Milliman analysis: Corporate pension funded status improves by $26 billion in September, the best month of 2014 so far

Pension assets incur loss of $19 billion while interest rates climb above 4%, dropping liabilities by $45 billion

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The funded status of the 100 largest corporate defined benefit pension plans improved by $26 billion during September as measured by the Milliman 100 Pension Funding Index (PFI). The deficit dropped to $253 billion from $279 billion at the end of August, primarily due to an increase in the benchmark corporate bond interest rates used to value pension liabilities. The funded status would have improved further were it not for September's investment losses. As of September 30, the funded ratio rose to 85.2%, up from 84.1% at the end of August.

The projected benefit obligation (PBO), or pension liabilities, decreased by $45 billion during September, lowering the Milliman 100 PFI value to $1.709 trillion from $1.754 trillion at the end of August. The PBO change resulted from an increase of 21 basis points in the monthly discount rate to 4.10% for September, from 3.89% for August. Coincidentally, the discount rate dropped by 21 basis points during August, producing a corresponding PBO increase of $46 billion. Year-to-date, the pension liabilities are up by $119 billion, resulting in a decline in the Milliman 100 PFI funded ratio.

HIGHLIGHTS

	$ BILLION			
	MV	PBO	FUNDED STATUS	FUNDED PERCENTAGE
AUG 2014	1,475	1,754	(279)	84.1%
SEP 2014	1,456	1,709	(253)	85.2%
MONTHLY CHANGE	(19)	(45)	+26	+1.1%
YTD CHANGE	+53	+119	(67)	-3.1%

Note: Numbers may not add up precisely due to rounding

The market value of assets declined by $19 billion as a result of September's investment loss of -1.03%. The Milliman 100 PFI asset value decreased to $1.456 trillion, down from $1.475 trillion at the end of August. 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

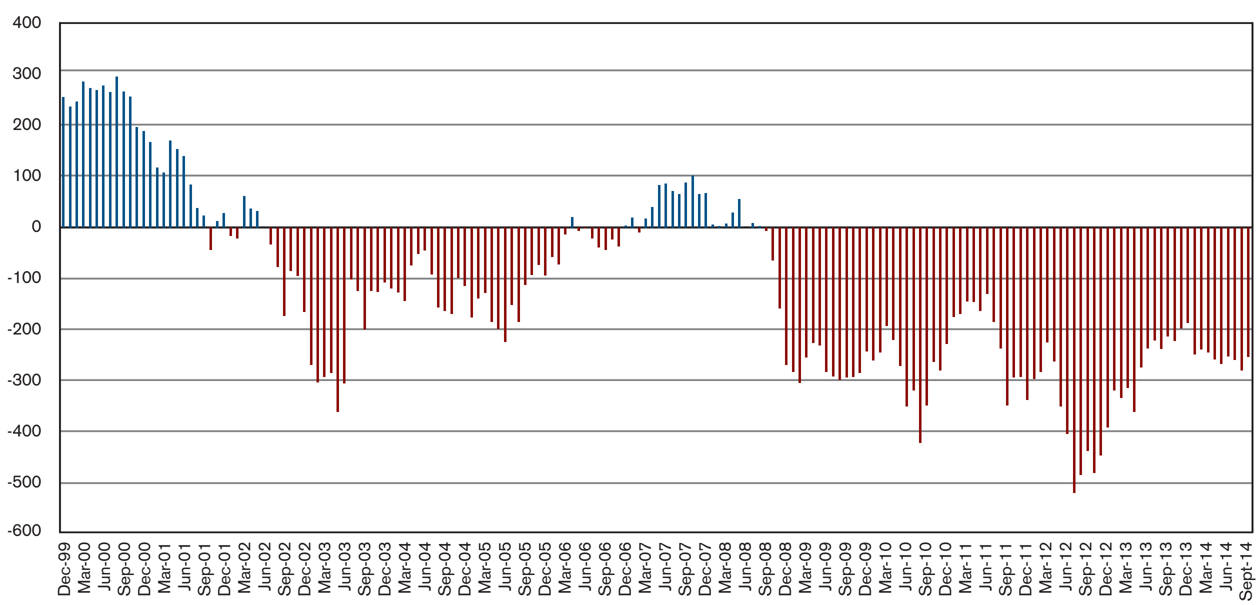
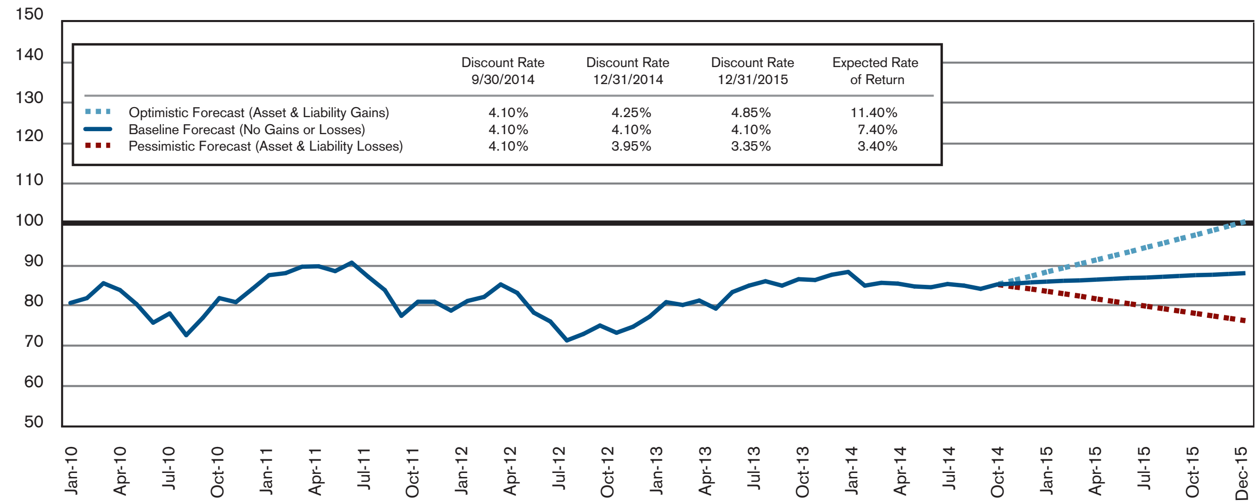


