

Milliman analysis: 2011 historic low interest rates drive corporate pensions to record funded status deficit of \$464 billion



Ratio drops to 72.4% at year-end 2011 from 84.1% at year-end 2010, but it's not the all-time low funded ratio

Forecast for end of year 2012 and 2013

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YEAR IN REVIEW

The funded status decreased by \$59.7 billion during December 2011, mirroring the overall adverse year for the 100 largest corporate defined benefit pension plans as measured by the Milliman 100 Pension Funding Index (PFI). Historically low interest rates were the dominant

factor in the \$236.4 billion deficit increase during 2011. While investment returns produced an anemic \$12.3 billion gain, pension liabilities increased by \$248.7 billion. The funded ratio sank to 72.4%, still above the historical low funded ratio of 70.5% set in May 2003. Improvements from these metrics may be propped up by higher-than-expected cash contributions, which will be disclosed as the 100 companies publish their annual SEC filings in the first quarter of 2012.

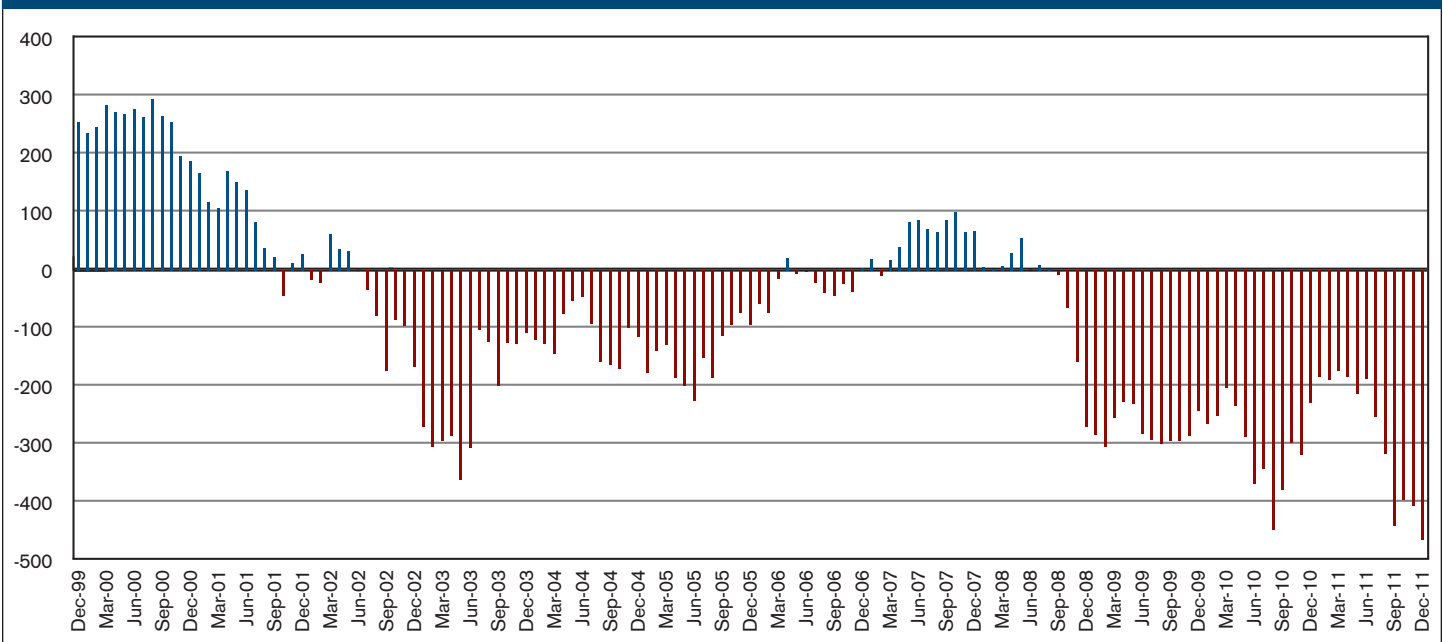
HIGHLIGHTS

	\$ BILLION			
	MV	PBO	FUNDED STATUS	FUNDED PERCENTAGE
NOV 2011	1,212	1,617	(405)	75.0%
DEC 2011	1,220	1,685	(464)	72.4%
MONTHLY CHANGE	+8	+68	(59)	-2.5%
YTD CHANGE	+12	+249	(236)	-11.7%

