

Milliman analysis: Funded status drops by \$6 billion in March

The Milliman 100 PFI funded status deficit increases to \$349 billion



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The funded status of the 100 largest corporate defined benefit pension plans dropped by \$6 billion during March as measured by the Milliman 100 Pension Funding Index (PFI). The deficit increased to \$349 billion from \$343 billion at the end of February due to the dual effect of a decline in the benchmark corporate bond interest rates used to value pension liabilities and flat asset performance during March. As of March 31, the funded ratio fell to 81.0%, down from 81.2% at the end of February. This March 31 PFI publication reflects the annual update of the Milliman 100 companies and the 2014 financial results included in the Milliman 2015 Pension Funding Study published on April 2, 2015.

March's flat investment performance led to a decrease in Milliman 100 PFI asset value to \$1.483 trillion from \$1.485 trillion at the end of February, based on a meager investment gain of 0.25% for the month. By comparison, the 2015 Milliman Pension Funding Study reported that the monthly median expected investment return during 2014 was 0.59% (7.3% annualized).

HIGHLIGHTS

	\$ BILLION		FUNDED STATUS	FUNDED PERCENTAGE
	MV	PBO		
FEB 2015	1,485	1,828	(343)	81.2%
MAR 2015	1,483	1,832	(349)	81.0%
MONTHLY CHANGE	(1)	+4	(6)	-0.2%
YTD CHANGE	+28	+47	(19)	-0.5%

Note: Numbers may not add up precisely due to rounding

The projected benefit obligation (PBO), or pension liabilities, increased by \$4 billion during March, raising the Milliman 100 PFI value to \$1.832 trillion from \$1.828 trillion at the end of February. The change resulted from a small decrease of two basis points in the monthly discount rate to 3.65% for March, from 3.67% for February. There have now been five consecutive months (November 2014 through March 2015) with discount rates below 4.00%.

