

Milliman Analysis: 2016 opens with dismal performance of the financial markets lowering funded status



Milliman 100 PFI funded ratio falls to 80.9%

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The funded status of the 100 largest corporate defined benefit pension plans dropped by \$31 billion during January as measured by the Milliman 100 Pension Funding Index (PFI). The funded status deficit widened to \$326 billion from \$295 billion at the end of December 2015, due to large investment losses incurred during January. January activity on the other side of the balance sheet was not fruitful either. A small drop in the benchmark corporate bond interest rates used to value pension liabilities also contributed to the increase in the funded status deficit. As of January 31, the funded ratio dropped to 80.9%, down from 82.7% at the end of December.

The market value of assets plummeted by \$25 billion as a result of January's investment loss of 1.46%. The Milliman 100 PFI asset value decreased to \$1.384 trillion from \$1.409 trillion at the end of December 2015. By comparison, the 2015 Milliman Pension Funding Study reported that the monthly median expected investment return during 2014 was 0.59% (7.3% annualized). The expected rate of return for 2015 will be updated in the 2016 Milliman Pension Funding Study, due out later in the first quarter of 2016.

The projected benefit obligation (PBO), or pension liabilities, increased to \$1.710 trillion at the end of January. The change

HIGHLIGHTS

	\$ BILLION		FUNDED STATUS	FUNDED PERCENTAGE
	MV	PBO		
DEC 2015	1,409	1,705	(295)	82.7%
JAN 2016	1,384	1,710	(326)	80.9%
MONTHLY CHANGE	(25)	+5	(31)	-1.8%
YTD CHANGE	(25)	+5	+3	-0.6%

Note: Numbers may not add up precisely due to rounding

resulted from a meager decrease of three basis points in the monthly discount rate to 4.19% for January from 4.22% for December 2015.

Over the last 12 months (Feb. 2015 – Jan. 2016), the cumulative asset return for these pensions has been -1.55% but the Milliman 100 PFI funded status deficit has improved by \$99 billion. The reasons for the gain in funded status—in spite of asset returns below expectations—were the increasing interest rates experienced during most of 2015. The funded ratio of the Milliman 100 companies has increased over the past 12 months to 80.9% from 77.5%.

