and 84% by the end of 2015.

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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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