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

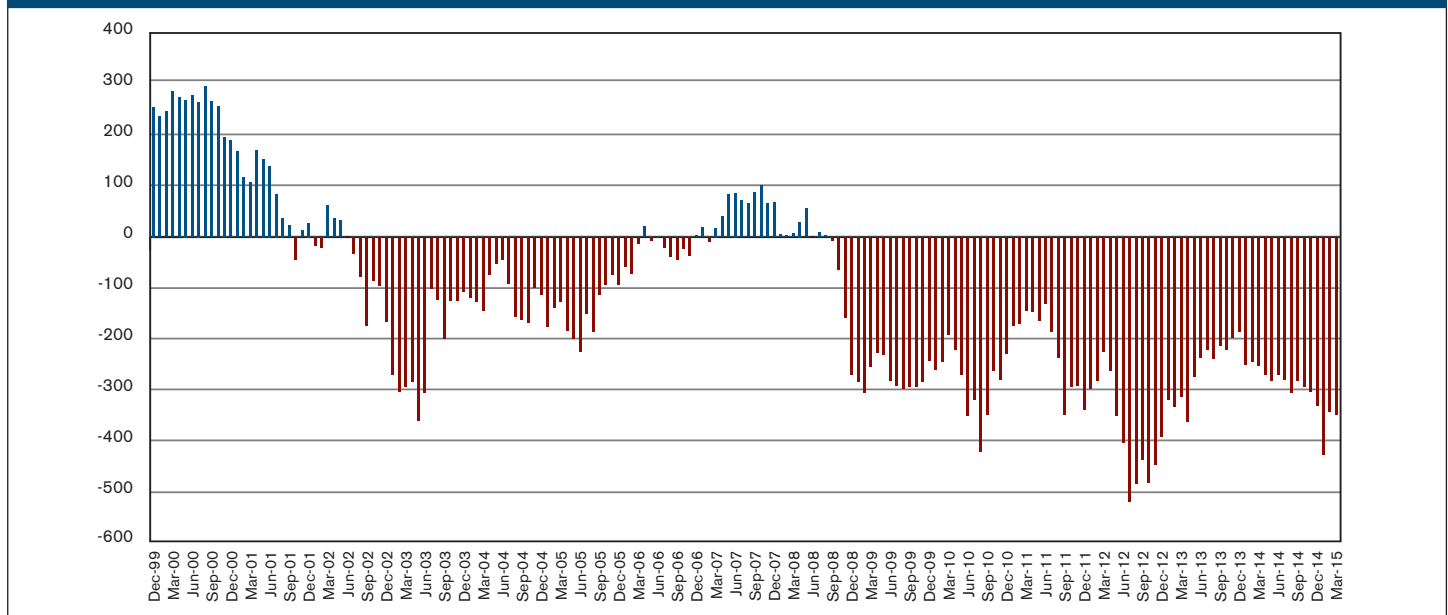
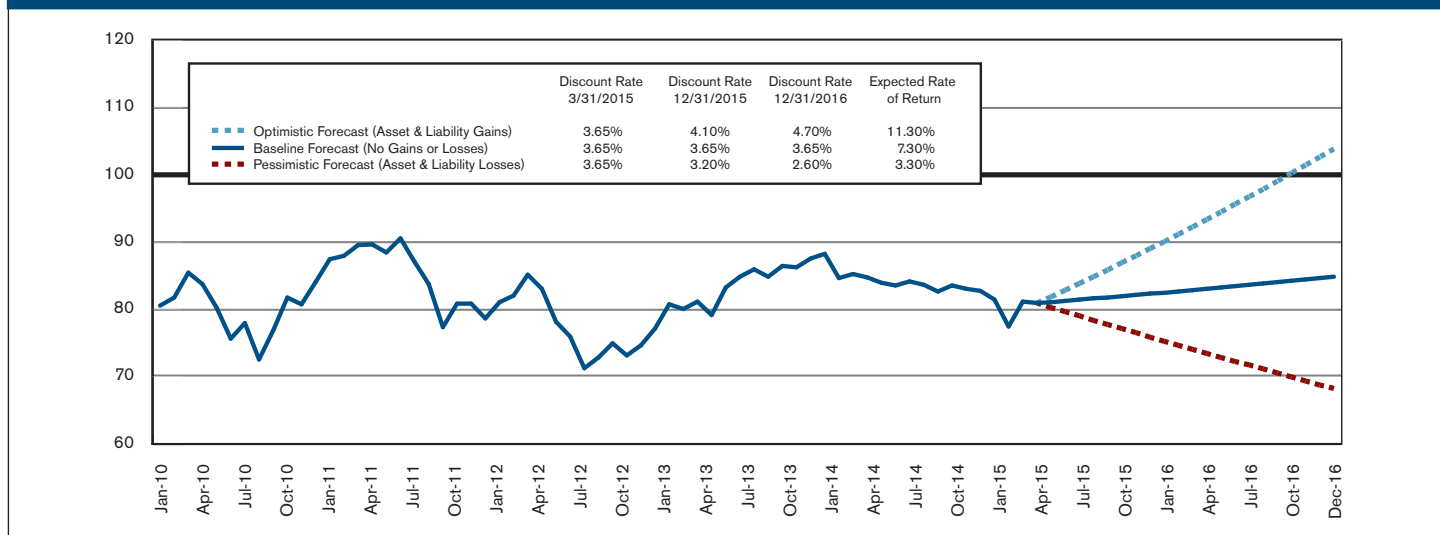


FIGURE 2: MILLIMAN 100 PENSION FUNDING INDEX – PENSION FUNDED RATIO



For the quarter ended March 31, 2015, the assets had a net investment gain of 3.01%. Since the start of 2015, the funded status has deteriorated by \$19 billion, primarily due to reductions in the discount rate. January’s discount rate of 3.41% was the all-time low in the 15-year history of the Milliman 100 Pension Funding Index. Discount rates fell 84 basis points during 2014, and this downward trend has continued into the first quarter of 2015. The funded ratio of the Milliman 100 companies decreased to 81.0% at the end of March 2015 from 81.5% at the end of December 2014.

Over the last 12 months (April 2014 to March 2015), the cumulative asset return for these pensions has been 10.35%, and the Milliman 100 PFI funded status deficit has worsened by \$96 billion. The primary reason for the decrease in the funded status deficit has been the unceasing decline in discount rates. The discount rate on March 31, 2014, was 4.30%, 65 basis points higher than where it settled on March 31, 2015. The funded ratio of the Milliman 100 companies has decreased over the past 12 months to 81.0% from 84.8%.

PFI RECONCILIATION

This March 31 PFI publication reflects the annual update of the Milliman 100 companies and their 2014 financial figures included in the Milliman 2015 Pension Funding Study published on April 2, 2015. The actual December 31, 2014, pension liability was \$9 billion higher than projected after accounting for settlement de-risking activities and reflection of updated mortality assumptions as of year-end 2014. The discount rate was four basis points higher than projected, standing at 3.84% as of December 31, 2014. This December 31, 2014, pension liability re-measurement resulted in a funded ratio decrease of approximately 0.4% for the Milliman 100 plans.

