

Milliman analysis: Funded status deficit increases by \$15 billion in April



The Milliman 100 PFI funded status worsens to \$258 billion

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The funded status deficit of the 100 largest corporate defined benefit pension plans increased by \$15 billion during April as measured by the Milliman 100 Pension Funding Index (PFI). The \$258 billion deficit at the end of April is primarily due to a drop in the benchmark corporate bond interest rates used to value pension liabilities. Asset improvements helped to partially offset the full extent of liability increases in April. As of April 30, the funded ratio fell to 84.7%, down from 85.3% at the end of March. This April 30 PFI publication reflects updated asset returns for the first quarter of 2014.¹

The projected benefit obligation (PBO), or pension liabilities, increased by \$21 billion during April, raising the Milliman 100 PFI value to \$1.685 trillion. The PBO change resulted from a decrease of 10 basis points in the monthly discount rate to 4.20% for April, from 4.30% for March.

¹ The April 30 report (published in May) of the Milliman 100 Pension Funding Index (Milliman 100 PFI) reflects updated asset returns for the first quarter of 2014.

HIGHLIGHTS

	\$ BILLION			FUNDED PERCENTAGE
	MV	PBO	FUNDED STATUS	
MARCH 2014	1,421	1,665	(244)	85.3%
APRIL 2014	1,427	1,685	(258)	84.7%
MONTHLY CHANGE	+6	+21	(15)	-0.6%
YTD CHANGE	+24	+96	(72)	-3.6%

NOTE: NUMBERS MAY NOT ADD UP PRECISELY DUE TO ROUNDING

Offsetting the liability increase was April's \$6 billion investment gain in the market value of the pension assets to \$1.427 trillion, up from \$1.421 trillion at the end of March. The asset investment gain was 0.75% for the month. By comparison, the 2014 Milliman Pension Funding Study reported that the monthly median expected investment return during 2013 was 0.60% (7.4% annualized).

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

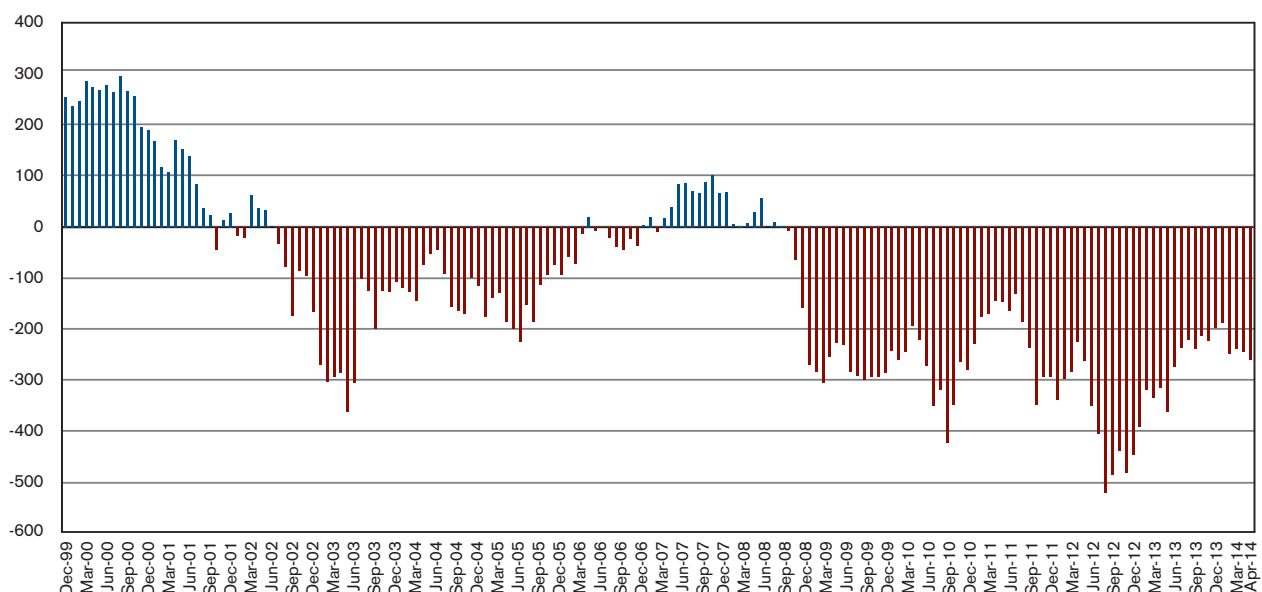
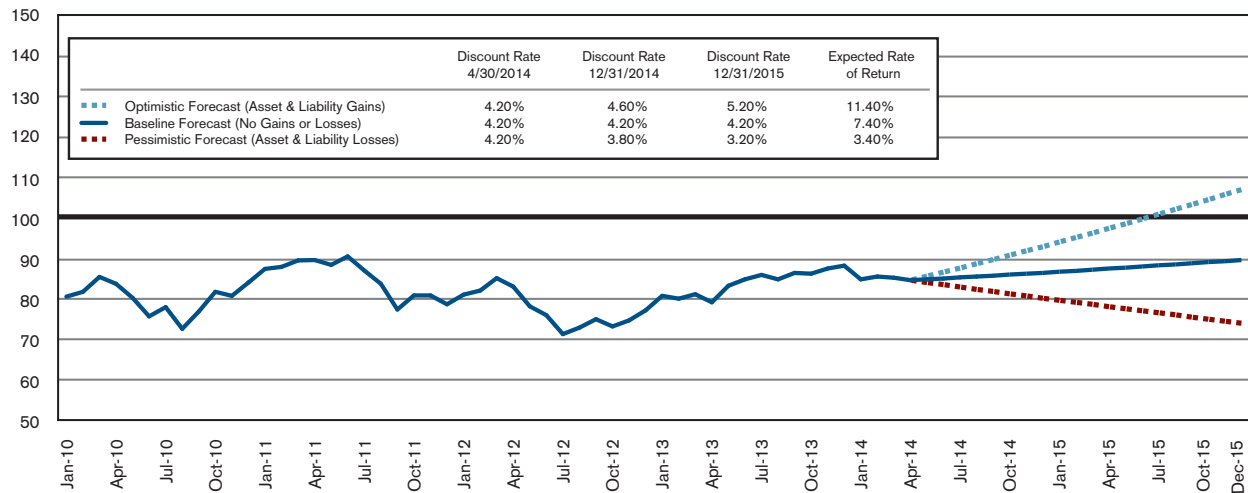


