Milliman analysis: November brings a $33 billion funded status improvement

Discount rates climb back above 4%, but will they remain there at year-end?

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Pension liabilities of the 100 largest corporate defined benefit pension plans decreased by $28 billion in November while corresponding assets increased by $5 billion, bringing the Milliman 100 Pension Funding Index (PFI) funded status deficit to $466 billion and a 74.0% funded ratio. The November funded ratio still lags the year-end 2011 value of 78.7% with only one month left in 2012 to achieve a neutral change year to year.

HIGHLIGHTS

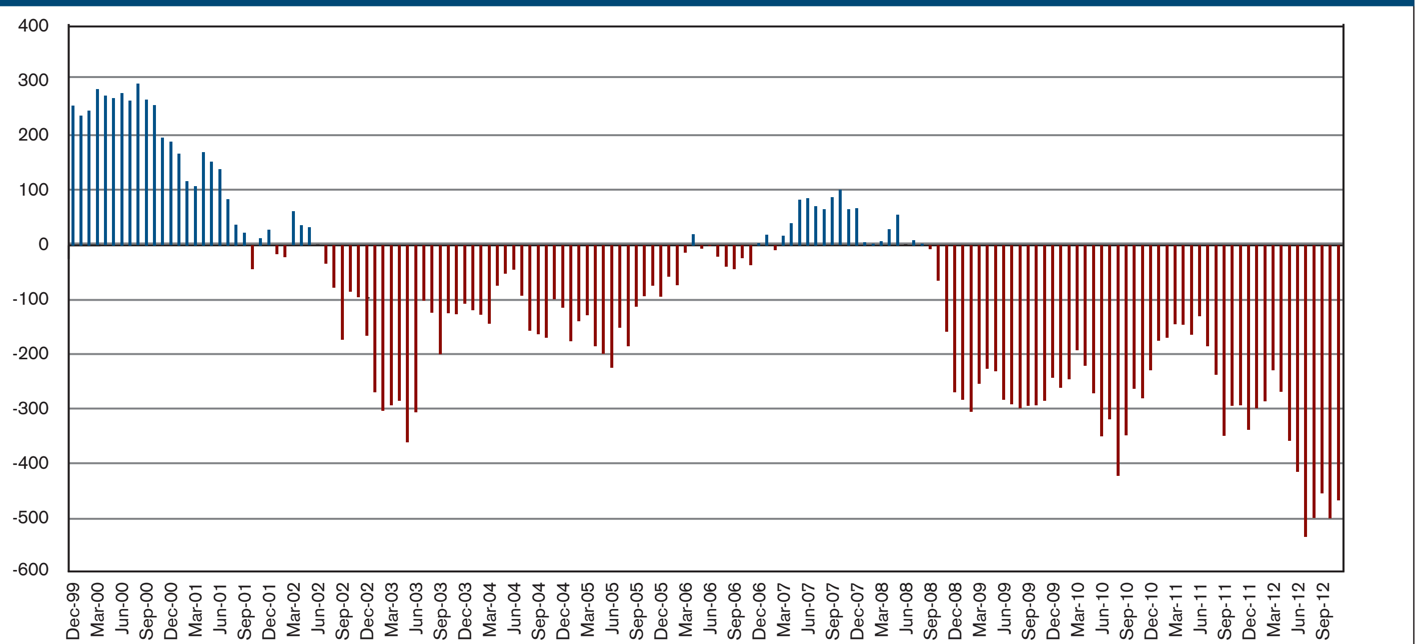
	$ BILLION			
	MV	**PBO**	**FUNDED STATUS**	**FUNDED PERCENTAGE**
OCT 2012	1,322	1,821	(499)	72.6%
NOV 2012	1,327	1,794	(466)	74.0%
MONTHLY CHANGE	+5	(27)	+33	+1.4%
YTD CHANGE	+81	+210	(129)	-4.7%

NOTE: NUMBERS MAY NOT ADD UP PRECISELY DUE TO ROUNDING

November's funded status improvement was primarily due to an increase in the corporate bond interest rates that are the benchmarks used to value pension liabilities. As of November 30, 2012, the funded ratio climbed to 74.0%, up from 72.6% at the end of October 2012.

The projected benefit obligation (PBO), or pension liabilities, decreased by $28 billion during November, lowering the Milliman 100 PFI value to $1.793 trillion from $1.821 trillion at the end of October 2012. The change resulted from an increase of nine basis points in the monthly discount rate to 4.05% for November, from 3.96% for October 2012.

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



The Milliman 100 PFI asset value increased by $5 billion during November, raising the Milliman 100 PFI value to $1.327 trillion from $1.322 trillion at the end of October 2012. The increase was due to an investment gain of 0.59% 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). The 8.35% return on assets for the first 11 months exceeds that full-year expectation by 0.55%. If the assets hold their year-to-date gains through December 31, it will mark the third time in the last four years that investment returns exceeded the expected return. (Only 2011 failed this test with a 5.22% investment return.)

