

Milliman analysis: Corporate pension funded status drops by \$22 billion in August



Global financial market's massive investment losses in August extinguish all 2015 asset gains; funded ratio falls to 83.4%

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The funded status of the 100 largest corporate defined benefit pension plans worsened by \$22 billion during August as measured by the Milliman 100 Pension Funding Index (PFI). The deficit rose to \$282 billion primarily due to these August investment losses. The funded status loss was mitigated by the rise in the benchmark corporate bond interest rates used to value pension liabilities. As of August 31, the funded ratio dropped to 83.4%, down from 84.9% at the end of July. Adding in July's loss, the funded status deficit has grown by \$36 billion in the third quarter.

The market value of assets plummeted by \$42 billion as a result of August's investment loss of 2.51%. The Milliman 100 PFI asset value decreased to \$1.417 trillion from \$1.459 trillion at the end of July. 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 August investment loss was the largest loss in the last six years. The last time pension assets of the Milliman 100 PFI fell by \$42 billion was in February 2009.

The projected benefit obligation (PBO), or pension liabilities, decreased by \$20 billion during August, lowering the Milliman 100 PFI

	\$ BILLION		FUNDED STATUS	FUNDED PERCENTAGE
	MV	PBO		
JUL 2015	1,459	1,718	(260)	84.9%
AUG 2015	1,417	1,699	(282)	83.4%
MONTHLY CHANGE	(42)	(20)	(22)	-1.5%
YTD CHANGE	(38)	(86)	+48	1.9%

Note: Numbers may not add up precisely due to rounding

value to \$1.699 trillion. The PBO change resulted from an increase of nine basis points in the monthly discount rate to 4.23% for August, from 4.14% for July.

Over the last 12 months (September 2014 – August 2015), the cumulative asset return for these pensions has been 1.85% and yet the Milliman 100 PFI funded status deficit has improved by \$22 billion. The rise in funded status over the past 12 months is primarily due to increases in discount rates experienced throughout much of 2015 after initially beginning the year below the 4.00% mark.

