

Milliman analysis: Funded status drops for the second consecutive month



Funded status decreased by \$62 billion during August and by more than \$128 billion since June 30

John Ehrhardt, FSA, MAAA, EA
Zorast Wadia, FSA, MAAA, EA

The funded status of the 100 largest corporate defined benefit pension plans dropped by \$62 billion during August 2011 as measured by the Milliman 100 Pension Funding Index (PFI). The funded status decline was due to the two-fold effect of investment losses coupled with a decrease in corporate bond interest rates that are the benchmarks used to value pension liabilities. Though financial markets rebounded considerably following the ominous returns posted during the first week of August, the month still ended with an increase in the pension deficit. As of August 31, 2011, the funded ratio fell to 79.3% from 83.0% at the end of July 2011. The funded status deficit increased to \$314 billion from a deficit of \$252 billion. The funded status has eroded by more than \$128 billion since June 30. This is the worst two-month decline that we've seen since the drop in funded status of \$134 billion prior to June 30, 2010.

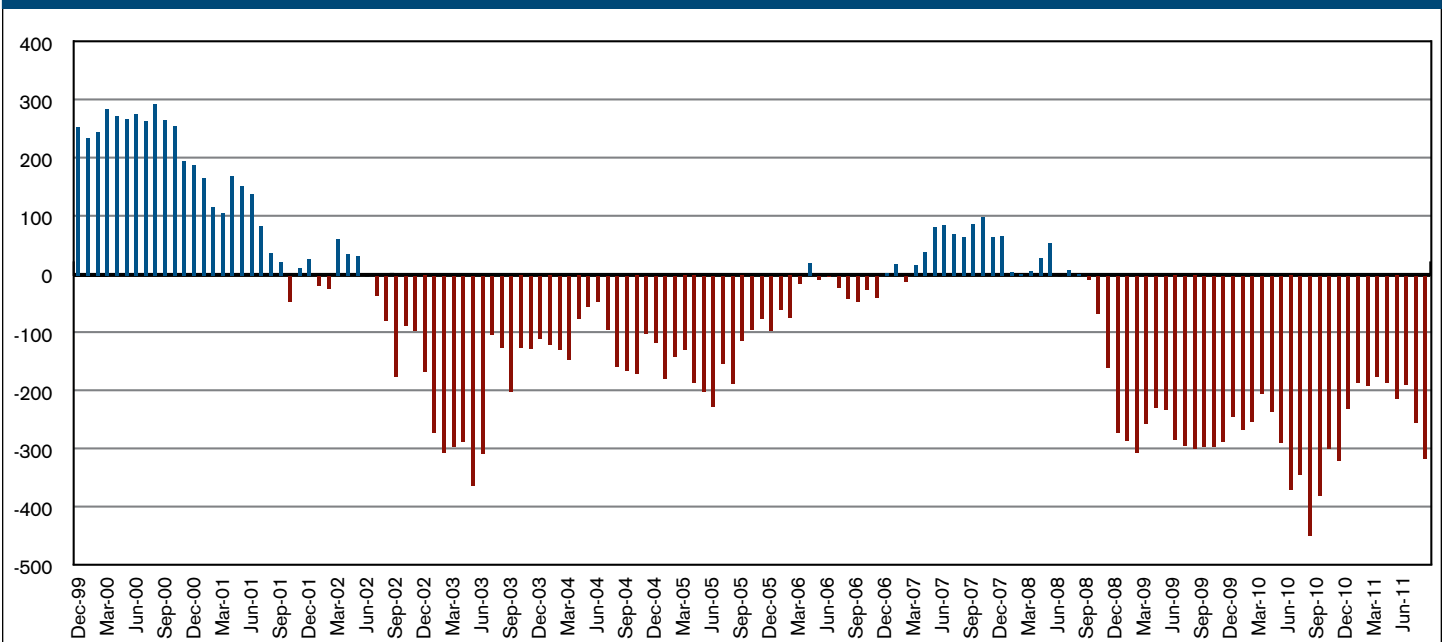
The projected benefit obligation (PBO), or pension liabilities, increased by \$33 billion during August, raising the Milliman 100

PFI value to \$1.521 trillion from \$1.488 trillion at the end of July 2011. The change resulted from a decrease of 16 basis points in the monthly discount rate to 4.96% for August from 5.12% for July 2011.

August's \$29 billion decrease in market value brings the Milliman 100 PFI asset value to \$1.206 trillion, down from \$1.235 trillion at the end of July 2011. There was an investment loss of -2.21% for the month. 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.

Year to date (January 2011-August 2011), the cumulative asset return has been 1.15% and the Milliman 100 PFI funded status has decreased by \$86 billion. For the past eight months, the funded ratio of the Milliman 100 companies decreased to 79.3% from 84.1%.