NOTE: NUMBERS MAY NOT ADD CORRECTLY DUE TO ROUNDING

During 2011, the cumulative investment return was 3.0% while the cumulative liability return (i.e., the projected benefit obligation [PBO] increase) was 22.1%. The discount rate for the December 2011 funded status plunged 109 basis points to 4.25% from 5.34% at the end of 2010, and the median expected investment return for 2011 was 8.0%, as reported in the Milliman 2011 Pension Funding Study, published in March 2011.

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



The \$236.4 billion funding decrease during 2011 more than doubled the \$228.0 billion deficit already in place at the end of 2010. The resulting 2011 year-end funded status deficit is a massive \$464.4 billion—the largest deficit in the 11-year history of the Milliman 100 PFI. The loss in funded status during 2011 resulted in a charge to corporate balance sheets at the end of the 2011 fiscal year and is expected to produce an estimated increase of \$30.0 billion in pension expense for 2012.

While the year ended poorly, it started with some promise. The funded status reached 87.7% at the end of March, its high for the year. For the next three months, the funded status remained stable at 87.0% due to a lift from investment earnings, even as interest rates fell. Thereafter, the Milliman 100 PFI funded status rapidly deteriorated during the second half of 2011 as discount rates sank to historic lows. From July until the end of the year, the investment return was -0.6% while discount rates dropped a stunning 118 basis points to 4.25% from 5.43%, increasing liabilities by 20.3% and ending the year with a 72.4% funded ratio. Any hope for economic resuscitation for 2012 and beyond relies solely on the performance of assets as long as we remain in this historically low interest rate environment.

Pension plan accounting information disclosed in the footnotes of the Milliman 100 companies' annual reports for the 2011 fiscal year is expected to be available during the first quarter of 2012 as part of the 2012 Milliman 100 Pension Funding Study.

DECEMBER 2011 REVIEW

The funded status decreased by \$59.7 billion during December. The deficit decreased to \$464.4 billion from a deficit of \$404.7 billion at the end of November. The funded status decline for the month of December was primarily due to higher liabilities based on a decrease in corporate bond interest rates that are the benchmarks used to value pension liabilities. The funded status decline was partially offset by positive investment performance during December. As of December 31, the funded ratio dropped to 72.4% from 75.0% at the end of November.

December's \$8 billion increase in market value brings the Milliman 100 PFI asset value to \$1.220 trillion, up from \$1.212 trillion at the end of November 2011, an investment gain of 0.8% for the month. The PBO, or pension liabilities, increased by \$68 billion during December, raising the Milliman 100 PFI value to \$1.685 trillion from \$1.617 trillion at the end of November 2011. The change resulted from a decrease of 28 basis points in the monthly discount rate to 4.25% for December from 4.53% for November.