Over the last 12 months (December 2011 to November 2012), the cumulative asset return has been 11.6% and the Milliman 100 PFI funded status deficit has increased by $174 billion. For these 12 months, the funded ratio of the Milliman 100 companies dropped to 74.0% from 80.9%, primarily due to declining discount rates.

2012-2014 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 the current discount rate of 4.05% were to be maintained during 2012 through 2014, we forecast the funded status of the surveyed plans would increase. This would result in a projected pension deficit of $386 billion (funded ratio of 78.7%) by the end of 2013 and a projected pension deficit of $306 billion (funded ratio of 83.3%) by the end of 2014. For purposes of this forecast, we have assumed 2012 aggregate contributions of $67 billion and 2013 and 2014 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 4.70% by the end of 2013 and 5.30% by the end of 2014) and asset gains (11.8% annual returns), the funded ratio would climb to 93% by the end of 2013 and 113% by the end of 2014. Under a pessimistic forecast with similar interest rate and asset movements (3.40% discount rate at the end of 2013 and 2.80% by the end of 2014 and 3.8% annual returns), the funded ratio would decline to 67% by the end of 2013 and 60% by the end of 2014.

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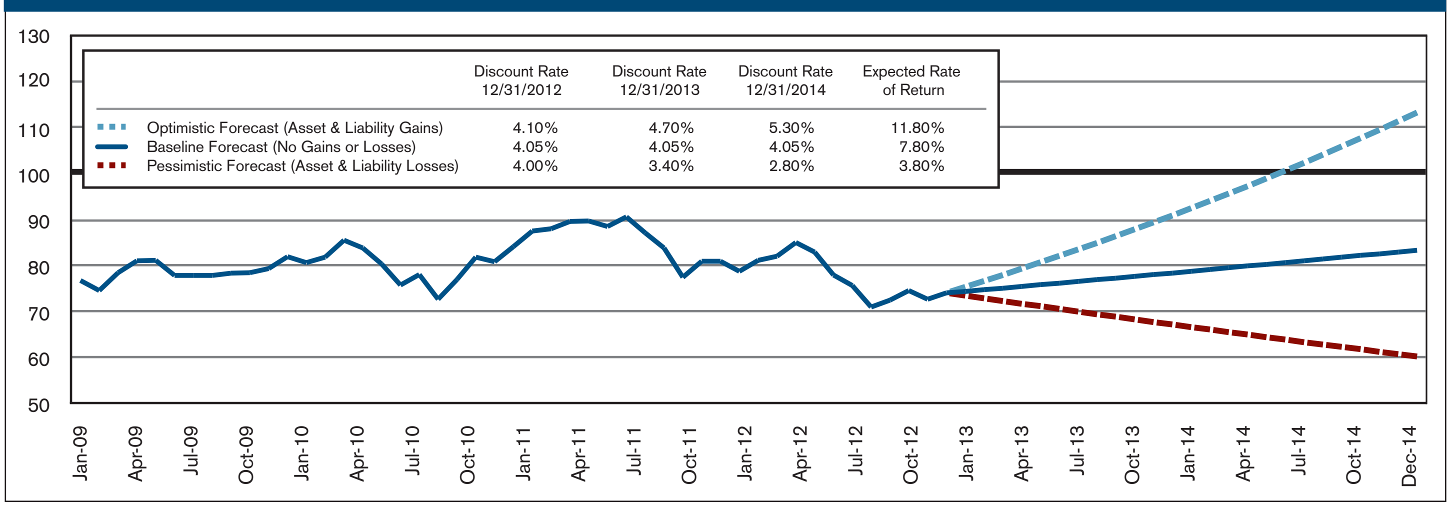
FIGURE 2: MILLIMAN 100 PENSION FUNDING INDEX – PENSION FUNDED RATIO



MILLIMAN 100 PENSION FUNDING INDEX – NOVEMBER 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
NOVEMBER	2011	1,235,787	1,527,813	(292,026)	N/A	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	1,263,136	1,620,957	(357,821)	(90,329)	77.9%
JUNE	2012	1,283,703	1,697,711	(414,008)	(56,187)	75.6%
JULY	2012	1,298,087	1,830,942	(532,855)	(118,847)	70.9%
AUGUST	2012	1,309,312	1,807,731	(498,419)	34,436	72.4%
SEPTEMBER	2012	1,324,634	1,777,759	(453,125)	45,294	74.5%
OCTOBER	2012	1,321,666	1,820,929	(499,263)	(46,138)	72.6%
NOVEMBER	2012	1,327,415	1,793,501	(466,086)	33,177	74.0%

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
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	-2.21%	2.15%	4.56%	4.14%	4.03%
JUNE	2012	1.79%	3.98%	4.32%	5.03%	9.26%
JULY	2012	1.28%	5.31%	3.92%	8.11%	18.12%
AUGUST	2012	1.02%	6.38%	3.99%	-1.01%	16.93%
SEPTEMBER	2012	1.32%	7.79%	4.08%	-1.39%	15.30%
OCTOBER	2012	-0.07%	7.72%	3.96%	2.69%	18.40%
NOVEMBER	2012	0.59%	8.35%	4.05%	-1.25%	16.92%

* 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.

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