

Milliman analysis: Pension plans continue modest 2012 gains even as discount rates revisit their all-time low



Defined benefit plan funded status among 100 largest corporate pensions increased by \$20 billion in February

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The funded status of the 100 largest corporate defined benefit pension plans improved by \$20 billion during February as measured by the Milliman 100 Pension Funding Index (PFI). The deficit declined to \$413 billion from \$433 billion at the end of January 2012, primarily due to February's strong investment gains. The benchmark corporate bond interest rates used to value pension liabilities dropped by only one basis point in February, tying the all-time-low rate of 4.25%, last observed in December 2011. As of February 29, the funded ratio increased to 75.5%, up from 74.3% at the end of January.

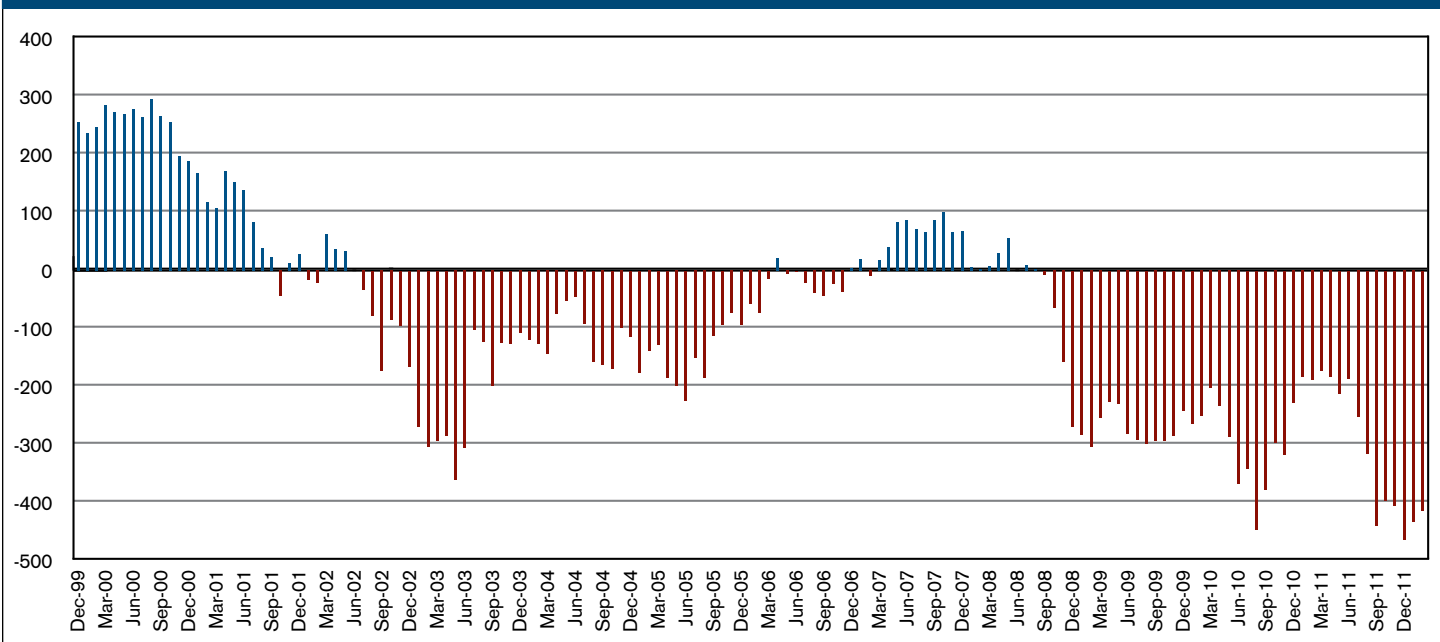
February's \$20 billion increase in market value brings the Milliman 100 PFI asset value to \$1.276 trillion, up from \$1.252 trillion at

the end of January. The increase was powered by an investment gain of 1.87% for the month. By comparison, the 2011 Milliman Pension Funding Study, published in March 2011, reported that the median expected investment return during 2010 was 0.64% (8.00% annualized). The expected rate of return for 2011 will be updated in the 2012 Milliman Pension Funding Study, due out later this month.

	\$ BILLION			
	MV	PBO	FUNDED STATUS	FUNDED PERCENTAGE
JAN 2012	1,252	1,685	(433)	74.3%
FEB 2012	1,276	1,689	(413)	75.5%
MONTHLY CHANGE	24	4	20	1.2%
YTD CHANGE	55	4	51	3.1%

NOTE: NUMBERS MAY NOT ADD CORRECTLY DUE TO ROUNDING

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



The projected benefit obligation (PBO), or pension liabilities, increased by \$4 billion during February, raising the Milliman 100 PFI value to \$1.689 trillion from \$1.685 trillion at the end of January. The change resulted from a meager decrease of one basis point in the monthly discount rate to 4.25% for February from 4.26% for January. February's 4.25% discount rate matched the discount rate on December 31, 2011, marking the lowest rate in the 12-year history of the Milliman 100 PFI.