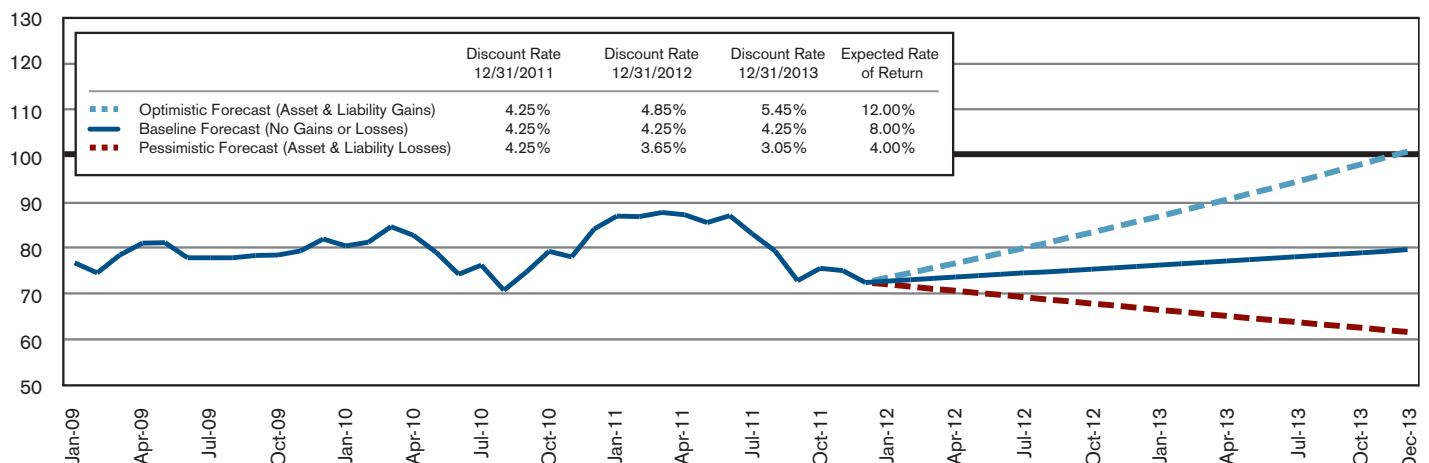
2012-2013 PROJECTIONS

If the Milliman 100 PFI companies were to achieve the expected 8.0% (as per the 2011 Pension Funding Study) median asset return for their pension plan portfolios and the current discount rate of 4.25% were to be maintained during years 2012 and 2013, we forecast the funded status of the surveyed plans would increase. This would result in a projected pension deficit of \$410 billion (funded ratio of 75.9%) by the end of 2012, and a projected pension deficit of \$352 billion (funded ratio of 79.6%) by the end of 2013. For purposes of this forecast, we have assumed 2011-2013 aggregate contributions to remain level with 2010 contribution amounts, which were a record \$60 billion.

Under an optimistic forecast with rising interest rates (reaching 4.85% by the end of 2012 and 5.45% by the end of 2013) and asset gains (12.0% annual returns), the funded ratio would climb to 86% by the end of 2012 and 101% by the end of 2013. Under a pessimistic forecast with similar interest rate and asset movements (3.65% discount rate at the end of 2012 and 3.05% by the end of 2013 and 4.0% annual returns), the funded ratio would decline to 67% by the end of 2012 and 62% by the end of 2013.

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



MILLIMAN 100 PENSION FUNDING INDEX – DECEMBER 2011 (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
DECEMBER	2010	1,208,158	1,436,204	(228,046)	N/A	84.1%
JANUARY	2011	1,215,848	1,399,652	(183,804)	44,242	86.9%
FEBRUARY	2011	1,233,219	1,421,372	(188,153)	(4,349)	86.8%
MARCH	2011	1,232,562	1,404,940	(172,378)	15,775	87.7%
APRIL	2011	1,252,453	1,436,117	(183,664)	(11,286)	87.2%
MAY	2011	1,250,497	1,462,019	(211,522)	(27,858)	85.5%
JUNE	2011	1,240,461	1,426,542	(186,081)	25,441	87.0%
JULY	2011	1,235,523	1,488,141	(252,618)	(66,537)	83.0%
AUGUST	2011	1,205,924	1,520,685	(314,761)	(62,143)	79.3%
SEPTEMBER	2011	1,174,203	1,613,959	(439,756)	(124,995)	72.8%
OCTOBER	2011	1,220,021	1,615,745	(395,724)	44,032	75.5%
NOVEMBER	2011	1,212,456	1,617,132	(404,676)	(8,952)	75.0%
DECEMBER	2011	1,220,482	1,684,882	(464,400)	(59,724)	72.4%

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
DECEMBER	2010	2.63%	10.39%	5.34%	-1.04%	12.04%
JANUARY	2011	0.80%	0.80%	5.55%	-2.18%	-2.18%
FEBRUARY	2011	1.59%	2.41%	5.43%	1.92%	-0.30%
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	4.08%	2.64%	4.53%	0.40%	16.41%
NOVEMBER	2011	-0.46%	2.17%	4.53%	0.38%	16.85%
DECEMBER	2011	0.83%	3.02%	4.25%	4.47%	22.07%

ABOUT THE MILLIMAN 100 MONTHLY PENSION FUNDING INDEX

For the past 11 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 2010 fiscal year and for previous fiscal years. The 2011 Milliman 100 Pension Funding Study was published on March 29, 2011. 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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