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

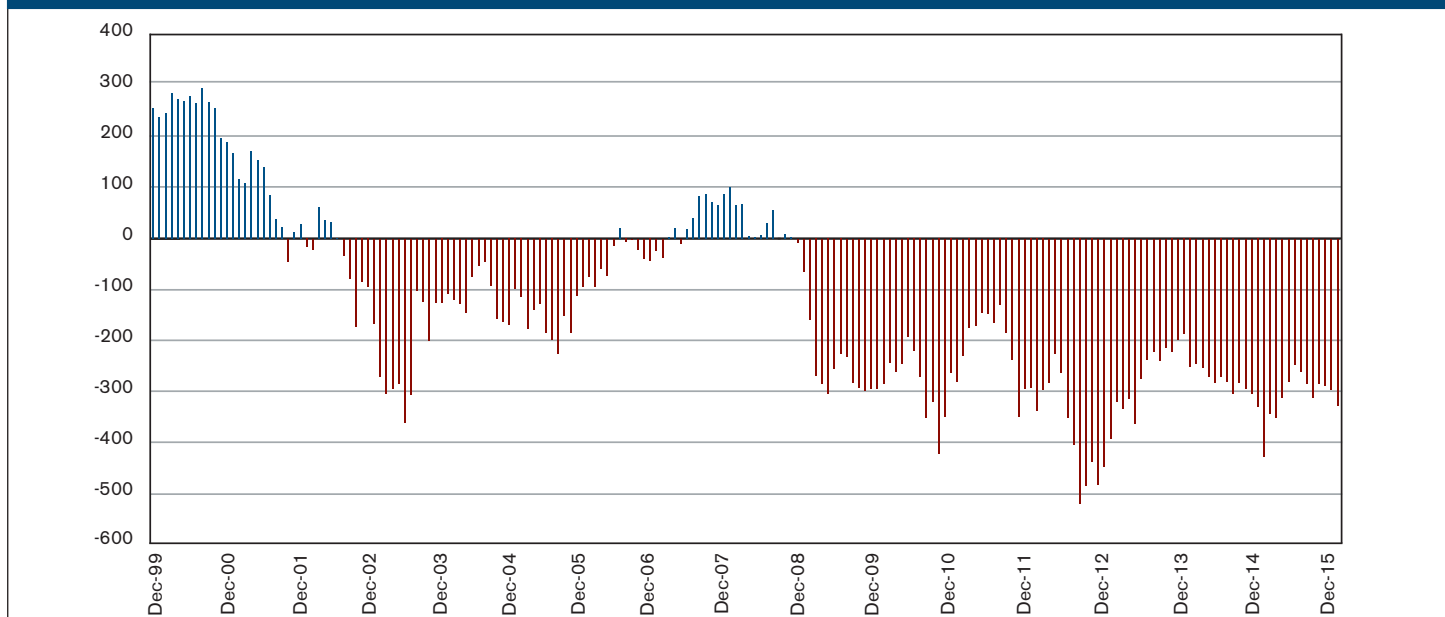
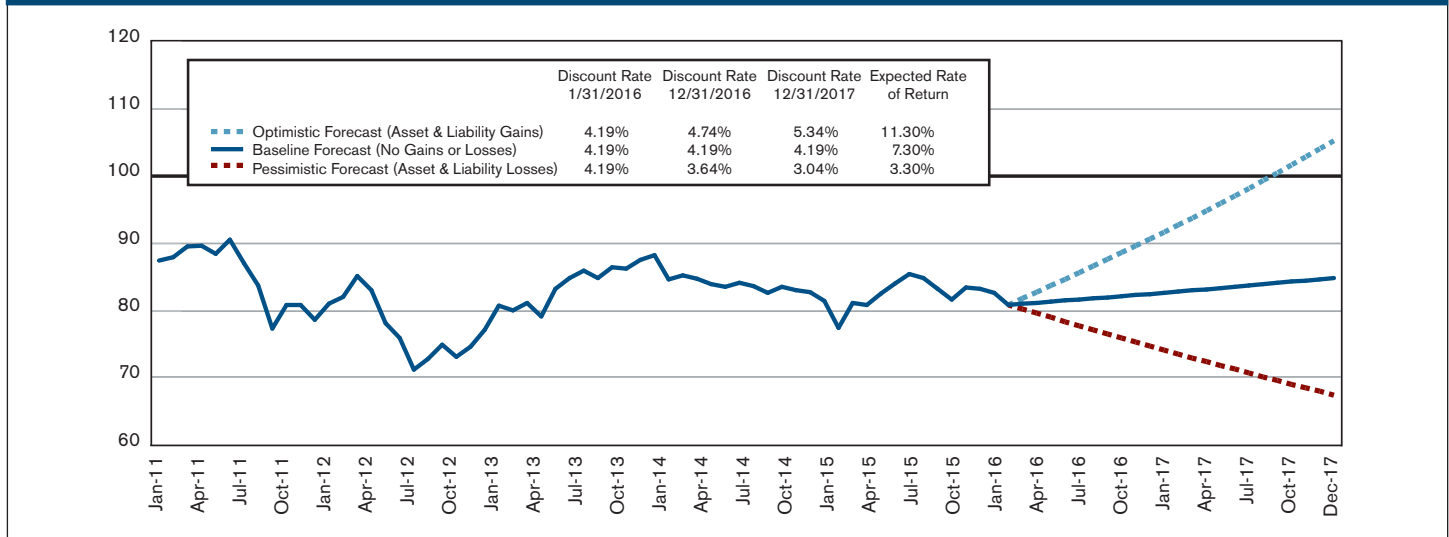


FIGURE 2: MILLIMAN 100 PENSION FUNDING INDEX – PENSION FUNDED RATIO



The projected asset and liability figures in this analysis will be adjusted as part of our annual 2016 Pension Funding Study, which reflects pension settlement and annuity purchase activities that occurred during 2015. 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 reports for the 2015 fiscal year is expected to be available during the first quarter of 2016 in the 2016 Milliman Pension Funding Study.

