

Milliman analysis: Positive asset returns result in pension funded status improvement



Funded status rose \$42 billion during October following the dismal results of a \$254 billion decline in the third quarter

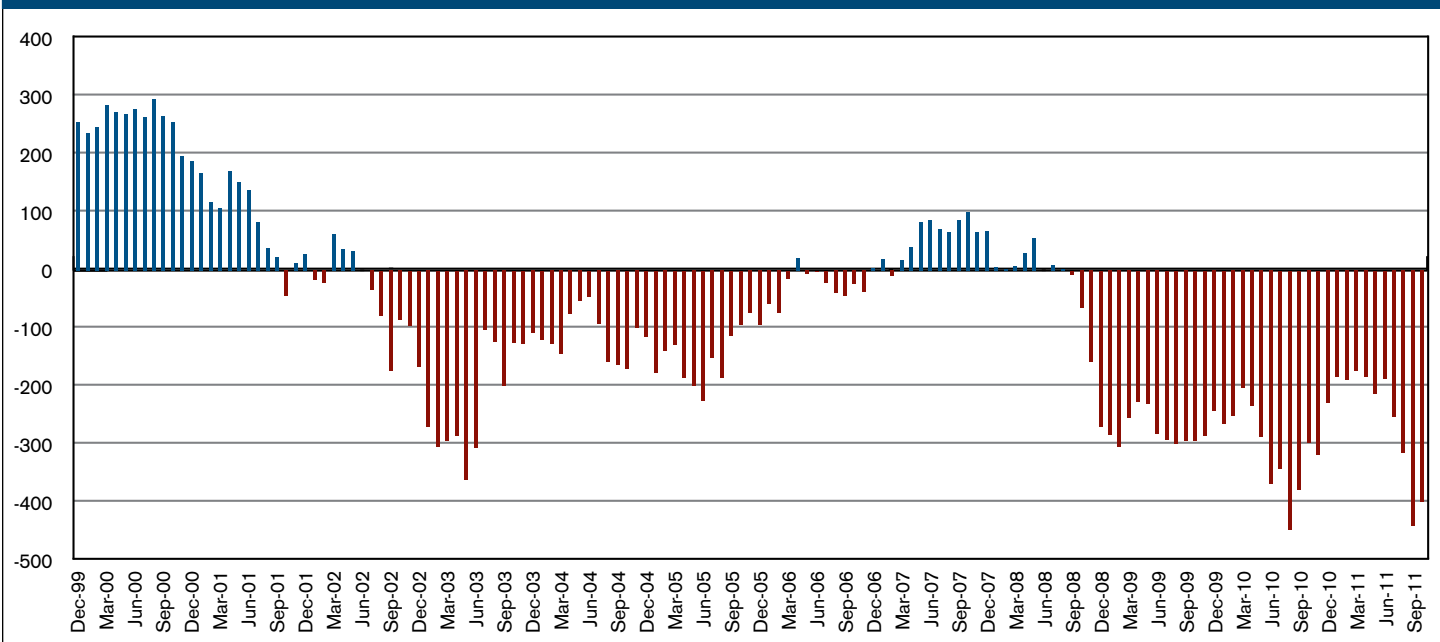
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The funded status of the 100 largest corporate defined benefit pension plans improved by \$42 billion during October 2011, as measured by the Milliman 100 Pension Funding Index (PFI). The increase was primarily due to investment gains. As of October 31, the funded ratio rose to 75.4% from 72.8% at the end of September. The funded status deficit decreased from \$440 billion to \$398 billion. October was the first month showing an increase in pension funded status since June and the best month since January. This was favorable news in light of the \$254 billion decline in the period from June 30, when the Milliman 100 PFI showed the most significant three-month deficit increase since the start of the financial crisis during the last quarter of 2008. With the final two months of 2011 now here, there is likely to be more scrutiny in daily changes in discount rates and investment performance as the year winds down.

HIGHLIGHTS	\$ Billion			
	Market Value of Assets	Projected Benefit Obligation	Funded Status	Funded Percentage
Sep 2011	1,174	1,614	(440)	72.8%
Oct 2011	1,218	1,616	(398)	75.4%
Monthly Change	+44	+2	+42	+2.6%
YTD Change	+10	+180	(170)	-8.7%

The projected benefit obligation (PBO), or pension liabilities, increased by \$2 billion during October, raising the Milliman 100 PFI value to \$1.616 trillion from \$1.614 trillion at the end of September 2011. The change resulted from a meager decrease of 1 basis point

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



in the monthly discount rate to 4.53% for October from 4.54% for September 2011. The discount rate at the end of October denotes the lowest discount rate in the 11-year history of the Milliman 100 PFI. The low discount rates continue to put the hopes of any economic recovery solely on the performance of assets.