FIGURE 2: MILLIMAN 100 PENSION FUNDING INDEX – PENSION FUNDED RATIO



THIRD QUARTER 2014 SUMMARY

During the quarter ended September 30, 2014, the funded status deficit increased by $1 billion. This was primarily due to the strong investment gains in August, which essentially offset the investment losses during July and September. The asset gain in the third quarter was almost flat at 0.64%. Interest rates inched upward by two basis points during the third quarter of 2014. The funded ratio of the Milliman 100 companies dropped slightly to 85.2% at the end of September from 85.3% at the end of June.

So far during 2014, the funded status has declined in each of the three quarters. Prior to 2014, the Milliman 100 PFI experienced five straight quarters of funded status improvement. Meanwhile, September 2014 turned out to be the best month so far, with the funded status recording its largest improvement of the year. It remains to be seen whether September's positive momentum will continue or whether another down quarter will close out the year.

Over the last 12 months (October 2013 to September 2014), the cumulative asset return for these pensions has been 10.9%, but the Milliman 100 PFI funded status deficit has worsened by $40 billion. The drop in funded status over the past 12 months is primarily due to the decline in interest rates. Since September 30, 2013, the discount rate has dropped 70 basis points, to 4.10% from 4.80%. The funded ratio of the Milliman 100 companies has decreased over the past 12 months to 85.2% from 86.5%.

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 4.10% were maintained during 2014 and 2015, we forecast that the funded status of the surveyed plans would increase. This would result in a projected pension deficit of $241 billion (funded ratio of 85.9%) by the end of 2014 and a projected pension deficit of $206 billion (funded ratio of 88.0%) by the end of 2015. For purposes of this forecast, we have assumed 2014 aggregate contributions of $44 billion and 2015 aggregate contributions of $31 billion. The drop in contribution expectations for 2015 is reflective of the passage of the Highway and Transportation Funding Act of 2014 (HATFA), which was signed into law on August 8 and extended the MAP-21 interest rate relief provisions for defined benefit plan sponsors. While we expect many of the Milliman 100 companies to make contributions above the minimum requirements, we also expect some plan sponsors who are cash strapped to take advantage of the available contribution relief.

Under an optimistic forecast with rising interest rates (reaching 4.25% by the end of 2014 and 4.85% by the end of 2015) and asset gains (11.4% annual returns), the funded ratio would climb to 88% by the end of 2014 and 101% by the end of 2015. Under a pessimistic forecast with similar interest rate and asset movements (3.95% discount rate at the end of 2014 and 3.35% by the end of 2015 and 3.4% annual returns), the funded ratio would decline to 84% by the end of 2014 and 76% by the end of 2015.

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MILLIMAN 100 PENSION FUNDING INDEX – SEPTEMBER 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
SEPTEMBER	2013	1,363,801	1,577,060	(213,259)	N/A	86.5%
OCTOBER	2013	1,390,238	1,611,781	(221,543)	(8,284)	86.3%
NOVEMBER	2013	1,396,687	1,593,818	(197,131)	24,412	87.6%
DECEMBER	2013	1,403,016	1,589,236	(186,220)	10,911	88.3%
JANUARY	2014	1,393,680	1,641,543	(247,863)	(61,643)	84.9%
FEBRUARY	2014	1,421,399	1,660,091	(238,692)	9,171	85.6%
MARCH	2014	1,420,855	1,664,589	(243,734)	(5,042)	85.4%
APRIL	2014	1,427,415	1,685,496	(258,081)	(14,347)	84.7%
MAY	2014	1,448,161	1,714,506	(266,345)	(8,264)	84.5%
JUNE	2014	1,458,994	1,711,208	(252,214)	14,131	85.3%
JULY	2014	1,449,730	1,708,381	(258,651)	(6,437)	84.9%
AUGUST	2014	1,474,992	1,754,214	(279,222)	(20,571)	84.1%
SEPTEMBER	2014	1,455,580	1,708,725	(253,145)	26,077	85.2%

PENSION ASSET AND LIABILTY RETURNS						
		ASSET RETURNS			LIABILITY RETURNS	
END OF MONTH	YEAR	MONTHLY	YEAR-TO-DATE	DISCOUNT RATE	MONTHLY	YEAR-TO-DATE
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	0.26%	2.19%	4.30%	0.60%	5.78%
APRIL	2014	0.76%	2.96%	4.20%	1.58%	7.46%
MAY	2014	1.75%	4.77%	4.06%	2.04%	9.64%
JUNE	2014	1.04%	5.86%	4.08%	0.12%	9.77%
JULY	2014	-0.35%	5.49%	4.10%	0.15%	9.93%
AUGUST	2014	2.04%	7.64%	3.89%	2.99%	13.22%
SEPTEMBER	2014	-1.03%	6.53%	4.10%	-2.29%	10.63%

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.

Milliman 100 Pension Funding Index
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