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



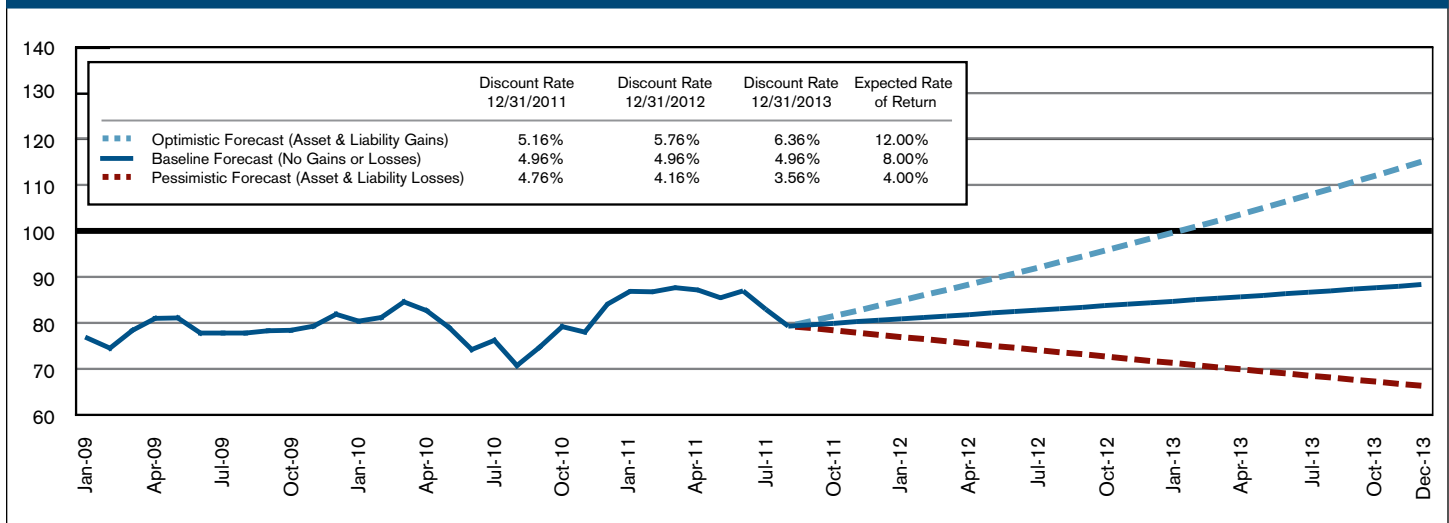
2011-2013 PROJECTIONS

If the Milliman 100 PFI companies were to achieve the expected 8.0% median asset return (as per the 2011 Pension Funding Study), prorated for the remainder of the year, for their pension plan portfolios and the current discount rate of 4.96% were to be maintained during years 2011 through 2013, we forecast that the funded status of the surveyed plans would increase. This would result in a projected pension deficit of \$296 billion (funded ratio of 80.6%) by the end of 2011, a projected pension deficit of \$241 billion (funded ratio of 84.4%) by the end of 2012, and a projected pension deficit of \$182 billion (funded ratio of 88.4%) 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 5.76% by the end of 2012 and 6.36% by the end of 2013) and asset gains (12.0% annual returns), the funded ratio would climb to 98% by the end of 2012 and 115% by the end of 2013. Under a pessimistic forecast with similar interest rate and asset movements (4.16% discount rate at the end of 2012 and 3.56% by the end of 2013 and 4.0% annual returns), the funded ratio would decline to 72% by the end of 2012 and 66% by the end of 2013.

John Ehrhardt is a principal and consulting actuary with the New York office of Milliman. Zorast Wadia is a principal and consulting actuary with the New York office of Milliman. Contact them at john.ehrhardt@milliman.com or at 646.473.3000.

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 – AUGUST 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
AUGUST	2010	1,075,832	1,521,806	(445,974)	N/A	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	1,250,519	1,462,019	(211,500)	(27,833)	85.5%
JUNE	2011	1,240,507	1,426,542	(186,035)	25,465	87.0%
JULY	2011	1,235,595	1,488,141	(252,546)	(66,511)	83.0%
AUGUST	2011	1,206,349	1,520,685	(314,336)	(61,790)	79.3%

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
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	-0.64%	3.68%	5.43%	-2.07%	1.52%
JULY	2011	-0.24%	3.43%	5.12%	4.67%	6.25%
AUGUST	2011	-2.21%	1.15%	4.96%	2.52%	8.93%

The materials in this document represent the opinion of the authors and are not representative of the views of Milliman, Inc. Milliman does not certify the information, nor does it guarantee the accuracy and completeness of such information. Use of such information is voluntary and should not be relied upon unless an independent review of its accuracy and completeness has been performed. Materials may not be reproduced without the express consent of Milliman.

Copyright © 2011 Milliman, Inc.