

**Milliman analysis: After a historic improvement in funded status during 2013, pension funding takes a turn for the worse to start the new year**



Pension funding ratio declines to 91.2% at the end of January

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The funded status of the 100 largest corporate defined benefit pension plans dropped by \$67 billion during January, as measured by the Milliman 100 Pension Funding Index. The deficit declined to \$140 billion from \$73 billion at the end of December 2013, primarily due to a 28-basis-point drop in the benchmark corporate bond interest rates used to value pension liabilities. Pension assets also experienced a modest loss during January, contributing to the funded status deficit. As of January 31, the funded ratio decreased to 91.2%, down from 95.2% at the end of December 2013.

**HIGHLIGHTS**

	\$ BILLION			FUNDED PERCENTAGE
	MV	PBO	FUNDED STATUS	
DECEMBER 2013	1,450	1,523	(73)	95.2%
JANUARY 2014	1,443	1,583	(140)	91.2%
MONTHLY CHANGE	(7)	+60	(67)	-4.0%
YTD CHANGE	(7)	+60	(67)	-4.0%

NOTE: NUMBERS MAY NOT ADD UP PRECISELY DUE TO ROUNDING

The projected benefit obligation (PBO), or pension liabilities, increased to \$1.583 trillion from \$1.523 trillion at the end of

December 2013. The 28-basis-point decrease in the monthly discount rate to 4.55% for January, from 4.83% for December 2013, was the cause. An interest rate decline of this magnitude was not experienced during any of the months of 2013, when interest rates primarily trended upward.

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

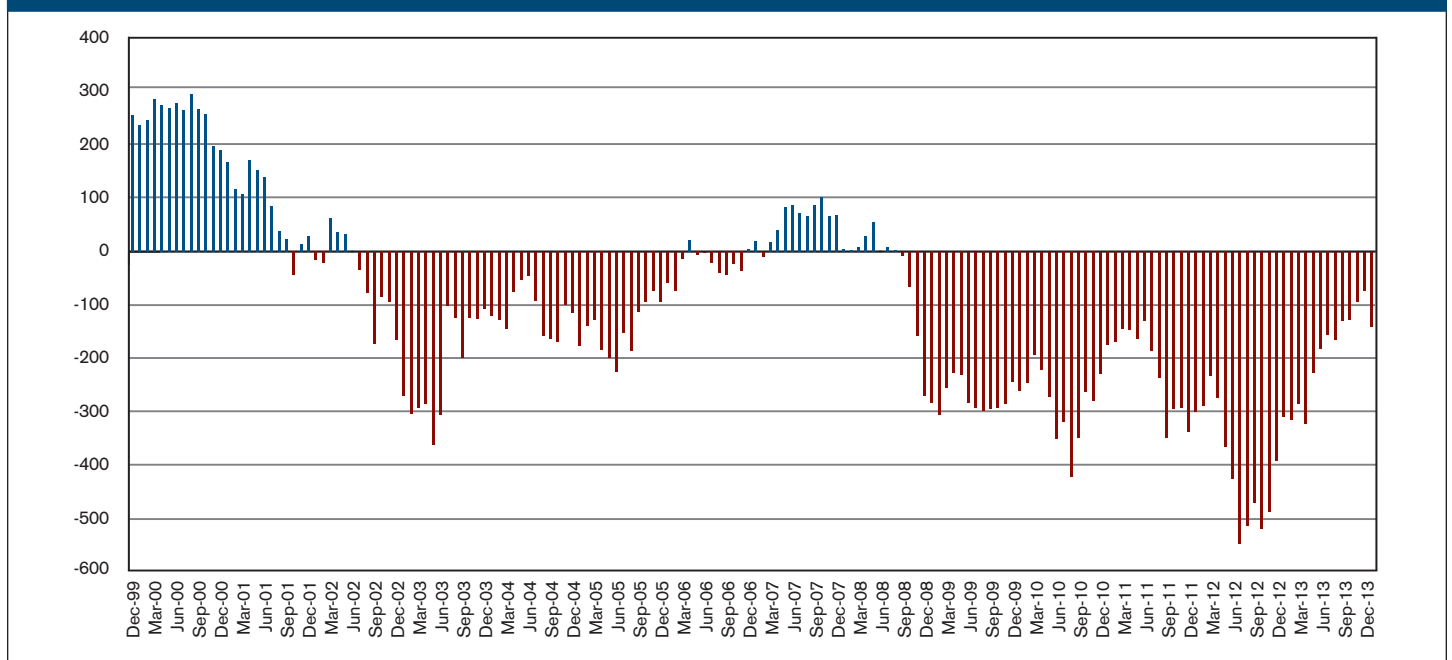
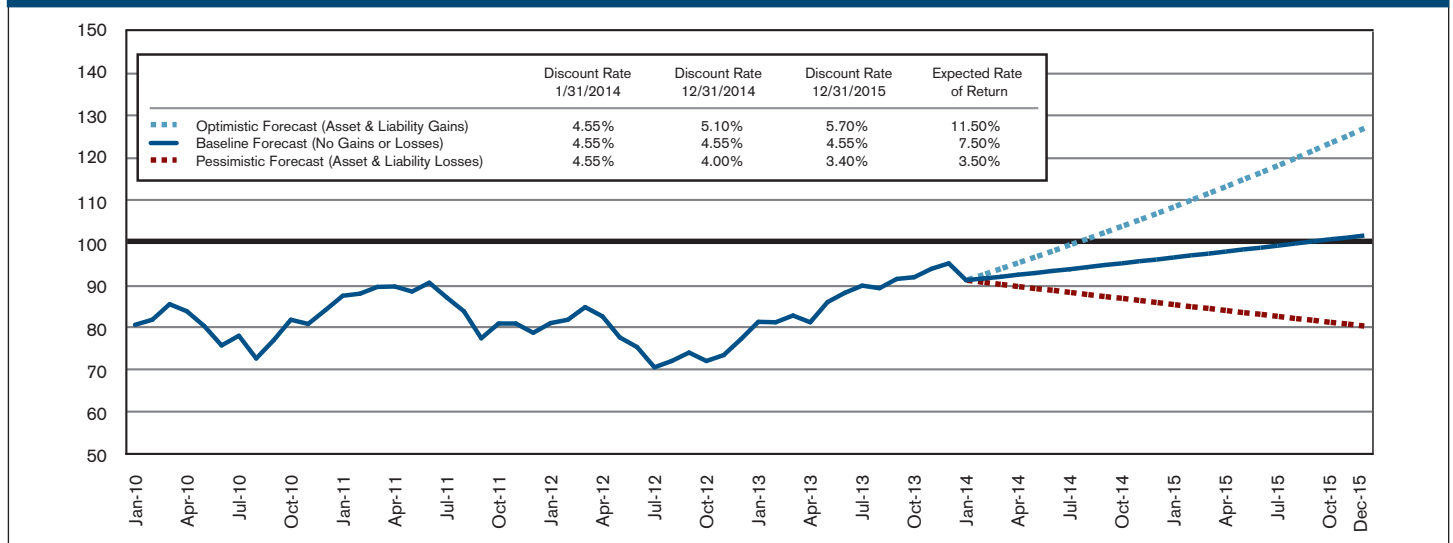


