Milliman analysis: July's $120 billion funded status decline pushes pension deficit to a record $533 billion

Discount rate drops below 4% and settles at 3.92%, overwhelming the July investment gain of 1.22%

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Pension liabilities swelled by $133 billion in July, swamping a $13 billion investment gain and bringing the Milliman 100 PFI funded status deficit to $533 billion and lowering the funded ratio to 70.9%. The favorable investment gain was battered by a continued decline of interest rates on high-quality fixed income investments, which are the standard upon which pension liabilities are measured.

HIGHLIGHTS

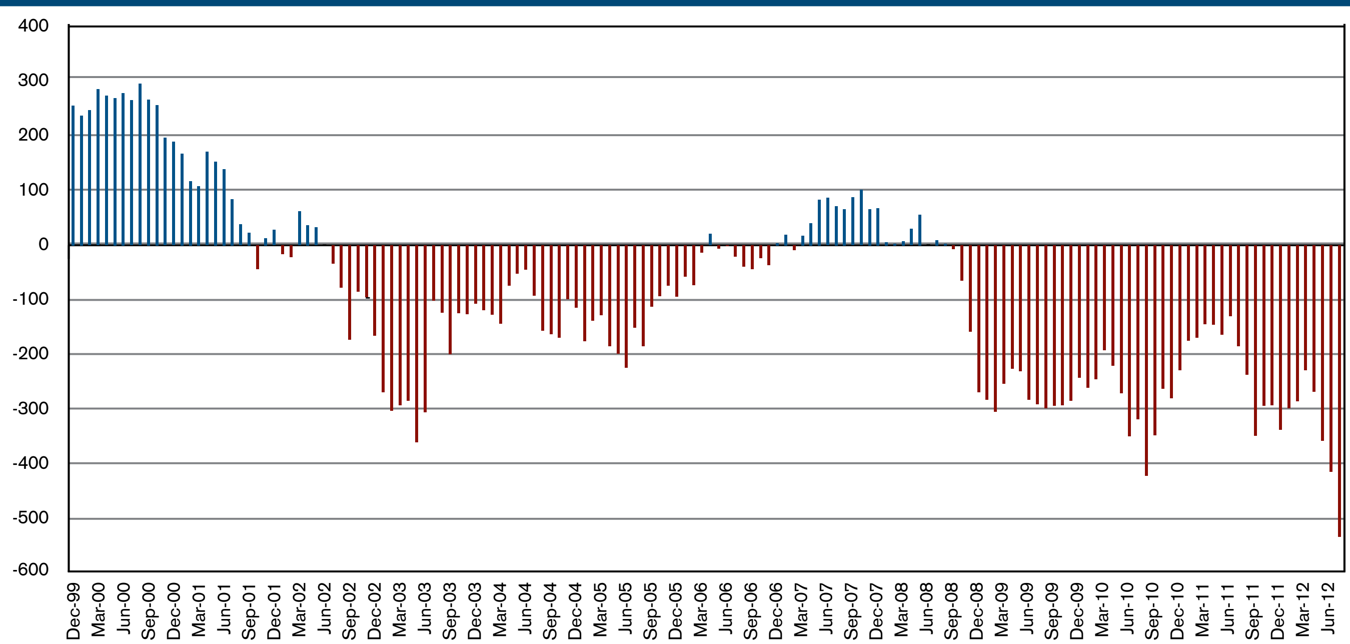
	$ BILLION			
	MV	PBO	FUNDED STATUS	FUNDED PERCENTAGE
JUN 2012	1,284	1,698	(414)	75.6%
JUL 2012	1,297	1,831	(533)	70.9%
MONTHLY CHANGE	+13	+133	(119)	-4.7%
YTD CHANGE	+51	+247	(196)	-7.8%

NOTE: NUMBERS MAY NOT ADD UP PRECISELY DUE TO ROUNDING

The funded status of the 100 largest corporate defined benefit pension plans dropped by $120 billion during July 2012, as measured by the Milliman 100 Pension Funding Index (PFI). This was the largest funded status decrease ever recorded in the 12-year history of the Milliman 100 PFI, and it follows a dreadful 2012 second quarter, when the funded status deteriorated by $186 billion. The deficit ballooned to a record $533 billion from $414 billion at the end of June.

