

Milliman analysis: Funded status deficit increases by \$10 billion in May



The Milliman 100 PFI funded status worsens to \$268 billion due to an increase in pension liabilities

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The funded status deficit of the 100 largest corporate defined benefit pension plans increased by \$10 billion during May as measured by the Milliman 100 Pension Funding Index (PFI). The \$268 billion deficit at the end of May is primarily due to a drop in the benchmark corporate bond interest rates used to value pension liabilities. Investment gains helped to partially offset the full extent of liability increases in May. As of May 31, the funded ratio fell to 84.3%, down from 84.7% at the end of April.

May's funded status decline was quite similar to that in April, with lower interest rates increasing liabilities to a level that could not be offset by rising assets. May was the fifth consecutive month of interest rate decreases. Fortunately, the strong year-to-date asset performance has mitigated further erosion.

The projected benefit obligation (PBO), or pension liabilities, increased by \$29 billion during May, raising the Milliman 100 PFI value to \$1.715 trillion. The PBO change resulted from a decrease

HIGHLIGHTS

| | \$ BILLION | | | FUNDED PERCENTAGE |
|----------------|------------|-------|---------------|-------------------|
| | MV | PBO | FUNDED STATUS | |
| APRIL 2014 | 1,427 | 1,685 | (258) | 84.7% |
| MAY 2014 | 1,446 | 1,715 | (268) | 84.3% |
| MONTHLY CHANGE | +19 | +29 | (10) | -0.4% |
| YTD CHANGE | +43 | +125 | (82) | -4.0% |

NOTE: NUMBERS MAY NOT ADD UP PRECISELY DUE TO ROUNDING

of 14 basis points in the monthly discount rate to 4.06% for May, from 4.20% for April. The last time the discount rate was this low was April 2013, when it stood at 3.98%.

The market value of assets increased by \$19 billion as a result of May's robust investment gain of 1.61%. The Milliman 100 PFI asset

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

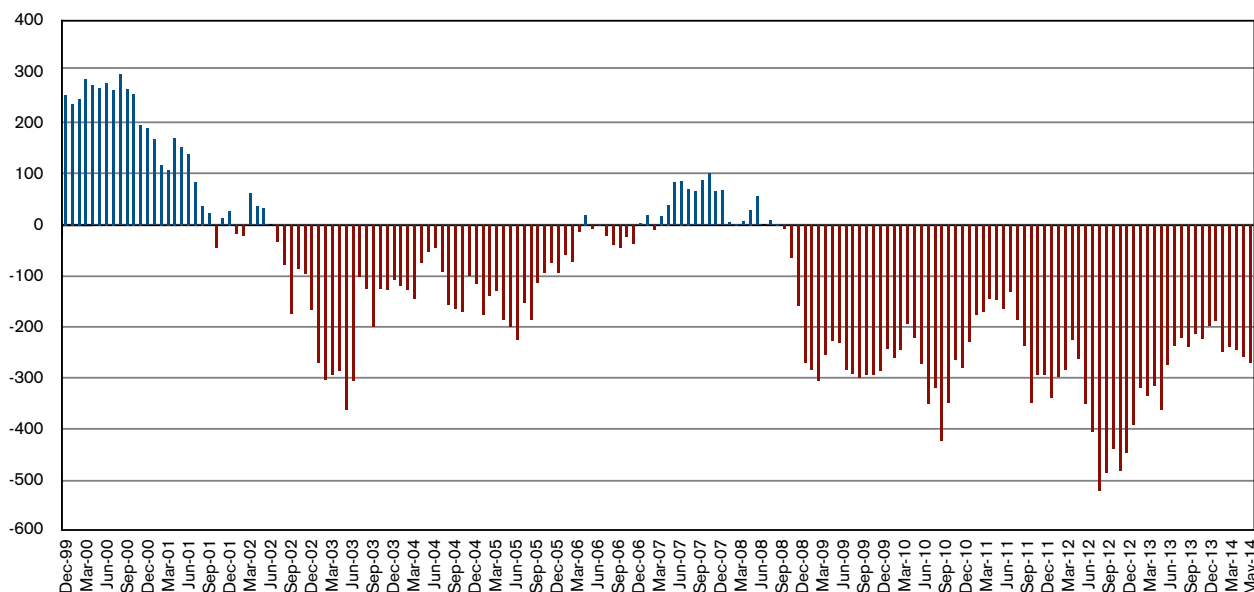
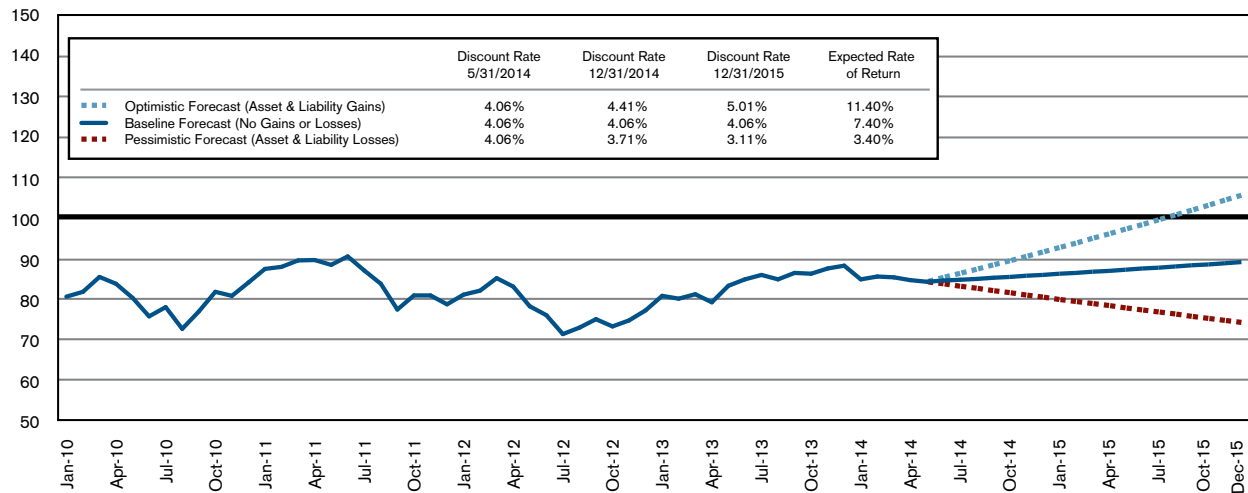