FIGURE 2: MILLIMAN 100 PENSION FUNDING INDEX – PENSION FUNDED RATIO



The market value of assets decreased by \$7 billion as a result of January’s investment loss of -0.44%. This comes after a stellar investment performance year in 2013 where annual returns exceeded 11%. The loss on the assets was protected from the broad equity market decline of more than 3.0% because of the diversity of the plan assets. The Milliman 100 PFI asset value declined to \$1.443 trillion, down from \$1.450 trillion at the end of December 2013. By comparison, the Milliman 2013 Pension Funding Study reported that the monthly median expected investment return during 2012 was 0.60% (7.5% annualized). The expected rate of return for 2013 will be updated in the Milliman 2014 Pension Funding Study, due out by April 2014.

Over the last 12 months (February 2013 to January 2014), the cumulative asset return for these pensions has been 8.96% and the Milliman 100 PFI funded status deficit has improved by \$169 billion. The reasons for the amelioration in funded status were the higher trending interest rates and above-expected asset returns seen during most of 2013. The funded ratio of the Milliman 100 companies has increased over the past 12 months to 91.2% from 81.3%.

**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 4.55% 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 \$62 billion (funded ratio of 96.1%) by the end of 2014 and a projected pension surplus of \$29 billion (funded ratio of 101.8%) 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 5.10% by the end of 2014 and 5.70% by the end of 2015) and asset gains (11.5% annual returns), the funded ratio would climb to 107% by the end of 2014 and 127% by the end of 2015. Under a pessimistic forecast with similar interest rate and asset movements (4.00% discount rate at the end of 2014 and 3.40% by the end of 2015 and 3.5% annual returns), the funded ratio would decline to 86% by the end of 2014 and 80% by the end of 2015.

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## MILLIMAN 100 PENSION FUNDING INDEX – JANUARY 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
JANUARY	2013	1,342,030	1,651,004	(308,974)	N/A	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	1,439,609	1,532,786	(93,177)	33,372	93.9%
DECEMBER	2013	1,450,117	1,522,964	(72,847)	20,330	95.2%
JANUARY	2014	1,442,631	1,582,602	(139,971)	(67,124)	91.2%

## PENSION ASSET AND LIABILITY RETURNS

END OF MONTH	YEAR	ASSET RETURNS		DISCOUNT RATE	LIABILITY RETURNS	
		MONTHLY	YEAR-TO-DATE		MONTHLY	YEAR-TO-DATE
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%
JANUARY	2014	-0.44%	-0.44%	4.55%	4.26%	4.26%

## 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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