January and March have been the only months of 2012 in which the discount rate didn't decline from the previous month. As of July 31, the funded ratio fell to 70.9%, down from 75.6% at the end of June 2012. The 2012 funded ratio is well below its December 31, 2011, value of 78.7%. The only other time that

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



we've witnessed a lower funded ratio was on May 31, 2003, when it bottomed out at 70.5%.

The projected benefit obligation (PBO), or pension liabilities, increased by $133 billion during July, raising the Milliman 100 PFI value to $1.831 trillion from $1.698 trillion at the end of June. A 40-basis-point decrease pushed the monthly discount rate to 3.92% for July, from 4.32% for June 2012. The 3.92% discount rate is the lowest ever recorded in the 12-year history of the Million 100 PFI. This marks four consecutive months of discount rate declines and follows Moody's June announcement of a downgrade of five major financial intuitions that had previously been included in the Citigroup Pension Liability Index, a benchmark used in setting discount rates.

The Milliman 100 PFI asset value increased by $13 billion during July, raising the Milliman 100 PFI value to $1.297 trillion from $1.284 trillion at the end of June 2012. The increase was due to investment gains of 1.22% for the month. By comparison, the Milliman 2012 Pension Funding Study published in March 2012 reported that the median expected investment return during 2011 was 0.63% (7.80% annualized).

Over the last 12 months (August 2011 to July 2012), the cumulative asset return has been 7.08% and the Milliman 100 PFI funded status deficit has increased by $349 billion. For these 12 months, the funded ratio of the Milliman 100 companies dropped to 70.9% from 78.7%, primarily due to declining discount rates.

2012-2013 PROJECTIONS

If the Milliman 100 PFI companies were to achieve a 7.8% median asset return (as per the 2012 pension funding study) expected for their pension plan portfolios and if the current discount rate of 3.92% were to be maintained through 2013, we forecast that the funded status of the surveyed plans would increase. This would result in a projected pension deficit of $509 billion (funded ratio of 72.3%) by the end of 2012 and a projected pension deficit of $434 billion (funded ratio of 76.6%) by the end of 2013. For purposes of this forecast, we have assumed 2012 aggregate contributions of $67 billion and 2013 aggregate contributions of $81 billion.

Please note that the contribution assumptions have not been adjusted to reflect the potential impact of the Moving Ahead for Progress in the 21st Century Act (MAP-21), which includes pension funding stabilization provisions. While several plan sponsors have announced reduced contributions, we feel that a majority of the Milliman 100 companies will continue to prudently fund the pension deficits in their respective plans and presumably continue with their existing pension de-risking funding strategies rather than lower their contribution level to satisfy minimum standards.

Under an optimistic forecast with rising interest rates (reaching 4.17% by the end of 2012 and 4.77% by the end of 2013) and asset gains (11.8% annual returns), the funded ratio would climb to 77% by the end of 2012 and to 95% by the end of 2013. Under a pessimistic forecast with similar interest rate and asset movements (3.67% discount rate at the end of 2012 and 3.07% by the end of 2013 and 3.8% annual returns), the funded ratio would decline to 68% by the end of 2012 and 61% by the end of 2013.

