

Milliman analysis: Corporate pension funded status drops by \$8 billion in October



Strong investment gain of \$14 billion offset by liability increases of \$22 billion

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The funded status of the 100 largest corporate defined benefit pension plans fell by \$8 billion during October as measured by the Milliman 100 Pension Funding Index (PFI). The deficit widened to \$263 billion from \$255 billion at the end of September, primarily due to a decrease in the benchmark corporate bond interest rates used to value pension liabilities. As of October 31, the funded ratio declined to 84.8%, from 85.1% at the end of September.

The projected benefit obligation (PBO), or pension liabilities, increased by \$22 billion during October, raising the Milliman 100 PFI value to \$1.731 trillion from \$1.709 trillion at the end of September. The PBO change resulted from a decrease of 10 basis points in the monthly discount rate to 4.00% for October, from 4.10% for September. Discount rate declines continue to be the lead story for 2014 as they have dropped by 68 basis points so far from year-end 2013. Year-to-date, the pension liabilities have increased by \$141 billion, resulting in a decline in the Milliman 100 PFI funded ratio.

HIGHLIGHTS

	\$ BILLION		FUNDED STATUS	FUNDED PERCENTAGE
	MV	PBO		
SEP 2014	1,454	1,709	(255)	85.1%
OCT 2014	1,468	1,731	(263)	84.8%
MONTHLY CHANGE	+14	+22	(8)	-0.3%
YTD CHANGE	+65	+141	(76)	-3.5%

Note: Numbers may not add up precisely due to rounding

The market value of assets improved by \$14 billion as a result of October's investment gain of 1.25%. The Milliman 100 PFI asset value increased to \$1.468 trillion, up from \$1.454 trillion at the end of September. By comparison, the 2014 Milliman Pension Funding Study reported that the monthly median expected investment return during 2013 was 0.60% (7.4% annualized).

