Milliman analysis: Corporate pensions' $61 billion funding gain in January may cushion early February market slide

Milliman 100 PFI funded ratio rises to 87.2%

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The funded status of the 100 largest corporate defined benefit pension plans improved by $61 billion during January as measured by the Milliman 100 Pension Funding Index (PFI), an improvement that seems less significant midway through February given recent market volatility. As of January 31, the funded status deficit narrowed to $221 billion due to investment and liability gains incurred during January. The liability reduction was due to an increase in the benchmark corporate bond interest rates used to value pension liabilities. As of January 31, the funded ratio rose to 87.2%, up from 84.1% at the end of December. January's impressive funded status improvement was greater than that seen in any of the prior months of 2017. In fact, the last time we had such a stellar funded status gain was back in November of 2016 when the pension deficit improved by $74 billion.

The market value of assets grew by $13 billion as a result of January's investment gain of 1.20%. The Milliman 100 PFI asset value increased to $1.505 trillion from $1.492 trillion at the end of December 2017. By comparison, the 2017 Milliman Pension Funding Study reported that the monthly median expected investment return during 2016 was 0.57% (7.0% annualized). The expected rate of return for 2017 will be updated in the 2018 Milliman Pension Funding Study, due out in April of 2018.

HIGHLIGHTS

	$ BILLION			
	MV	PBO	FUNDED STATUS	FUNDED PERCENTAGE
DEC 2017	1,492	1,773	(281)	84.1%
JAN 2018	1,505	1,725	(221)	87.2%
MONTHLY CHANGE	+13	(48)	+61	3.1%
YTD CHANGE	+13	(48)	+61	3.1%

Note: Numbers may not add up precisely due to rounding

The projected benefit obligation (PBO), or pension liabilities, decreased to $1.725 trillion at the end of January. The change resulted from an increase of 21 basis points in the monthly discount rate to 3.74% for January from 3.53% for December 2017.

Over the last 12 months (Feb. 2017 – Jan. 2018), the cumulative asset return for these pensions has been 11.88% and the Milliman 100 PFI funded status deficit only improved by $50 billion. The funded status gain would have been significantly higher where it not for the general downward trend in discount rates during 2017. The funded ratio of the Milliman 100 companies has increased over the past 12 months to 87.2% from 83.8%.