Over the last 12 months (March 2011 to February 2012), the cumulative asset return for these pension plans has been 5.13% and the Milliman 100 PFI funded status has plummeted by \$225 billion. The primary reason for the funded status erosion has been the lower trending discount rates seen throughout most of 2011. For these 12 months, the funded ratio of the Milliman 100 companies decreased to 75.5% from 86.8%.

2012-2013 PROJECTIONS

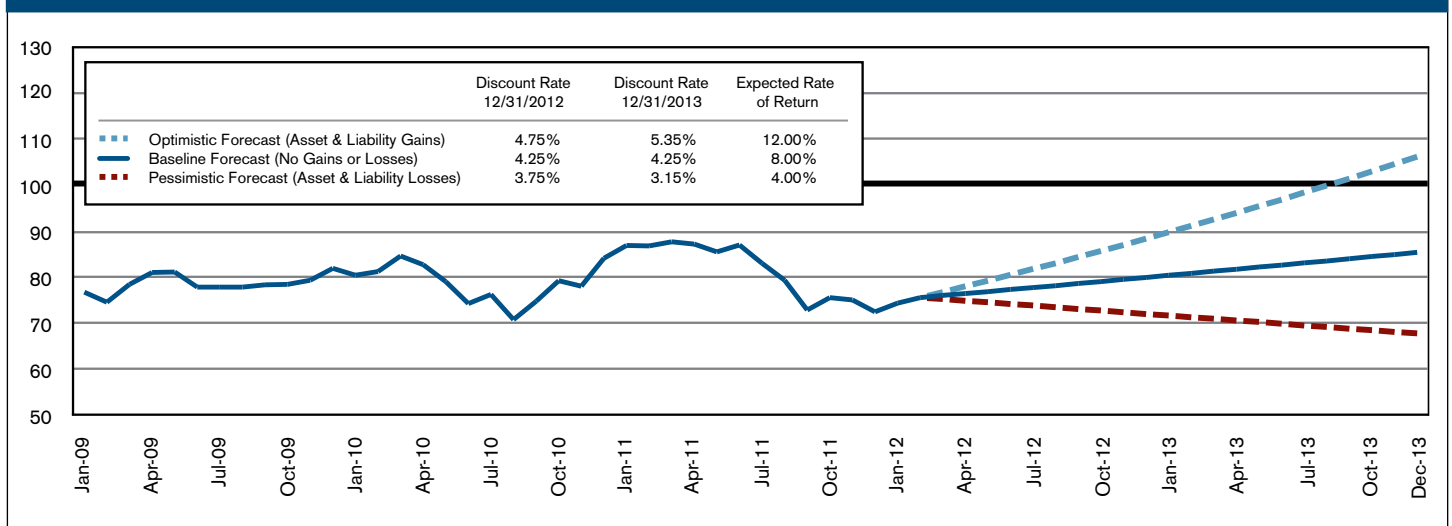
If the Milliman 100 PFI companies were to achieve an annual 8.0% median asset return (as per the 2011 pension funding study) expected for their pension plan portfolios and the current discount rate of 4.25% was maintained during years 2012 and 2013, we

forecast the funded status of the surveyed plans would increase. This would result in a projected pension deficit of \$342 billion (funded ratio of 79.9%) by the end of 2012 and a projected pension deficit of \$252 billion (funded ratio of 85.4%) by the end of 2013. For purposes of this forecast, we have assumed 2012–2013 aggregate contributions to increase by 40% over their 2010 contribution level, which was already a record \$60 billion.

Under an optimistic forecast with rising interest rates (reaching 4.75% by the end of 2012 and 5.35% by the end of 2013) and asset gains (12.0% annual returns), the funded ratio would climb to 88% by the end of 2012 and 106% by the end of 2013. Under a pessimistic forecast with similar interest rate and asset movements (3.75% discount rate by the end of 2012 and 3.15% by the end of 2013 and 4.0% annual returns), the funded ratio would decline to 72% by the end of 2012 and 68% by the end of 2013.

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



MILLIMAN 100 PENSION FUNDING INDEX – FEBRUARY 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
FEBRUARY	2011	1,233,219	1,421,372	(188,153)	N/A	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	1,219,995	1,615,745	(395,750)	44,006	75.5%
NOVEMBER	2011	1,212,250	1,617,132	(404,882)	(9,132)	75.0%
DECEMBER	2011	1,220,378	1,684,882	(464,504)	(59,622)	72.4%
JANUARY	2012	1,252,274	1,685,288	(433,014)	31,490	74.3%
FEBRUARY	2012	1,275,917	1,689,231	(413,314)	19,700	75.5%

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
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	4.07%	2.64%	4.53%	0.40%	16.41%
NOVEMBER	2011	-0.47%	2.15%	4.53%	0.38%	16.85%
DECEMBER	2011	0.84%	3.01%	4.25%	4.47%	22.07%
JANUARY	2012	2.60%	2.60%	4.26%	0.29%	0.29%
FEBRUARY	2012	1.87%	4.52%	4.25%	0.50%	0.79%

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 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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