

Milliman analysis: Funded status drops in June by \$4 billion

The Milliman 100 PFI funded ratio decreases to 83.5% as discount rates decline and assets post returns below expectations

Zorast Wadia, FSA, MAAA, EA
Charles Clark, ASA, MAAA, EA



The funded status of the 100 largest corporate defined benefit pension plans decreased by \$4 billion during June as measured by the Milliman 100 Pension Funding Index (PFI). The deficit grew to \$285 billion from \$281 billion at the end of May due to a decrease in the benchmark corporate bond interest rates used to value pension liabilities. Poor investment returns during June also contributed to the funded status decline. As of June 30, the funded ratio fell to 83.5%, down from 83.7% at the end of May. The current funded ratio at mid-year is slightly above that at the start of 2017 of 83.3%, providing something of a silver lining given the funded status declines experienced throughout the second quarter.

June's 0.35% investment return left the Milliman 100 PFI asset value flat at \$1.443 trillion. 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 projected benefit obligation (PBO) increased by \$4 billion during June, raising the Milliman 100 PFI value to \$1.728 trillion. The change resulted from a decrease of two basis points in the monthly discount rate to 3.74% for June, from 3.76% in May.

HIGHLIGHTS

	\$ BILLION			
	MV	PBO	FUNDED STATUS	FUNDED PERCENTAGE
MAY 2017	1,443	1,724	(281)	83.7%
JUN 2017	1,443	1,728	(285)	83.5%
MONTHLY CHANGE	0	+4	(4)	-0.2%
YTD CHANGE	+46	+52	(6)	0.2%

Note: Numbers may not add up precisely due to rounding

Second Quarter 2017 Summary

For the quarter ending June 30, 2017, assets experienced a net investment gain of 2.55% with returns ahead of expectations. However, discount rates fell by 22 basis points in that same quarter resulting in a net funded status loss of \$26 billion. The funded status deficit grew to \$285 billion by the end of the second quarter from \$259 billion at the end of March. The funded ratio of the Milliman 100 companies decreased to 83.5% at the end of June from 84.6% at the end of March primarily due to interest rate decreases during this period.

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

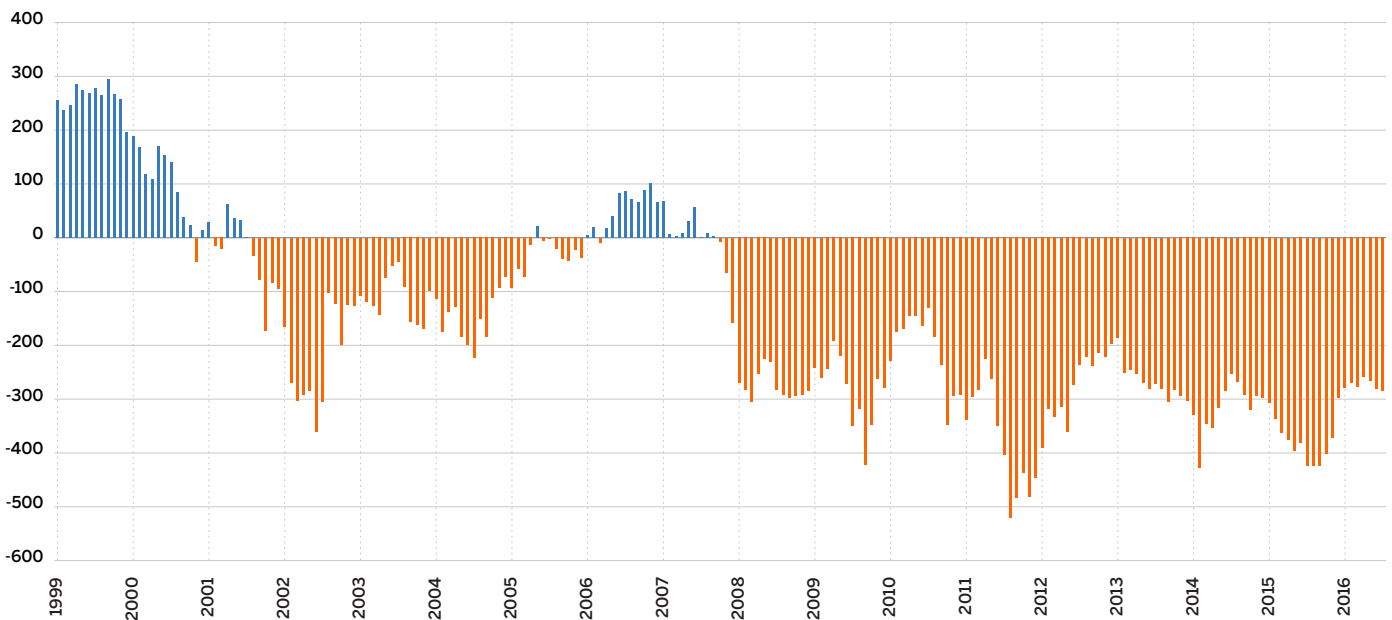
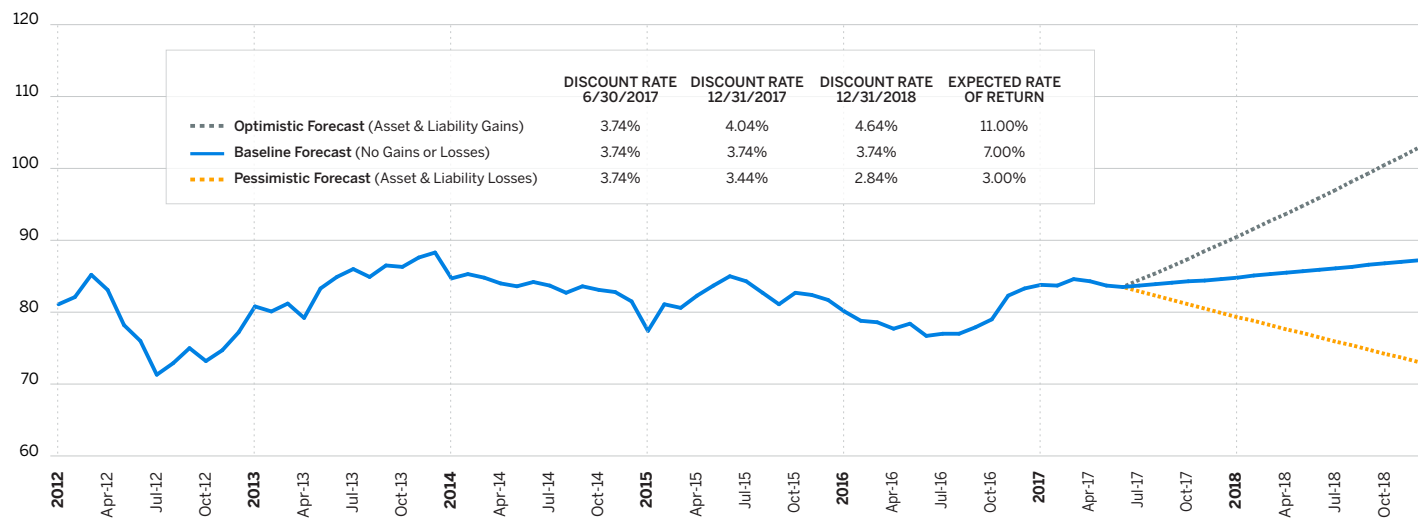