FIGURE 2: MILLIMAN 100 PENSION FUNDING INDEX – PENSION FUNDED RATIO



value increased to \$1.446 trillion, up from \$1.427 trillion at the end of April. By comparison, the 2014 Milliman Pension Funding Study reported that the monthly median expected investment return during 2013 was 0.60% (7.4% annualized).

Over the last 12 months (June 2013 to May 2014), the cumulative asset return for these pensions has been 10.54%, but the Milliman 100 PFI funded status deficit has improved by \$5 billion. In spite of the strong asset performance, the funded status has not shown a great improvement over the past 12 months due to decreasing interest rates. Although discount rates rose during most of 2013, they have taken a downward turn for all of 2014. Since May 31, 2013, the discount rate has dropped 35 basis points to 4.06% from 4.41%. The funded ratio of the Milliman 100 companies has increased over the past 12 months to 84.3% from 83.3%.

2014-2015 PROJECTIONS

If the Milliman 100 PFI companies were to achieve the expected 7.4% (as per the 2014 Milliman Pension Funding Study) median asset return for their pension plan portfolios and the current discount rate of 4.06% 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 deficit of \$241 billion (funded ratio of 86.0%) by the end of 2014 and a projected pension deficit of \$187 billion (funded ratio of 89.2%) by the end of 2015. For purposes of this forecast, we have assumed 2014 aggregate contributions of \$44 billion and 2015 aggregate contributions of \$48 billion.

Under an optimistic forecast with rising interest rates (reaching 4.41% by the end of 2014 and 5.01% by the end of 2015) and asset gains (11.4% annual returns), the funded ratio would climb to 92% by the end of 2014 and 106% by the end of 2015. Under a pessimistic forecast with similar interest rate and asset movements (3.71% discount rate at the end of 2014 and 3.11% by the end of 2015 and 3.4% annual returns), the funded ratio would decline to 80% by the end of 2014 and 74% by the end of 2015.

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MILLIMAN 100 PENSION FUNDING INDEX – MAY 2014 (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 |
|--------------|------|------------------------|------------------------------------|---------------|-------------------------|--------------|
| MAY | 2013 | 1,364,991 | 1,638,618 | (273,627) | N/A | 83.3% |
| JUNE | 2013 | 1,334,209 | 1,571,037 | (236,828) | 36,799 | 84.9% |
| JULY | 2013 | 1,358,447 | 1,579,207 | (220,760) | 16,068 | 86.0% |
| AUGUST | 2013 | 1,338,996 | 1,576,631 | (237,635) | (16,875) | 84.9% |
| SEPTEMBER | 2013 | 1,363,800 | 1,577,060 | (213,260) | 24,375 | 86.5% |
| OCTOBER | 2013 | 1,390,237 | 1,611,781 | (221,544) | (8,284) | 86.3% |
| NOVEMBER | 2013 | 1,396,686 | 1,593,818 | (197,132) | 24,412 | 87.6% |
| DECEMBER | 2013 | 1,403,015 | 1,589,236 | (186,221) | 10,911 | 88.3% |
| JANUARY | 2014 | 1,393,680 | 1,641,543 | (247,863) | (61,642) | 84.9% |
| FEBRUARY | 2014 | 1,421,427 | 1,660,091 | (238,664) | 9,199 | 85.6% |
| MARCH | 2014 | 1,420,800 | 1,664,589 | (243,789) | (5,125) | 85.4% |
| APRIL | 2014 | 1,427,305 | 1,685,496 | (258,191) | (14,402) | 84.7% |
| MAY | 2014 | 1,446,029 | 1,714,506 | (268,477) | (10,286) | 84.3% |

PENSION ASSET AND LIABILITY RETURNS

| END OF MONTH | YEAR | ASSET RETURNS | | DISCOUNT RATE | LIABILITY RETURNS | |
|--------------|------|---------------|--------------|---------------|-------------------|--------------|
| | | MONTHLY | YEAR-TO-DATE | | MONTHLY | YEAR-TO-DATE |
| 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 | 0.85% | 11.29% | 4.68% | -0.29% | -7.43% |
| JANUARY | 2014 | -0.36% | -0.36% | 4.41% | 3.64% | 3.64% |
| FEBRUARY | 2014 | 2.30% | 1.92% | 4.32% | 1.46% | 5.15% |
| MARCH | 2014 | 0.25% | 2.18% | 4.30% | 0.60% | 5.78% |
| APRIL | 2014 | 0.76% | 2.96% | 4.20% | 1.58% | 7.46% |
| MAY | 2014 | 1.61% | 4.61% | 4.06% | 2.04% | 9.64% |

ABOUT THE MILLIMAN 100 MONTHLY PENSION FUNDING INDEX

For the past 14 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 2013 fiscal year and for previous fiscal years. This pension plan accounting disclosure information was summarized as part of the Milliman 2014 Pension Funding Study, which was published on April 2, 2014. 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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