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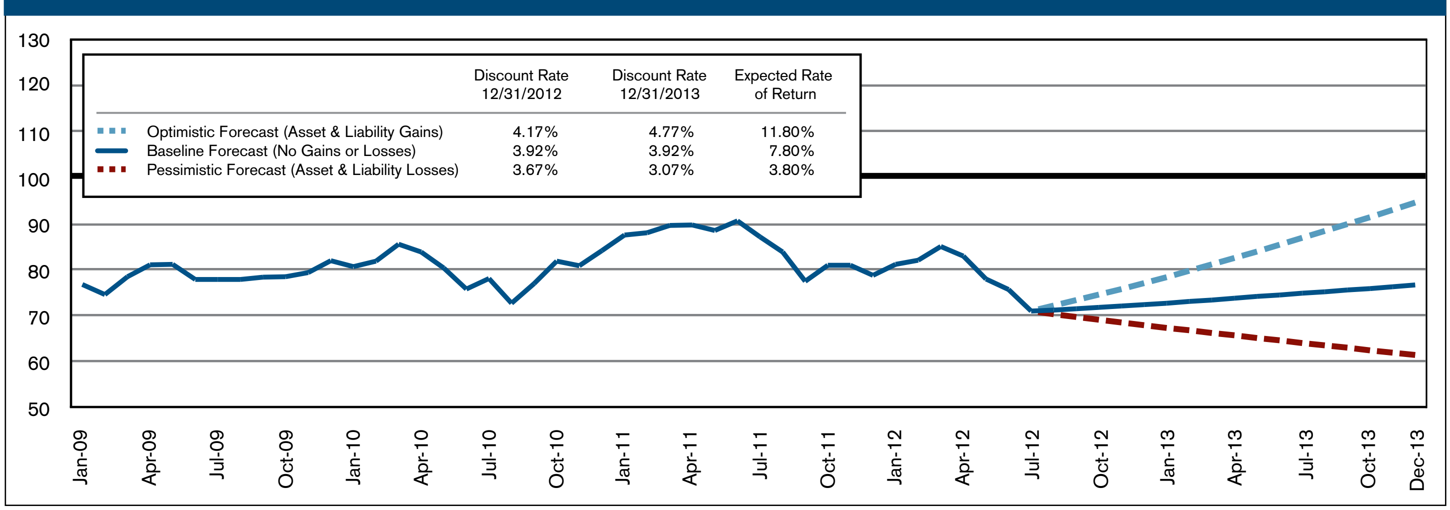
FIGURE 2: MILLIMAN 100 PENSION FUNDING INDEX – PENSION FUNDED RATIO



MILLIMAN 100 PENSION FUNDING INDEX – JULY 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
JULY	2011	1,250,735	1,435,297	(184,561)	N/A	87.1%
AUGUST	2011	1,222,908	1,459,129	(236,221)	(51,660)	83.8%
SEPTEMBER	2011	1,192,824	1,540,649	(347,825)	(111,604)	77.4%
OCTOBER	2011	1,241,510	1,534,408	(292,898)	54,928	80.9%
NOVEMBER	2011	1,235,787	1,527,813	(292,026)	872	80.9%
DECEMBER	2011	1,246,235	1,583,613	(337,378)	(45,352)	78.7%
JANUARY	2012	1,274,884	1,572,630	(297,746)	39,632	81.1%
FEBRUARY	2012	1,294,521	1,579,548	(285,027)	12,719	82.0%
MARCH	2012	1,297,681	1,526,122	(228,441)	56,586	85.0%
APRIL	2012	1,293,677	1,561,169	(267,492)	(39,051)	82.9%
MAY	2012	1,263,212	1,620,957	(357,745)	(90,253)	77.9%
JUNE	2012	1,283,754	1,697,711	(413,957)	(56,212)	75.6%
JULY	2012	1,297,448	1,830,942	(533,494)	(119,537)	70.9%

PENSION ASSET AND LIABILTY RETURNS (ALL DOLLAR AMOUNTS IN MILLIONS)

		ASSET RETURNS			LIABILITY RETURNS	
END OF MONTH	YEAR	MONTHLY	YEAR-TO-DATE	DISCOUNT RATE	MONTHLY	YEAR-TO-DATE
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	3.00%	5.22%	4.67%*	-1.80%	14.74%
JANUARY	2012	2.46%	2.46%	4.71%	-0.37%	-0.37%
FEBRUARY	2012	1.70%	4.20%	4.69%	0.76%	0.39%
MARCH	2012	0.40%	4.62%	4.88%	-3.05%	-2.67%
APRIL	2012	-0.15%	4.46%	4.76%	2.63%	-0.11%
MAY	2012	-2.20%	2.16%	4.56%	4.14%	4.03%
JUNE	2012	1.79%	3.98%	4.32%	5.03%	9.26%
JULY	2012	1.22%	5.26%	3.92%	8.11%	18.12%

* Reflects a change in our discount rate methodology in moving from the Citigroup Pension Liability Index to the Citigroup Above Median Pension Liability Index.

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 2011 fiscal year and for previous fiscal years. This pension plan accounting disclosure information was summarized as part of the Milliman 2012 Pension Funding Study, which was published on March 29, 2012. 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

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