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

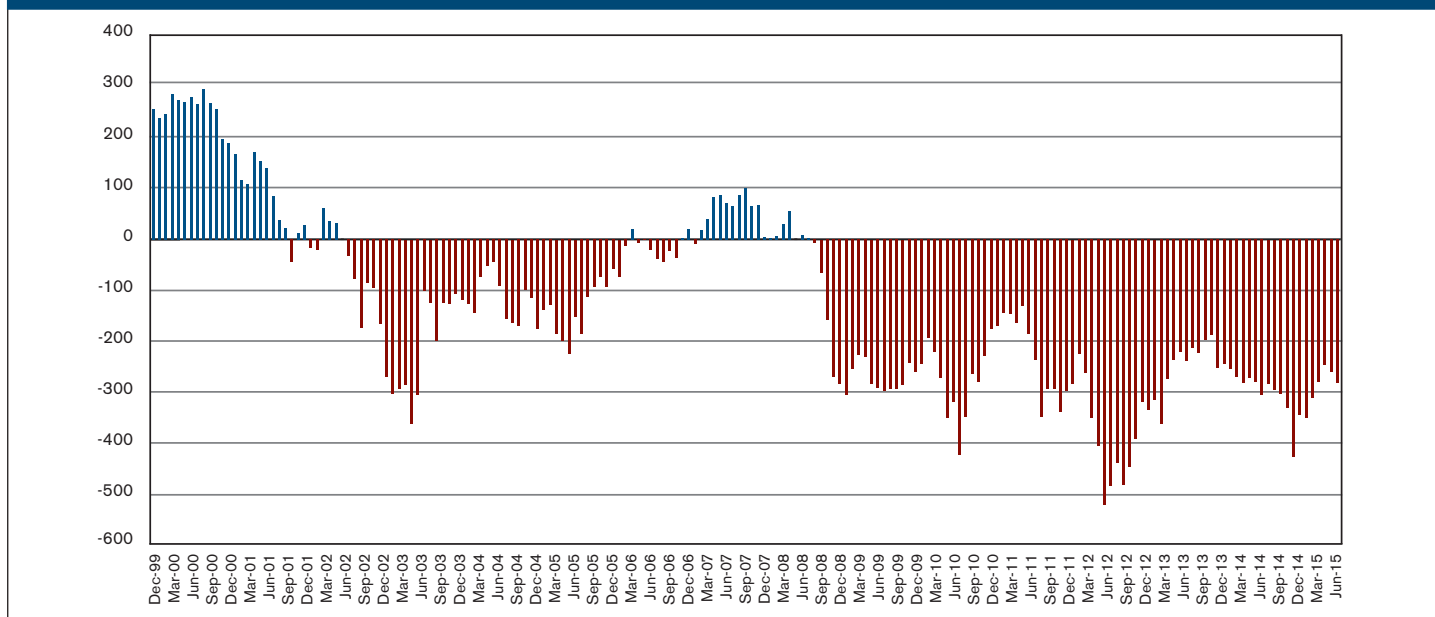
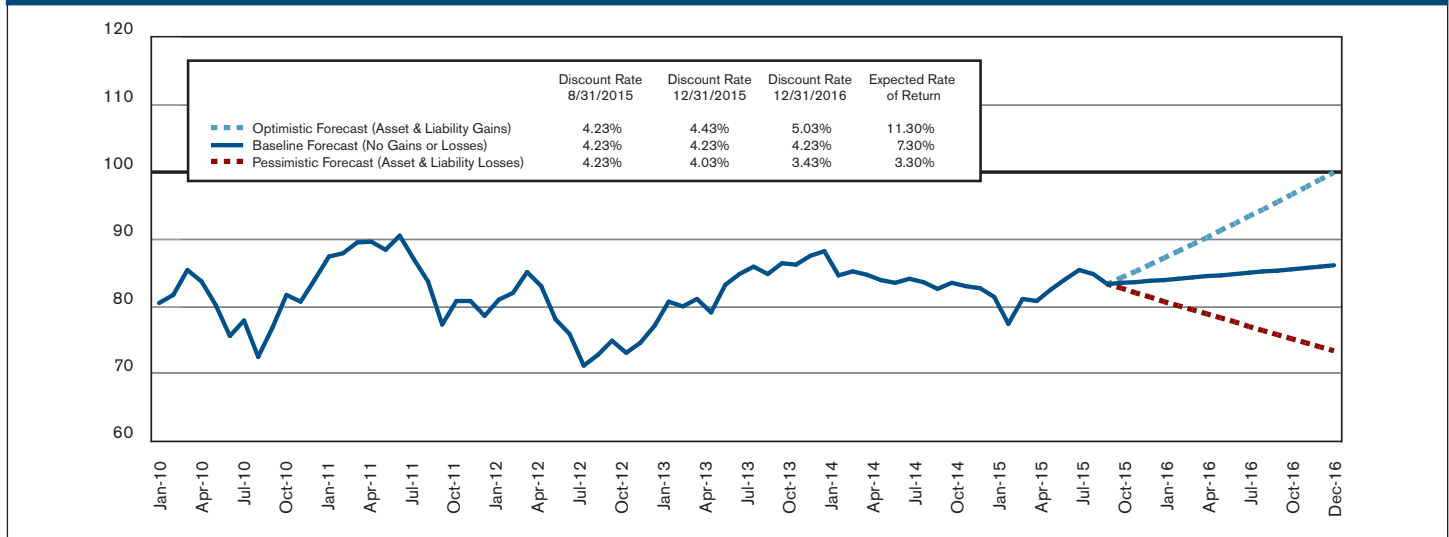


FIGURE 2: MILLIMAN 100 PENSION FUNDING INDEX – PENSION FUNDED RATIO



The discount rate of 4.23% is 34 basis points higher than it was one year ago. The funded ratio of the Milliman 100 companies has improved over the past 12 months to 83.4% from 82.7%.

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 4.23% 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 \$272 billion (funded ratio of 84.0%) by the end of 2015 and a projected pension deficit of \$236 billion (funded ratio of 86.2%) 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 4.43% by the end of 2015 and 5.03% by the end of 2016) and asset gains (11.3% annual returns), the funded ratio would climb to 87% by the end of 2015 and 100% by the end of 2016. Under a pessimistic forecast with similar interest rate and asset movements (4.03% discount rate at the end of 2015 and 3.43% by the end of 2016 and 3.3% annual returns), the funded ratio would decline to 81% by the end of 2015 and 74% 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 – AUGUST 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
AUGUST	2014	1,456,475	1,760,527	(304,052)	N/A	82.7%
SEPTEMBER	2014	1,433,650	1,715,644	(281,994)	22,058	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	1,416,897	1,698,809	(281,912)	(22,069)	83.4%

PENSION ASSET AND LIABILITY RETURNS

END OF MONTH	YEAR	ASSET RETURNS			LIABILITY RETURNS	
		MONTHLY	YEAR-TO-DATE	DISCOUNT RATE	MONTHLY	YEAR-TO-DATE
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%	2.74%	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	-2.51%	0.15%	4.23%	-0.83%	-2.54%

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