2016-2017 PROJECTIONS

If the Milliman 100 PFI companies were to achieve the expected 7.3% (as per the 2015 pension funding study) median asset return for their pension plan portfolios, and the current discount rate of 4.19% was maintained during years 2016 and 2017, we forecast the funded status of the surveyed plans would increase. This would result in a projected pension deficit of \$297 billion (funded ratio of 82.7%) by the end of 2016 and a projected pension deficit of \$261 billion (funded ratio of 84.9%) by the end of 2017. For purposes of this forecast, we have assumed 2016 aggregate contributions of \$36 billion and 2017 aggregate contributions of \$39 billion.

Under an optimistic forecast with rising interest rates (reaching 4.74% by the end of 2016 and 5.34% by the end of 2017) and asset gains (11.3% annual returns), the funded ratio would climb to 92% by the end of 2016 and 105% by the end of 2017. Under a pessimistic forecast with similar interest rate and asset movements (3.64% discount rate at the end of 2016 and 3.04% by the end of 2017 and 3.3% annual returns), the funded ratio would decline to 74% by the end of 2016 and 68% by the end of 2017.

ABOUT THE MILLIMAN 100 MONTHLY PENSION FUNDING INDEX

For the past 15 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 2014 fiscal year and for previous fiscal years. This pension plan accounting disclosure information was summarized as part of the Milliman 2015 Pension Funding Study, which was published on April 2, 2015. 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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MILLIMAN 100 PENSION FUNDING INDEX – JANUARY 2016 (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	2015	1,466,814	1,892,551	(425,737)	N/A	77.5%
FEBRUARY	2015	1,484,594	1,827,742	(343,148)	82,589	81.2%
MARCH	2015	1,481,729	1,832,227	(350,498)	(7,350)	80.9%
APRIL	2015	1,479,378	1,790,601	(311,223)	39,275	82.6%
MAY	2015	1,476,896	1,756,407	(279,511)	31,712	84.1%
JUNE	2015	1,446,951	1,692,416	(245,465)	34,046	85.5%
JULY	2015	1,458,824	1,718,461	(259,637)	(14,172)	84.9%
AUGUST	2015	1,414,699	1,698,809	(284,110)	(24,473)	83.3%
SEPTEMBER	2015	1,395,904	1,707,660	(311,756)	(27,646)	81.7%
OCTOBER	2015	1,432,153	1,715,849	(283,696)	28,060	83.5%
NOVEMBER	2015	1,428,690	1,715,749	(287,059)	(3,363)	83.3%
DECEMBER	2015	1,409,202	1,704,667	(295,465)	(8,406)	82.7%
JANUARY	2016	1,383,766	1,710,045	(326,279)	(30,814)	80.9%

PENSION ASSET AND LIABILITY RETURNS

END OF MONTH	YEAR	ASSET RETURNS			LIABILITY RETURNS	
		MONTHLY	YEAR-TO-DATE	DISCOUNT RATE	MONTHLY	YEAR-TO-DATE
JANUARY	2015	1.16%	1.16%	3.41%	6.32%	6.32%
FEBRUARY	2015	1.57%	2.74%	3.67%	-3.15%	2.97%
MARCH	2015	0.15%	2.90%	3.65%	0.52%	3.51%
APRIL	2015	0.19%	3.10%	3.82%	-1.99%	1.45%
MAY	2015	0.18%	3.28%	3.97%	-1.61%	-0.19%
JUNE	2015	-1.68%	1.55%	4.25%	-3.33%	-3.52%
JULY	2015	1.18%	2.74%	4.14%	1.85%	-1.73%
AUGUST	2015	-2.68%	-0.01%	4.23%	-0.83%	-2.54%
SEPTEMBER	2015	-0.97%	-0.97%	4.19%	0.84%	-1.73%
OCTOBER	2015	2.97%	1.97%	4.16%	0.79%	-0.95%
NOVEMBER	2015	0.12%	2.09%	4.16%	0.30%	-0.65%
DECEMBER	2015	-1.00%	1.07%	4.22%	-0.33%	-0.98%
JANUARY	2016	-1.46%	-1.46%	4.19%	0.63%	0.63%

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