

## Milliman analysis: Corporate pensions experience largest funded status decline of the year



Funded status deficit increases by \$68 billion during July

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The funded status of the 100 largest corporate defined benefit pension plans dropped by \$68 billion during July as measured by the Milliman 100 Pension Funding Index (PFI). The notable increase in the funded status deficit was primarily due to a substantial decrease in corporate bond interest rates that are the benchmarks used to value pension liabilities. Though not as significant, the financial markets also performed poorly in July. For the month, the funded ratio fell from 87.0% to 83.0% and the funded status deficit increased from \$186 billion to \$254 billion. July 2011 marked the 10th largest deficit increase recorded within the last 11 years of the Milliman 100 PFI.

The projected benefit obligation (PBO), or pension liabilities, increased by \$62 billion during July, raising the Milliman 100 PFI value from \$1.426 trillion to \$1.488 trillion. The change resulted from a decrease of 31 basis points in the monthly discount rate, which sat at 5.12% at the end of July.

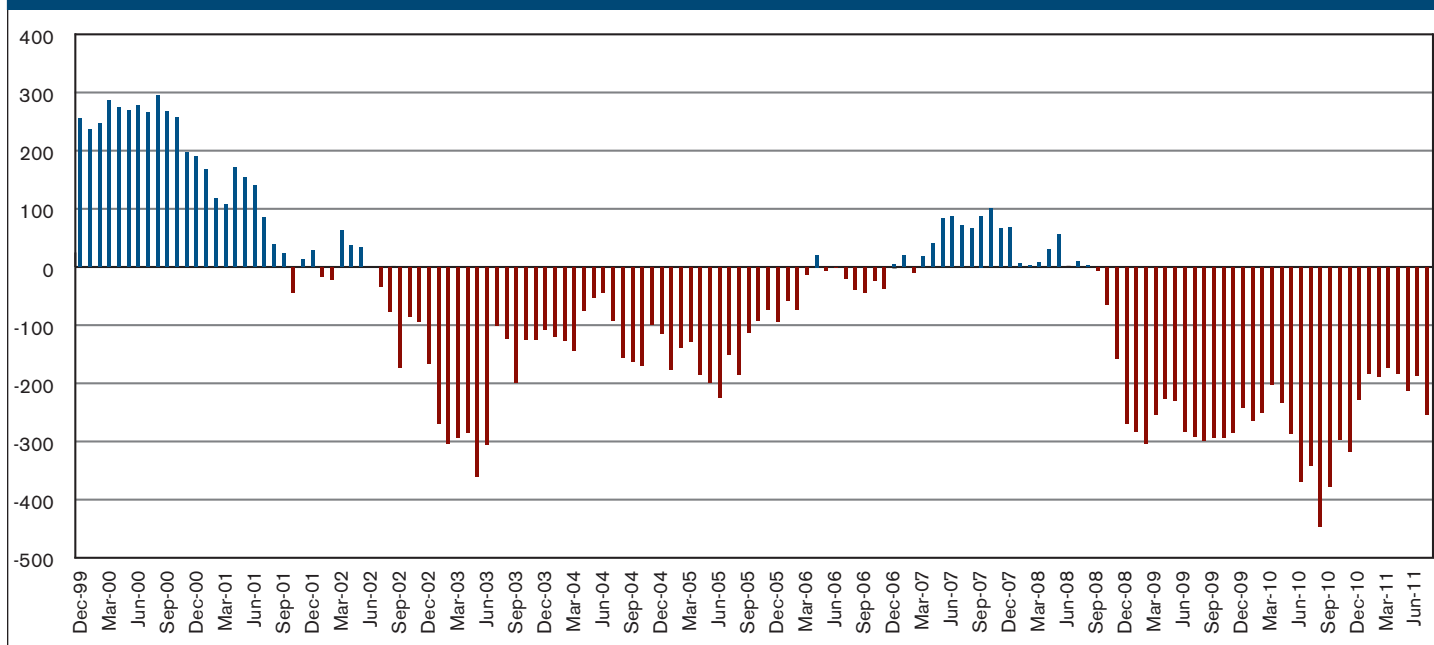
July's \$6 billion decrease in market value (-0.32%) brings the Milliman 100 PFI asset value from \$1.240 trillion at the end of June to \$1.234 trillion. By comparison, the Milliman 2011 Pension Funding Study, published in March 2011, reported a 0.64% (8.00% annualized) median expected monthly investment return during 2010.

Over the last 12 months (August 2010-July 2011), the cumulative asset return has been 10.7% and the Milliman 100 PFI funded status has increased by \$87 billion. For the past 12 months, the funded ratio of the Milliman 100 companies increased from 76.2% to 83.0%.

