

Milliman analysis: Market rally and rising interest rates reduce corporate pension deficit in March



\$54 billion decrease in liabilities and \$4 billion investment gain reduce the Milliman 100 PFI funded status deficit to \$227 billion; historic reduction in the deficit in first quarter 2012

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The funded status of the 100 largest corporate defined benefit pension plans improved by \$58 billion during March 2012, as measured by the Milliman 100 Pension Funding Index (PFI). The deficit decreased to \$227 billion from \$285 billion at the end of February. These results reflect the annual update of the Milliman 100 companies and their actual 2011 financial disclosures included in the Milliman 2012 Pension Funding Study (published March 29, 2012).

HIGHLIGHTS

	\$ BILLION			FUNDED PERCENTAGE
	MV	PBO	FUNDED STATUS	
FEB 2012	1,295	1,580	(285)	82.0%
MAR 2012	1,299	1,526	(227)	85.1%
MONTHLY CHANGE	+4	(54)	+58	+3.1%
YTD CHANGE	+53	(57)	+110	+6.4%

NOTE: NUMBERS MAY NOT ADD CORRECTLY DUE TO ROUNDING

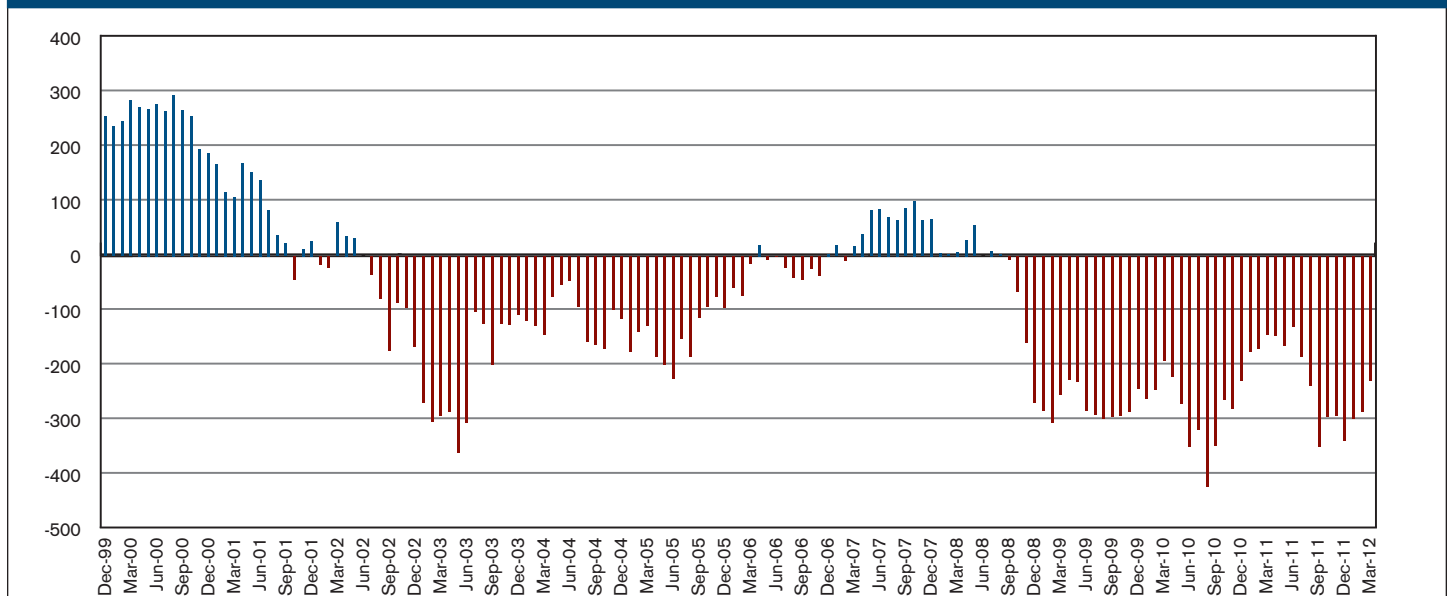
The funded ratio improved from 82.0% at the end of February to 85.1% at the end of March. March's funded status increase was due primarily to an increase in the corporate bond interest rates that are the benchmarks used to value pension liabilities.

The Milliman 100 PFI asset value increased by \$4 billion during March, raising the Milliman 100 PFI value to \$1.299 trillion from \$1.295 trillion at the end of February. The increase was due to an investment gain of 0.47% for the month. By comparison, the

Milliman Pension Funding Study published in March reported that the median expected investment return during 2011 was 0.63% (7.80% annualized).