The actual PFI asset value was \$27 billion lower than projected due to actual contributions for 2014 that were lower than expected, primarily attributable to the timing effects of the Highway and Transportation Funding Act of 2014 (HATFA), which was passed during August 2014, and settlement de-risking

activities that reduced plan size. The December 31, 2014, asset value re-measurement resulted in a funded ratio decrease of approximately 1.6% for the Milliman 100 plans.

The net adjustments based on the results of the Milliman 2015 Pension Funding Study were a funded status loss of \$37 billion and a corresponding decrease to the funded ratio, bringing it to 81.5% as of December 31, 2014. This denotes a decrease from the 83.5% funded status figure previously projected at year-end 2014.

2015-2016 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 3.65% were maintained during years 2015 and 2016, we forecast that the funded status of the surveyed plans would increase. This would result in a projected pension deficit of \$321 billion (funded ratio of 82.5%) by the end of 2015 and a projected pension deficit of \$278 billion (funded ratio of 84.9%) by the end of 2016. For purposes of this forecast, we have assumed 2015 aggregate contributions of \$32 billion and 2016 aggregate contributions of \$36 billion.

Under an optimistic forecast with rising interest rates (reaching 4.10% by the end of 2015 and 4.70% by the end of 2016) and asset gains (11.3% annual returns), the funded ratio would climb to 90% by the end of 2015 and 104% by the end of 2016. Under a pessimistic forecast with similar interest rate and asset movements (3.20% discount rate at the end of 2015 and 2.60% by the end of 2016 and 3.3% annual returns), the funded ratio would decline to 75% by the end of 2015 and 68% by the end of 2016.

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MILLIMAN 100 PENSION FUNDING INDEX – MARCH 2015 (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
MARCH	2014	1,414,180	1,666,833	(252,653)	N/A	84.8%
APRIL	2014	1,418,481	1,688,526	(270,045)	(17,392)	84.0%
MAY	2014	1,436,813	1,718,360	(281,547)	(11,502)	83.6%
JUNE	2014	1,445,291	1,715,825	(270,534)	11,013	84.2%
JULY	2014	1,433,890	1,713,759	(279,869)	(9,335)	83.7%
AUGUST	2014	1,456,476	1,760,527	(304,051)	(24,182)	82.7%
SEPTEMBER	2014	1,433,651	1,715,644	(281,993)	22,058	83.6%
OCTOBER	2014	1,444,652	1,738,390	(293,738)	(11,745)	83.1%
NOVEMBER	2014	1,461,608	1,764,912	(303,304)	(9,566)	82.8%
DECEMBER	2014	1,455,160	1,784,747	(329,587)	(26,283)	81.5%
JANUARY	2015	1,466,874	1,892,551	(425,677)	(96,090)	77.5%
FEBRUARY	2015	1,484,713	1,827,742	(343,029)	82,648	81.2%
MARCH	2015	1,483,307	1,832,227	(348,920)	(5,891)	81.0%

PENSION ASSET AND LIABILITY RETURNS

END OF MONTH	YEAR	ASSET RETURNS			LIABILITY RETURNS	
		MONTHLY	YEAR-TO-DATE	DISCOUNT RATE	MONTHLY	YEAR-TO-DATE
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	-0.34%	5.49%	4.10%	0.15%	9.93%
AUGUST	2014	2.03%	7.63%	3.89%	2.99%	13.22%
SEPTEMBER	2014	-1.13%	6.42%	4.10%	-2.29%	10.63%
OCTOBER	2014	1.22%	7.72%	4.00%	1.59%	12.38%
NOVEMBER	2014	1.62%	9.46%	3.89%	1.78%	14.38%
DECEMBER	2014	0.00%	9.46%	3.84%	1.37%	15.95%
JANUARY	2015	1.16%	1.16%	3.41%	6.32%	6.32%
FEBRUARY	2015	1.57%	2.75%	3.67%	-3.15%	2.97%
MARCH	2015	0.25%	3.01%	3.65%	0.52%	3.51%

Note: The March 31 report (published in April) of the Milliman 100 Pension Funding Index (Milliman 100 PFI) reflects the annual update of the Milliman 100 companies and their 2014 financial figures included in the Milliman 2015 Pension Funding Study published on April 2, 2015. The March 31 Milliman 100 PFI replaces previously published results for January and February 2015 and adjusts the monthly projections for 2014 to reflect actual gains and losses for 2014. Go to milliman.com to view the Milliman 2015 Pension Funding Study.

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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