### 2011-2013 PROJECTIONS

If the Milliman 100 PFI companies were to achieve the expected 8.0% median asset return (as per the 2011 Pension Funding Study) for their pension plan portfolios and if the current

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



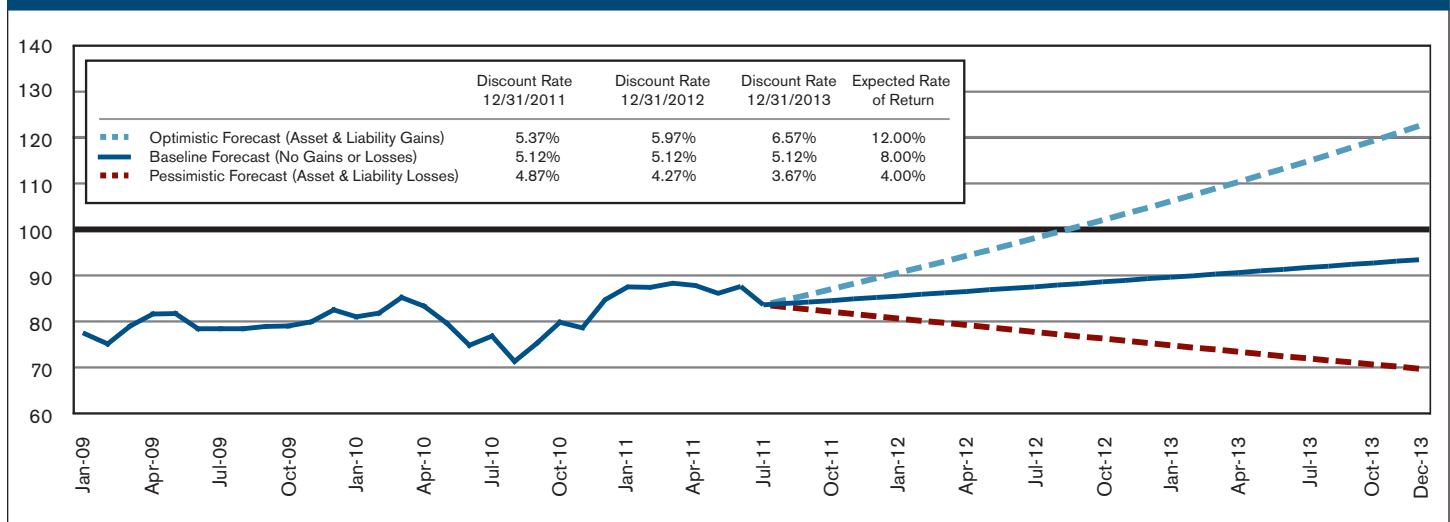
discount rate of 5.12% were to be maintained during years 2011 through 2013, we forecast the funded status of the surveyed plans would increase. This would result in a projected pension deficit of \$230 billion (funded ratio of 84.6%) by the end of 2011, a projected pension deficit of \$172 billion (funded ratio of 88.7%) by the end of 2012, and a projected pension deficit of \$110 billion (funded ratio of 92.8%) 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 5.97% by the end of 2012 and 6.57% by the end of 2013) and

asset gains (12.0% annual returns), the funded ratio would climb to 104% by the end of 2012 and 122% by the end of 2013. Under a pessimistic forecast (4.27% discount rate at the end of 2012 and 3.67% by the end of 2013 and 4.0% annual returns), the funded ratio would decline to 75% by the end of 2012 and 69% by the end of 2013.

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



**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.

**MILLIMAN 100 PENSION FUNDING INDEX – JULY 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
JULY	2010	1,092,791	1,433,658	(340,867)	N/A	76.2%
AUGUST	2010	1,075,832	1,521,806	(445,974)	(105,107)	70.7%
SEPTEMBER	2010	1,113,943	1,491,257	(377,314)	68,659	74.7%
OCTOBER	2010	1,129,348	1,426,392	(297,044)	80,270	79.2%
NOVEMBER	2010	1,121,194	1,437,892	(316,698)	(19,654)	78.0%
DECEMBER	2010	1,208,155	1,436,204	(228,049)	88,649	84.1%
JANUARY	2011	1,215,845	1,399,652	(183,807)	44,242	86.9%
FEBRUARY	2011	1,233,216	1,421,372	(188,156)	(4,349)	86.8%
MARCH	2011	1,232,559	1,404,940	(172,381)	15,775	87.7%
APRIL	2011	1,252,450	1,436,117	(183,667)	(11,286)	87.2%
MAY	2011	1,250,543	1,462,019	(211,476)	(27,809)	85.5%
JUNE	2011	1,240,458	1,426,542	(186,084)	25,392	87.0%
JULY	2011	1,234,450	1,488,141	(253,691)	(67,607)	83.0%

**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
JULY	2010	3.51%	3.01%	5.23%	0.81%	10.93%
AUGUST	2010	-1.11%	1.87%	4.78%	6.59%	18.24%
SEPTEMBER	2010	4.00%	5.94%	4.93%	-1.59%	16.36%
OCTOBER	2010	1.82%	7.88%	5.27%	-3.91%	11.81%
NOVEMBER	2010	-0.29%	7.56%	5.20%	1.26%	13.21%
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	0.01%	4.35%	5.24%	2.16%	3.66%
JUNE	2011	-0.65%	3.67%	5.43%	-2.07%	1.52%
JULY	2011	-0.32%	3.34%	5.12%	4.67%	6.25%

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