October's \$44 billion increase in market value brings the Milliman 100 PFI asset value to \$1.218 trillion, up from \$1.174 trillion at the end of September 2011, triggered by an investment gain of 3.87% 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. October's investment gain was the largest return experienced all year.

Year to date (January 2011 to October 2011), the cumulative asset return has been 2.44% and the Milliman 100 PFI funded status has decreased by \$170 billion. The paltry returns, however, are not the primary source of this erosion; that distinction goes to the lower trending discount rates. For the past 10 months, the funded ratio of the Milliman 100 companies decreased to 75.4% from 84.1%.

2011-2013 PROJECTIONS

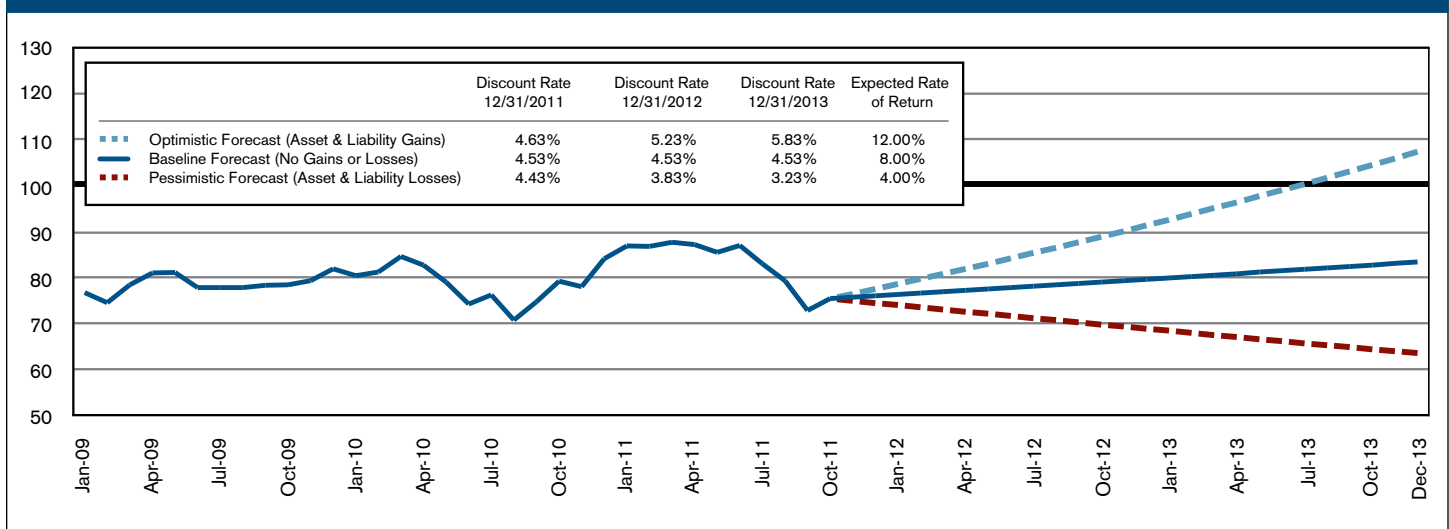
If the Milliman 100 PFI companies were to achieve the expected 8.0% (as per the 2011 pension funding study) median asset return prorated

for the remainder of the year for their pension plan portfolios, and the current discount rate of 4.53% 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 \$334 billion (funded ratio of 79.6%) by the end of 2012, and a projected pension deficit of \$275 billion (funded ratio of 83.4%) 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 5.23% by the end of 2012 and 5.83% by the end of 2013) and asset gains (12.0% annual returns), the funded ratio would climb to 91% by the end of 2012 and to 108% by the end of 2013. Under a pessimistic forecast with similar interest rate and asset movements (3.83% discount rate at the end of 2012 and 3.23% by the end of 2013, and 4.0% annual returns), the funded ratio would decline to 69% by the end of 2012 and 64% by the end of 2013.

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



MILLIMAN 100 PENSION FUNDING INDEX – OCTOBER 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
OCTOBER	2010	1,129,348	1,426,392	(297,044)	N/A	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	1,250,494	1,462,019	(211,525)	(27,858)	85.5%
JUNE	2011	1,240,458	1,426,542	(186,084)	25,441	87.0%
JULY	2011	1,235,520	1,488,141	(252,621)	(66,537)	83.0%
AUGUST	2011	1,205,946	1,520,685	(314,739)	(62,118)	79.3%
SEPTEMBER	2011	1,174,251	1,613,959	(439,708)	(124,969)	72.8%
OCTOBER	2011	1,217,663	1,615,745	(398,082)	41,626	75.4%

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
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	0.00%	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	-2.23%	1.12%	4.96%	2.52%	8.93%
SEPTEMBER	2011	-2.46%	-1.38%	4.54%	6.44%	15.94%
OCTOBER	2011	3.87%	2.44%	4.53%	0.40%	16.41%

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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