The increase of 19 basis points in the monthly discount rate to 4.88% for March from 4.69% for February decreased the projected benefit obligation (PBO), or pension liabilities, by \$54 billion during March. The Milliman 100 PFI value decreased to \$1.526 trillion from \$1.580 trillion at the end of February.

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



**FIRST QUARTER 2012 SUMMARY:
A RECORD IMPROVEMENT FOR A FIRST QUARTER**

For the quarter ended March 31, 2012, favorable investment experience produced an asset gain of 4.7%. Since the end of 2011, asset gains and rising interest rates resulted in a plunge in the funded status deficit of \$110 billion. The funded status improvement during the quarter was the largest first quarter calendar year increase (in dollars) ever recorded in the 12-year history of the Milliman 100 PFI (and third best quarter ever). The funded ratio of the Milliman 100 companies increased to 85.1% from 78.7%.

Over the last 12 months (April 2011 to March 2012), the cumulative asset return has been 7.5% and the Milliman 100 PFI funded status has increased by \$83 billion. For these 12 months, the funded ratio of the Milliman 100 companies dropped to 85.1% from 89.6%.

PFI RECONCILIATION

The updated actual December 31, 2011, pension liability was \$101 billion less than estimated in the January 2012 report due to higher-than-assumed year-end discount rates for the Milliman 100 companies. The December 31, 2011, discount rate was 4.67%, or 42 basis points higher than estimated. The higher discount rates for the Milliman 100 companies can be attributed to the increased use of various discount rate selection methodologies, such as bond matching and preparation of a customized yield curve. The higher discount rates resulted in a liability decrease of 6% greater than estimated.

The updated actual PFI asset value was \$26 billion higher than projected due to higher-than-assumed investment gains for the Milliman 100 companies during fiscal year 2011. The weighted average actual investment return on pension assets for the Milliman 100 companies' fiscal year 2011 was 5.9%. In 2011, fixed income securities generally outperformed equities and other asset classes. The Milliman 2012 Pension Funding Study reported that the allocations to fixed income investments exceeded the allocations to equities during 2011, thus

supporting the higher-than-assumed investment gains of the Milliman 100 companies. The net adjustments based on the results of the Milliman 2012 Pension Funding Study were a funded status gain of \$127 billion and an increased funded ratio of 78.7% as of December 31, 2011. This denotes an increase over the 72.4% funded status figure previously estimated at year-end 2011.

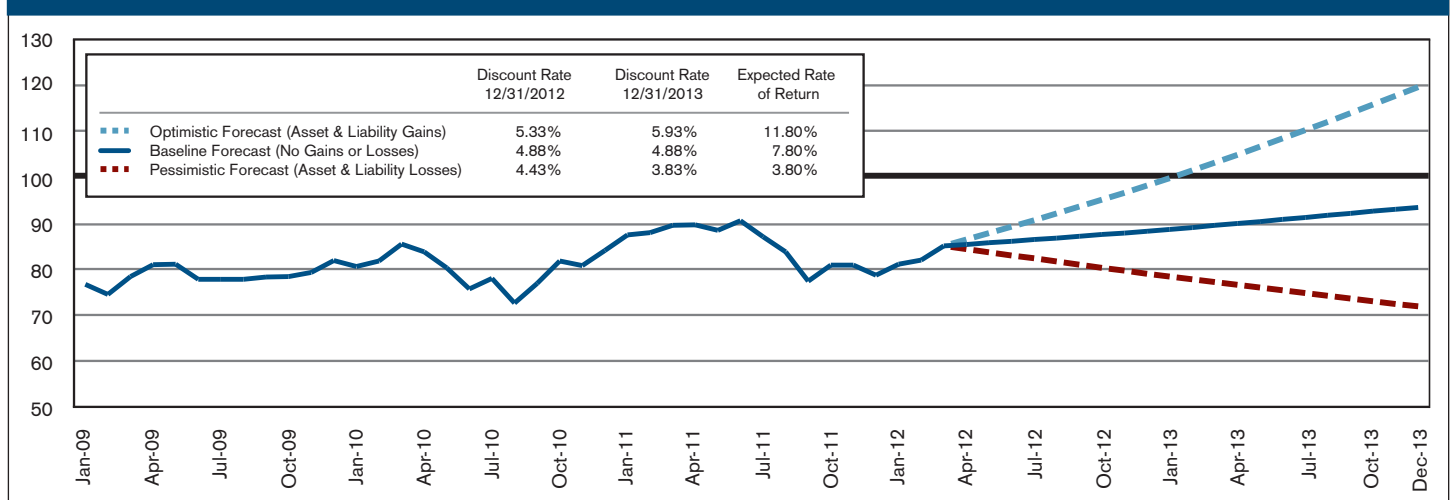
2012-2013 PROJECTIONS

If the Milliman 100 PFI companies were to achieve a 7.8% median asset return (as per the 2012 pension funding study) expected for their pension plan portfolios and the current discount rate of 4.88% were to be maintained during 2012 through 2013, we forecast the funded status of the surveyed plans would increase. This would result in a projected pension deficit of \$180 billion (funded ratio of 88.3%) by the end of 2012 and a projected pension deficit of \$100 billion (funded ratio of 93.5%) by the end of 2013. For purposes of this forecast, we have assumed 2012 aggregate contributions of \$67 billion and 2013 aggregate contributions of \$81 billion.