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

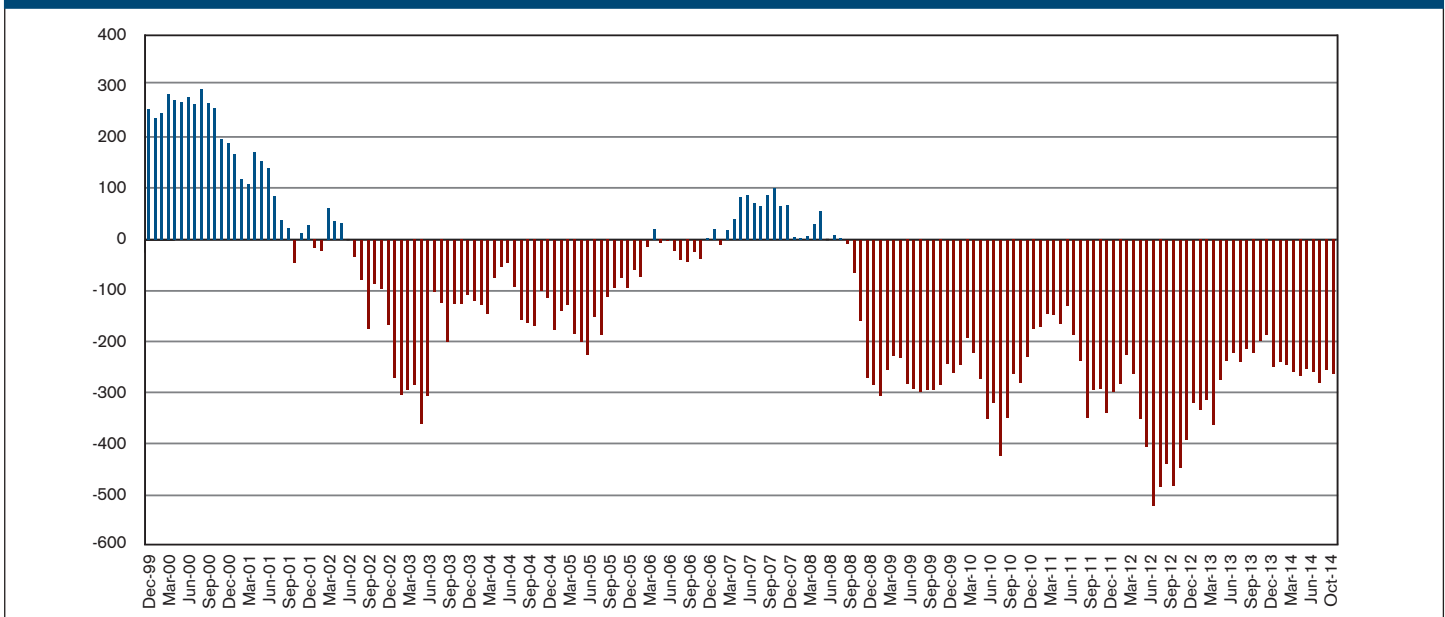
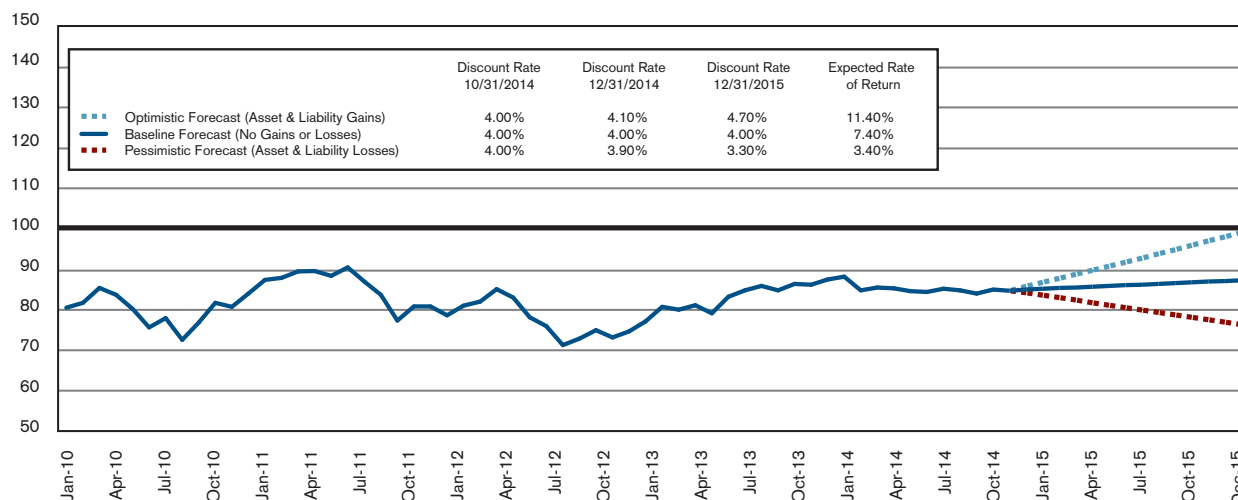


FIGURE 2: MILLIMAN 100 PENSION FUNDING INDEX – PENSION FUNDED RATIO



Over the last 12 months (November 2013 – October 2014), the cumulative asset return for these pensions has been 9.59% but the Milliman 100 PFI funded status deficit has worsened by \$41 billion. The drop in funded status over the past 12 months is primarily due to the decline in interest rates. Since October 31, 2013, the discount rate has dropped 67 basis points to 4.00% from 4.67%. The funded ratio of the Milliman 100 companies has decreased over the past 12 months to 84.8% from 86.3%.

All eyes will be on Fed policy as it relates to interest rates as the December 31st measurement date nears. In addition, December 31 pension disclosures are expected to also reflect adoption by many plan sponsors of new mortality assumptions which generally capture further improvements in life expectancy and will result in higher pension liabilities, the magnitude of which would depend on the age, gender, and composition of annuitants and non-annuitants by individual plan. The November Milliman 100 PFI has not been adjusted to estimate the impact of possibly moving to the mortality tables recently finalized by the Society of Actuaries. However, based on our preliminary analysis of the impact of the new mortality tables, we estimate an increase of 6% to 8% in pension liabilities. This would imply a PBO increase of up to \$139 billion and would decrease the funded ratio by over six percentage points, bringing it below 79%.

Furthermore, the projected asset and liability figures presented in this analysis will be adjusted as part of our annual 2015 Pension Funding Study where pension settlement and annuity purchase activities will be reflected. The November Milliman 100 PFI does not reflect the recently executed mammoth pension de-risking transactions involving Motorola and Bristol-Myers Squibb, two of the companies that comprise the Milliman 100 cohort. While they reduce liability, pension de-risking transactions also generally result in a reduction in funded status due to the correspondingly larger asset reductions. However, many companies engaging in de-risking transactions make an additional contribution to their pension plans to shore up funded status.