FIGURE 2: MILLIMAN 100 PENSION FUNDING INDEX – PENSION FUNDED RATIO



Over the last 12 months (May 2013 to April 2014), the cumulative asset return for these pensions has been 8.46% and the Milliman 100 PFI funded status deficit has improved by \$103 billion. The primary reason for the increase in the funded status has been the strong asset performance experienced throughout most of 2013. Discount rates had rebounded from all-time lows during 2013, although they have changed their direction thus far in 2014. The discount rate as of a year ago on April 30, 2013, was 3.98%. The funded ratio of the Milliman 100 companies has increased over the past 12 months to 84.7% from 79.2%.

2014-2015 PROJECTIONS

If the Milliman 100 PFI companies were to achieve the expected 7.4% (as per the 2014 pension funding study) median asset return for their pension plan portfolios and the current discount rate of 4.20% were maintained during years 2014 and 2015, we forecast that the funded status of the surveyed plans would increase. This would result in a projected pension deficit of \$228 billion (funded ratio of 86.5%) by the end of 2014 and a projected pension deficit of \$175 billion (funded ratio of 89.7%) 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 4.60% by the end of 2014 and 5.20% by the end of 2015) and asset gains (11.4% annual returns), the funded ratio would climb to 93% by the end of 2014 and 107% by the end of 2015. Under a pessimistic forecast with similar interest rate and asset movements (3.80% discount rate at the end of 2014 and 3.20% 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 – APRIL 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
APRIL	2013	1,374,250	1,735,202	(360,952)	N/A	79.2%
MAY	2013	1,364,991	1,638,618	(273,627)	87,325	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	1,420,690	1,664,589	(243,899)	(5,235)	85.3%
APRIL	2014	1,427,084	1,685,496	(258,412)	(14,513)	84.7%

PENSION ASSET AND LIABILITY RETURNS

END OF MONTH	YEAR	ASSET RETURNS			LIABILITY RETURNS	
		MONTHLY	YEAR-TO-DATE	DISCOUNT RATE	MONTHLY	YEAR-TO-DATE
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	0.85%	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	0.75%	2.94%	4.20%	1.58%	7.46%

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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