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

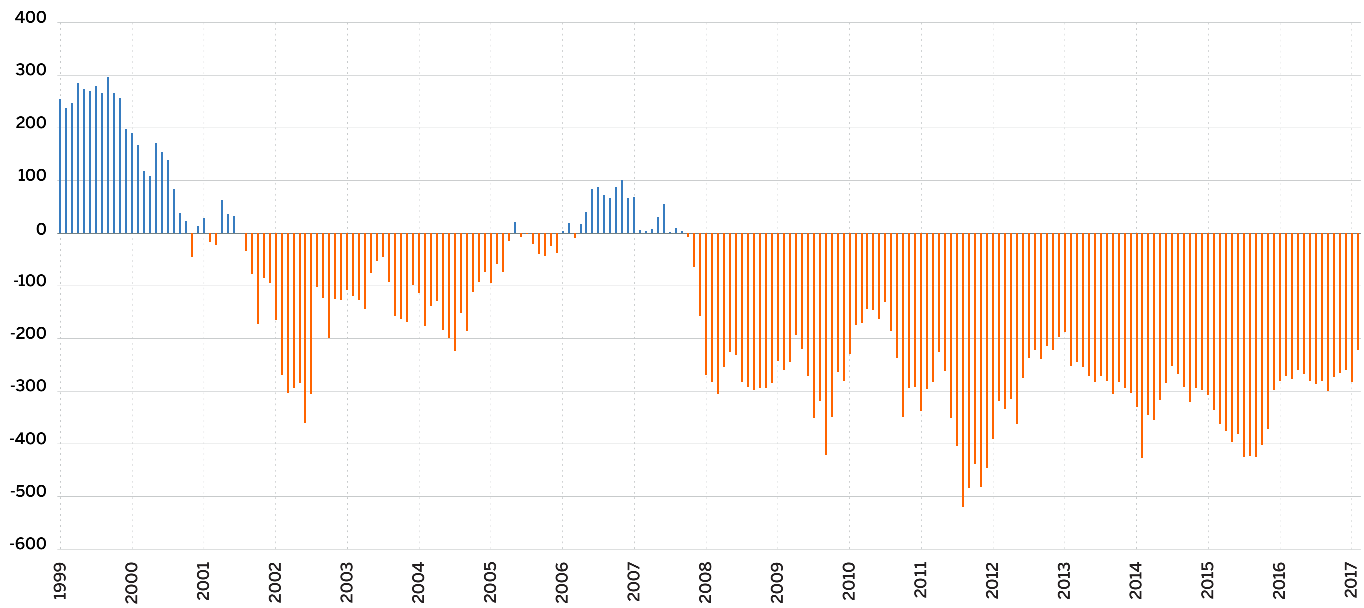
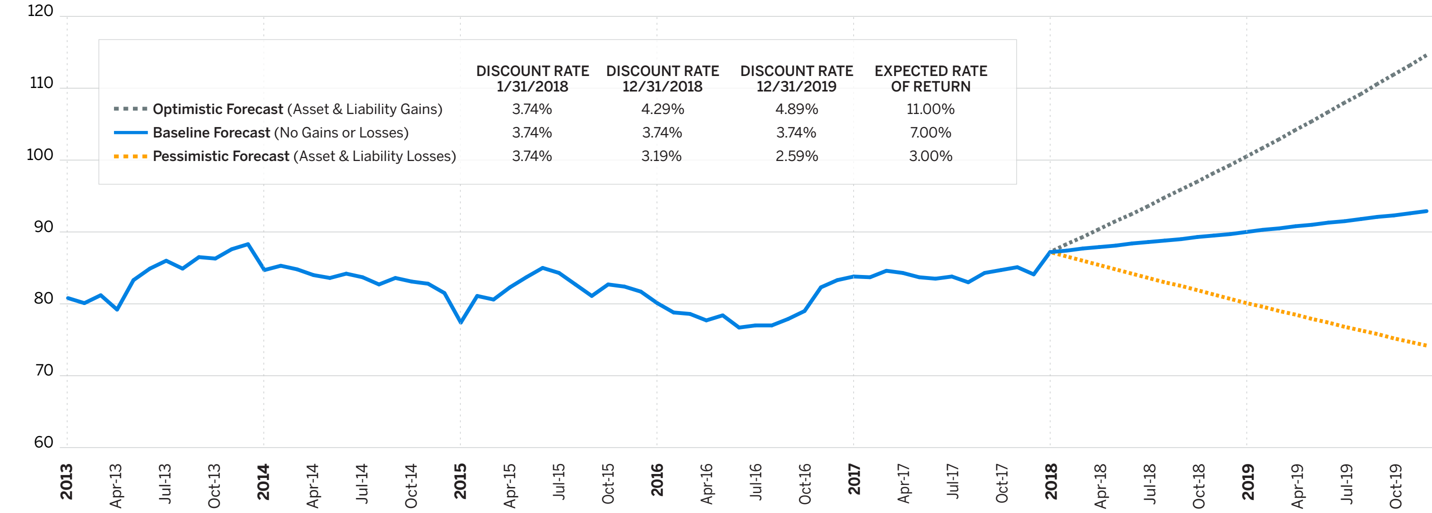


FIGURE 2: MILLIMAN 100 PENSION FUNDING INDEX — PENSION FUNDED RATIO



The projected asset and liability figures presented in this analysis will be adjusted as part of our annual 2018 Pension Funding Study where pension settlement and annuity purchase activities that occurred during 2017 will be reflected. De-risking transactions generally result in reductions in pension funded status since the assets paid to the participants or assumed by the insurance companies as part of the risk transfer are larger than the corresponding liabilities that are extinguished from the balance sheets. To offset this decrease effect, many companies engaging in de-risking transactions make additional cash contributions to their pension plans to improve the plan's funded status.

Pension plan accounting information disclosed in the footnotes of the Milliman 100 companies' annual SEC reports for the 2017 fiscal year is expected to be available during April of 2018 as part of the 2018 Milliman Pension Funding Study.