2014-2015 PROJECTIONS

If the Milliman 100 PFI companies were to achieve the expected 7.4% (as per the 2014 Milliman Pension Funding Study) median asset return for their pension plan portfolios and the current discount rate of 4.00% were maintained during years 2014 and 2015, we forecast the funded status of the surveyed plans would increase. This would result in a projected pension deficit of \$255 billion (funded ratio of 85.3%) by the end of 2014 and a projected pension deficit of \$219 billion (funded ratio of 87.4%) by the end of 2015. For purposes of this forecast, we have assumed 2014 aggregate contributions of \$44 billion and 2015 aggregate contributions of \$31 billion. The drop in contribution expectations for 2015 is reflective of the passage of the Highway and Transportation Funding Act of 2014 (HATFA) which was signed into law on August 8 and extended the MAP-21 interest rate relief provisions for defined benefit plan sponsors. While we expect many of the Milliman 100 companies to make contributions above the minimum requirements, we also expect some plan sponsors who are cash strapped to take advantage of the available contribution relief.

Under an optimistic forecast with rising interest rates (reaching 4.10% by the end of 2014 and 4.70% by the end of 2015) and asset gains (11.4% annual returns), the funded ratio would climb to 87% by the end of 2014 and 99% by the end of 2015. Under a pessimistic forecast with similar interest rate and asset movements (3.90% discount rate at the end of 2014 and 3.30% by the end of 2015 and 3.4% annual returns), the funded ratio would decline to 84% by the end of 2014 and 76% by the end of 2015.

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MILLIMAN 100 PENSION FUNDING INDEX – OCTOBER 2014 (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
OCTOBER	2013	1,390,238	1,611,781	(221,543)	N/A	86.3%
NOVEMBER	2013	1,396,687	1,593,818	(197,131)	24,412	87.6%
DECEMBER	2013	1,403,016	1,589,236	(186,220)	10,911	88.3%
JANUARY	2014	1,393,680	1,641,543	(247,863)	(61,643)	84.9%
FEBRUARY	2014	1,421,399	1,660,091	(238,692)	9,171	85.6%
MARCH	2014	1,420,855	1,664,589	(243,734)	(5,042)	85.4%
APRIL	2014	1,427,415	1,685,496	(258,081)	(14,347)	84.7%
MAY	2014	1,448,161	1,714,506	(266,345)	(8,264)	84.5%
JUNE	2014	1,458,994	1,711,208	(252,214)	14,131	85.3%
JULY	2014	1,449,730	1,708,381	(258,651)	(6,437)	84.9%
AUGUST	2014	1,474,908	1,754,214	(279,306)	(20,655)	84.1%
SEPTEMBER	2014	1,454,046	1,708,725	(254,679)	24,627	85.1%
OCTOBER	2014	1,467,962	1,730,602	(262,640)	(7,961)	84.8%

PENSION ASSET AND LIABILITY RETURNS

END OF MONTH	YEAR	ASSET RETURNS			LIABILITY RETURNS	
		MONTHLY	YEAR-TO-DATE	DISCOUNT RATE	MONTHLY	YEAR-TO-DATE
OCTOBER	2013	2.34%	9.42%	4.67%	2.19%	-6.11%
NOVEMBER	2013	0.86%	10.36%	4.78%	-1.12%	-7.16%
DECEMBER	2013	0.85%	11.29%	4.68%	-0.29%	-7.43%
JANUARY	2014	-0.36%	-0.36%	4.41%	3.64%	3.64%
FEBRUARY	2014	2.30%	1.92%	4.32%	1.46%	5.15%
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	-0.35%	5.49%	4.10%	0.15%	9.93%
AUGUST	2014	2.03%	7.64%	3.89%	2.99%	13.22%
SEPTEMBER	2014	-1.13%	6.42%	4.10%	-2.29%	10.63%
OCTOBER	2014	1.25%	7.75%	4.00%	1.59%	12.38%

ABOUT THE MILLIMAN 100 MONTHLY PENSION FUNDING INDEX

For the past 14 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 2013 fiscal year and for previous fiscal years. This pension plan accounting disclosure information was summarized as part of the Milliman 2014 Pension Funding Study, which was published on April 2, 2014. 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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