

Milliman analysis: Corporate pension funded status declines by \$28 billion in September



Third quarter 2015 funded status losses of \$66 billion;
2015 pension asset investment loss of 0.99%

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The funded status of the 100 largest corporate defined benefit pension plans worsened by \$28 billion during September as measured by the Milliman 100 Pension Funding Index (PFI). The deficit rose to \$312 billion due to both investment losses and interest rate decreases during September. As of September 30, the funded ratio dropped to 81.7%, down from 83.3% at the end of August.

The market value of assets fell by \$19 billion as a result of September's investment loss of 0.97%. The Milliman 100 PFI asset value decreased to \$1.396 trillion from \$1.415 trillion at the end of August. By comparison, the 2015 Milliman Pension Funding Study reported that the monthly median expected investment return during 2014 was 0.59% (7.3% annualized). A fourth quarter 2015 investment gain of 8.4% is necessary just to meet the annual 7.3% expected investment gain.

The funded status loss was exacerbated by the drop in the benchmark corporate bond interest rates used to value pension liabilities. The projected benefit obligation (PBO), or pension liabilities, increased by \$9 billion during September, raising the Milliman 100 PFI value to \$1.708 trillion from \$1.699 trillion at the end of August.

	\$ BILLION		FUNDED STATUS	FUNDED PERCENTAGE
	MV	PBO		
AUG 2015	1,415	1,699	(284)	83.3%
SEP 2015	1,396	1,708	(312)	81.7%
MONTHLY CHANGE	(19)	+9	(28)	-1.6%
YTD CHANGE	(59)	(77)	+18	0.2%

Note: Numbers may not add up precisely due to rounding

The PBO change resulted from a decrease of four basis points in the monthly discount rate to 4.19% for September, from 4.23% for August.

THIRD QUARTER 2015 SUMMARY

During the quarter ended September 30, 2015, the funded status deficit increased by \$66 billion. This was primarily due to the large investment losses in August and September. The asset losses in the third quarter were 2.49%. Interest rates fell by six basis points during the third quarter of 2015. The funded ratio of the Milliman 100 companies dropped to 81.7% at the end of September from 85.5% at the end of June.

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

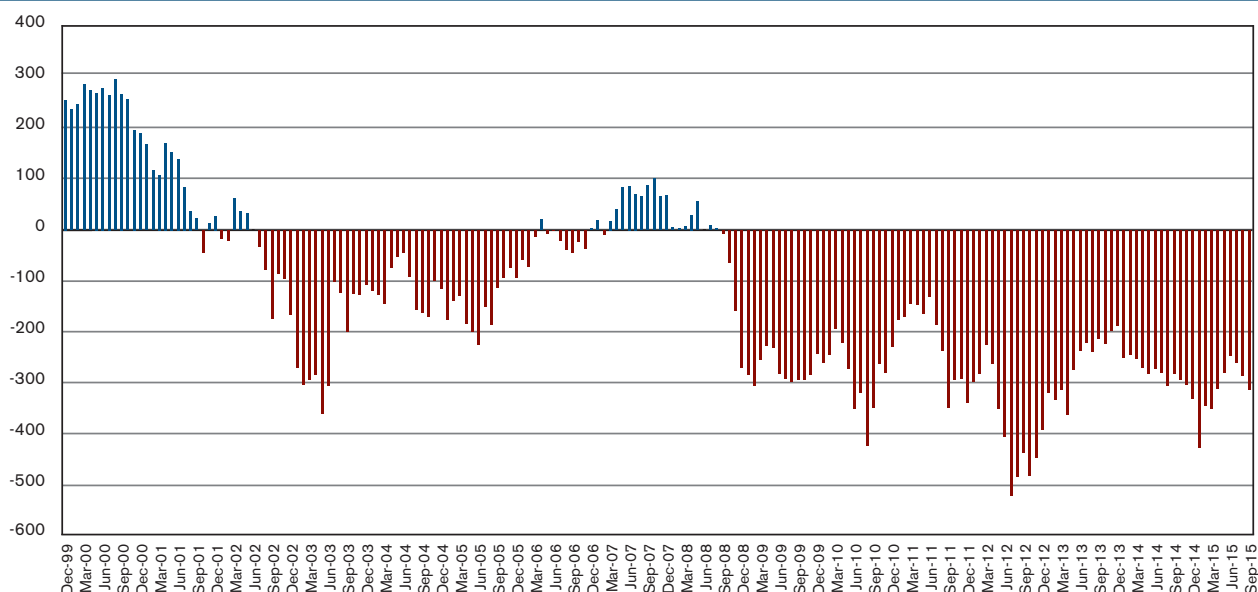
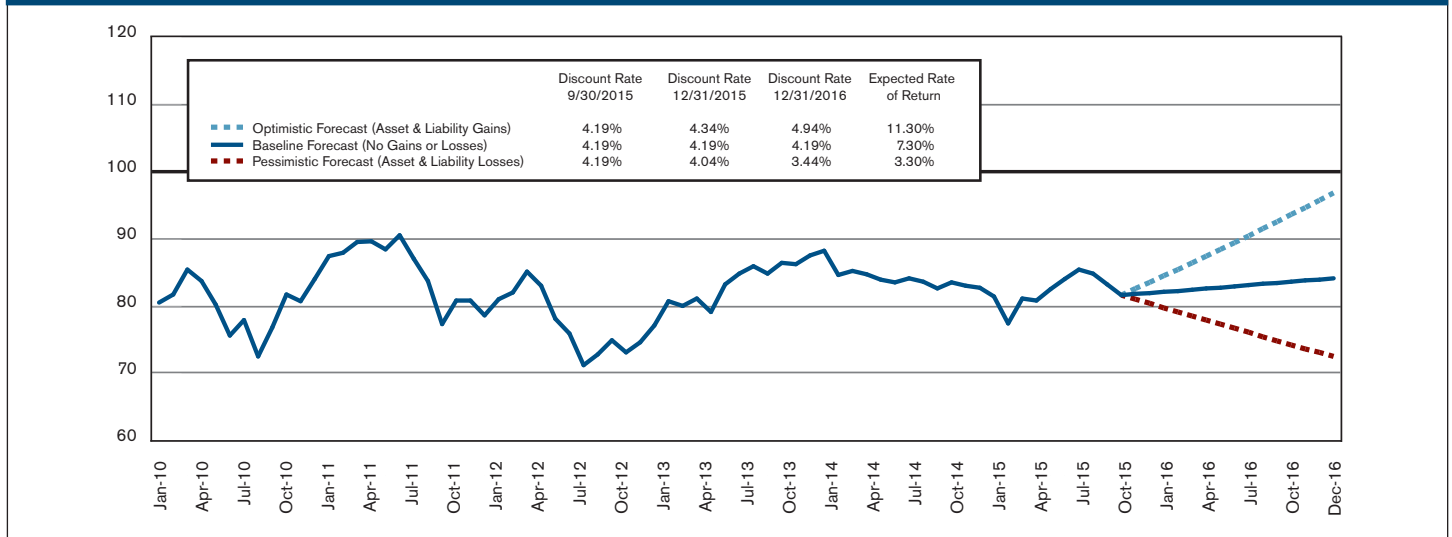