FIGURE 2: MILLIMAN 100 PENSION FUNDING INDEX – PENSION FUNDED RATIO



Over the last 12 months (July 2016–June 2017), the cumulative asset return for these pensions has been 8.17% and the Milliman 100 PFI funded status deficit has improved by \$138 billion. The primary reason for the increase in the funded status deficit has been investment returns above expectations over the past 12 months. Discount rates experienced an increase over the last 12 months as well, moving from 3.45% as of June 30, 2016, to 3.74% a year later. The funded ratio of the Milliman 100 companies has increased over the past 12 months to 83.5% from 76.7%.

2017-2018 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% were maintained during years 2017 and 2018, we forecast the funded status of the surveyed plans would increase. This would result in a projected pension deficit of \$265 billion (funded ratio of 84.6%) by the end of 2017 and a projected pension deficit of \$220 billion (funded ratio of 87.2%) by the end of 2018. For purposes of this forecast, we have assumed 2017 aggregate contributions of \$36 billion and 2018 aggregate contributions of \$39 billion.

Under an optimistic forecast with rising interest rates (reaching 4.04% by the end of 2017 and 4.64% by the end of 2018) and asset gains (11.0% annual returns), the funded ratio would climb to 90% by the end of 2017 and 103% by the end of 2018. Under a pessimistic forecast with similar interest rate and asset movements (3.44% discount rate at the end of 2017 and 2.84% by the end of 2018 and 3.0% annual returns), the funded ratio would decline to 80% by the end of 2017 and 73% by the end of 2018.

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

Zorast Wadia
zorast.wadia@milliman.com

MILLIMAN 100 PENSION FUNDING INDEX — JUNE 2017 (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
JUNE	2016	1,393,332	1,816,901	(423,569)	N/A	76.7%
JULY	2016	1,418,462	1,841,411	(422,949)	620	77.0%
AUGUST	2016	1,417,124	1,840,697	(423,573)	(624)	77.0%
SEPTEMBER	2016	1,412,760	1,813,686	(400,926)	22,647	77.9%
OCTOBER	2016	1,394,862	1,765,970	(371,108)	29,818	79.0%
NOVEMBER	2016	1,384,985	1,682,326	(297,341)	73,767	82.3%
DECEMBER	2016	1,396,661	1,676,182	(279,521)	17,820	83.3%
JANUARY	2017	1,403,106	1,673,506	(270,400)	9,121	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	1,442,861	1,723,815	(280,954)	(14,975)	83.7%
JUNE	2017	1,442,675	1,727,929	(285,254)	(4,300)	83.5%

PENSION ASSET AND LIABILITY RETURNS

END OF MONTH	YEAR	ASSET RETURNS			LIABILITY RETURNS	
		MONTHLY	YEAR-TO-DATE	DISCOUNT RATE	MONTHLY	YEAR-TO-DATE
JUNE	2016	0.92%	3.65%	3.45%	3.32%	11.39%
JULY	2016	2.18%	5.90%	3.33%	1.84%	13.43%
AUGUST	2016	0.27%	6.19%	3.32%	0.44%	13.93%
SEPTEMBER	2016	0.06%	6.25%	3.42%	-0.99%	12.81%
OCTOBER	2016	-0.90%	5.29%	3.61%	-2.14%	10.39%
NOVEMBER	2016	-0.34%	4.93%	3.98%	-4.24%	5.71%
DECEMBER	2016	1.22%	6.21%	3.99%	0.16%	5.88%
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	1.15%	5.20%	3.76%	1.88%	4.61%
JUNE	2017	0.35%	5.56%	3.74%	0.57%	5.21%