Under an optimistic forecast with rising interest rates (reaching 5.33% by the end of 2012 and 5.93% by the end of 2013) and asset gains (11.8% annual returns), the funded ratio would climb to 98% by the end of 2012 and 120% by the end of 2013. Under a pessimistic forecast with similar interest rate and asset movements (4.43% discount rate at the end of 2012 and 3.83% by the end of 2013, and 3.8% annual returns), the funded ratio would decline to 79% by the end of 2012 and 72% by the end of 2013.

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



MILLIMAN 100 PENSION FUNDING INDEX – MARCH 2012 (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	2011	1,239,043	1,383,338	(144,294)	N/A	89.6%
APRIL	2011	1,261,242	1,406,750	(145,509)	(1,214)	89.7%
MAY	2011	1,261,476	1,424,745	(163,269)	(17,761)	88.5%
JUNE	2011	1,253,541	1,383,010	(129,469)	33,800	90.6%
JULY	2011	1,250,735	1,435,297	(184,561)	(55,092)	87.1%
AUGUST	2011	1,222,908	1,459,129	(236,221)	(51,660)	83.8%
SEPTEMBER	2011	1,192,824	1,540,649	(347,825)	(111,604)	77.4%
OCTOBER	2011	1,241,510	1,534,408	(292,898)	54,928	80.9%
NOVEMBER	2011	1,235,787	1,527,813	(292,026)	872	80.9%
DECEMBER	2011	1,246,231	1,583,613	(337,382)	(45,356)	78.7%
JANUARY	2012	1,274,880	1,572,630	(297,750)	39,632	81.1%
FEBRUARY	2012	1,294,645	1,579,548	(284,903)	12,847	82.0%
MARCH	2012	1,298,777	1,526,122	(227,345)	57,558	85.1%

PENSION ASSET AND LIABILITY RETURNS (ALL DOLLAR AMOUNTS IN MILLIONS)

END OF MONTH	YEAR	ASSET RETURNS		DISCOUNT RATE	LIABILITY RETURNS	
		MONTHLY	YEAR-TO-DATE		MONTHLY	YEAR-TO-DATE
MARCH	2011	0.11%	2.52%	5.53%	-0.79%	-1.08%
APRIL	2011	1.78%	4.34%	5.37%	2.58%	1.48%
MAY	2011	0.00%	4.35%	5.24%	2.16%	3.66%
JUNE	2011	-0.64%	3.67%	5.43%	-2.07%	1.52%
JULY	2011	-0.24%	3.43%	5.12%	4.67%	6.25%
AUGUST	2011	-2.24%	1.12%	4.96%	2.52%	8.93%
SEPTEMBER	2011	-2.47%	-1.38%	4.54%	6.44%	15.94%
OCTOBER	2011	4.07%	2.64%	4.53%	0.40%	16.41%
NOVEMBER	2011	-0.47%	2.15%	4.53%	0.38%	16.85%
DECEMBER	2011	3.00%	5.22%	4.67%*	-1.80%	14.74%
JANUARY	2012	2.46%	2.46%	4.71%	-0.37%	-0.37%
FEBRUARY	2012	1.71%	4.21%	4.69%	0.76%	0.39%
MARCH	2012	0.47%	4.71%	4.88%	-3.05%	-2.67%

* Reflects a change in our discount rate methodology in moving from the Citigroup Pension Liability Index to the Citigroup Above Median Pension Liability Index.

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 2011 financial figures included in the Milliman 2012 Pension Funding Study published on March 29, 2012. The March 31 Milliman 100 PFI replaces previously published results for January and February 2012 and adjusts the monthly projections for 2011 to reflect actual gains and losses for 2011. Please visit www.milliman.com to view the Milliman 2012 Pension Funding Study.

ABOUT THE MILLIMAN 100 MONTHLY PENSION FUNDING INDEX

For the past 12 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 Pension Funding Index were based on the actual pension plan accounting information disclosed in the

footnotes to the companies' annual reports for the 2011 fiscal year and for previous fiscal years. The Milliman 2012 Pension Funding Study was published on March 29, 2012. 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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