FIGURE 2: MILLIMAN 100 PENSION FUNDING INDEX – PENSION FUNDED RATIO



The \$51 billion third quarter 2015 investment loss was the largest third quarter investment loss since 2011. The funded status drop of \$66 billion was also the largest third quarter decline experienced since the \$218 billion decline in the quarter ending in September 2011.

Over the last 12 months (Oct 2014 – Sep 2015), the cumulative asset return for these pensions has been 1.84% and the Milliman 100 PFI funded status deficit has worsened by \$30 billion. The drop in funded status over the past 12 months is primarily due to the investment losses occurring during the third quarter of 2015. Prior to August 2015, the year-to-date asset return was 2.73%. Discount rates have experienced a slight uptick from last September to now of nine basis points. This rise has helped to offset the funded status losses caused by poor investment returns. The funded ratio of the Milliman 100 companies has fallen over the past 12 months to 81.7% from 83.6%.

2015-2016 PROJECTIONS

If the Milliman 100 PFI companies were to achieve the expected annual 7.3% (as per the 2015 pension funding study) median asset return for their pension plan portfolios for the remaining three months of 2015 and throughout 2016, and the current discount rate of 4.19% was maintained during years 2015 and 2016, we forecast the funded status of the surveyed plans would increase. This would result in a projected pension deficit of \$305 billion (funded ratio of 82.2%) by the end of 2015 and a projected pension deficit of \$271 billion (funded ratio of 84.2%) 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 4.34% by the end of 2015 and 4.94% by the end of 2016) and asset gains (11.3% annual returns), the funded ratio would climb to 85% by the end of 2015 and 97% by the end of 2016.

Under a pessimistic forecast with similar interest rate and asset movements (4.04% discount rate at the end of 2015 and 3.44% by the end of 2016 and 3.3% annual returns), the funded ratio would decline to 80% by the end of 2015 and 73% by the end of 2016.

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 – SEPTEMBER 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
SEPTEMBER	2014	1,433,650	1,715,644	(281,994)	N/A	83.6%
OCTOBER	2014	1,444,651	1,738,390	(293,739)	(11,745)	83.1%
NOVEMBER	2014	1,461,607	1,764,912	(303,305)	(9,566)	82.8%
DECEMBER	2014	1,455,159	1,784,747	(329,588)	(26,283)	81.5%
JANUARY	2015	1,466,814	1,892,551	(425,737)	(96,149)	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	1,479,408	1,790,601	(311,193)	39,305	82.6%
MAY	2015	1,476,926	1,756,407	(279,481)	31,712	84.1%
JUNE	2015	1,446,834	1,692,416	(245,582)	33,899	85.5%
JULY	2015	1,458,618	1,718,461	(259,843)	(14,261)	84.9%
AUGUST	2015	1,414,522	1,698,809	(284,287)	(24,444)	83.3%
SEPTEMBER	2015	1,395,669	1,707,660	(311,991)	(27,704)	81.7%

PENSION ASSET AND LIABILITY RETURNS

END OF MONTH	YEAR	ASSET RETURNS			LIABILITY RETURNS	
		MONTHLY	YEAR-TO-DATE	DISCOUNT RATE	MONTHLY	YEAR-TO-DATE
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%	2.74%	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	-1.69%	1.54%	4.25%	-3.33%	-3.52%
JULY	2015	1.17%	2.73%	4.14%	1.85%	-1.73%
AUGUST	2015	-2.67%	-0.02%	4.23%	-0.83%	-2.54%
SEPTEMBER	2015	-0.97%	-0.99%	4.19%	0.84%	-1.73%

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