2018-2019 Projections

If the Milliman 100 PFI companies were to achieve the expected 7.0% median asset return (as per the 2017 pension funding study), and if the current discount rate of 3.74% was maintained during years 2018 through 2019, we forecast the funded status of the surveyed plans would increase. This would result in a projected pension deficit of $177 billion (funded ratio of 89.7%) by the end of 2018 and a projected pension deficit of $123 billion (funded ratio of 92.9%) by the end of 2019. For purposes of this forecast, we have assumed 2018 aggregate contributions of $39 billion and 2019 aggregate contributions of $43 billion.

Under an optimistic forecast with rising interest rates (reaching 4.29% by the end of 2018 and 4.89% by the end of 2019) and asset gains (11.0% annual returns), the funded ratio would climb to 99% by the end of 2018 and 115% by the end of 2019. Under a pessimistic forecast with similar interest rate and asset movements (3.19% discount rate at the end of 2018 and 2.59% by the end of 2019 and 3.0% annual returns), the funded ratio would decline to 81% by the end of 2018 and 74% by the end of 2019.

About the Milliman 100 Monthly Pension Funding Index

For the past 17 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 2016 fiscal year and for previous fiscal years. This pension plan accounting disclosure information was summarized as part of the Milliman 2017 Pension Funding Study, which was published on April 6, 2017. 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.

CONTACT

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MILLIMAN 100 PENSION FUNDING INDEX — JANUARY 2018 (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	2017	1,403,106	1,673,506	(270,400)	N/A	83.8%
FEBRUARY	2017	1,421,420	1,697,625	(276,205)	(5,805)	83.7%
MARCH	2017	1,422,044	1,680,752	(258,708)	17,497	84.6%
APRIL	2017	1,431,650	1,697,629	(265,979)	(7,271)	84.3%
MAY	2017	1,442,833	1,723,815	(280,982)	(15,003)	83.7%
JUNE	2017	1,442,198	1,727,929	(285,731)	(4,749)	83.5%
JULY	2017	1,451,680	1,732,259	(280,579)	5,152	83.8%
AUGUST	2017	1,458,542	1,756,836	(298,294)	(17,715)	83.0%
SEPTEMBER	2017	1,463,905	1,737,142	(273,237)	25,057	84.3%
OCTOBER	2017	1,476,573	1,742,272	(265,699)	7,538	84.7%
NOVEMBER	2017	1,482,193	1,741,780	(259,587)	6,112	85.1%
DECEMBER	2017	1,491,728	1,772,814	(281,086)	(21,499)	84.1%
JANUARY	2018	1,504,678	1,725,192	(220,514)	60,572	87.2%

PENSION ASSET AND LIABILITY RETURNS

		ASSET RETURNS			LIABILITY RETURNS	
END OF MONTH	YEAR	MONTHLY	YEAR-TO-DATE	DISCOUNT RATE	MONTHLY	YEAR-TO-DATE
JANUARY	2017	0.83%	0.83%	4.00%	0.19%	0.19%
FEBRUARY	2017	1.68%	2.52%	3.88%	1.79%	1.98%
MARCH	2017	0.41%	2.94%	3.96%	-0.65%	1.32%
APRIL	2017	1.04%	4.01%	3.88%	1.35%	2.68%
MAY	2017	1.14%	5.20%	3.76%	1.88%	4.61%
JUNE	2017	0.31%	5.53%	3.74%	0.57%	5.21%
JULY	2017	1.02%	6.60%	3.71%	0.58%	5.82%
AUGUST	2017	0.83%	7.49%	3.60%	1.74%	7.66%
SEPTEMBER	2017	0.72%	8.26%	3.69%	-0.80%	6.80%
OCTOBER	2017	1.22%	9.58%	3.66%	0.62%	7.46%
NOVEMBER	2017	0.73%	10.39%	3.67%	0.29%	7.78%
DECEMBER	2017	0.99%	11.48%	3.53%	2.10%	10.04%
JANUARY	2018	1.20%	1.20%	3.74%	-2.37%	-2.37%