

Milliman analysis: Pension plans off to a roaring start in 2013 as funded status improves by \$106 billion



2012's decline of \$74 billion erased and topped in one month; funded ratio zooms to 81.7%

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The funded status of the 100 largest corporate defined benefit pension plans improved by \$106 billion during January as measured by the Milliman 100 Pension Funding Index (PFI). This was the second largest monthly funded status improvement in the 12-year history of the Milliman 100 PFI. The \$74 billion funded status decline in 2012 was wiped out and bettered by \$32 billion. The deficit was reduced to \$305 billion from \$411 billion at the end of December 2012, primarily due to the rise in the benchmark corporate bond interest rates used to value pension liabilities. In addition, strong January investment gains also helped to power the funded ratio to 81.7%, up from 76.5% at the end of December 2012.

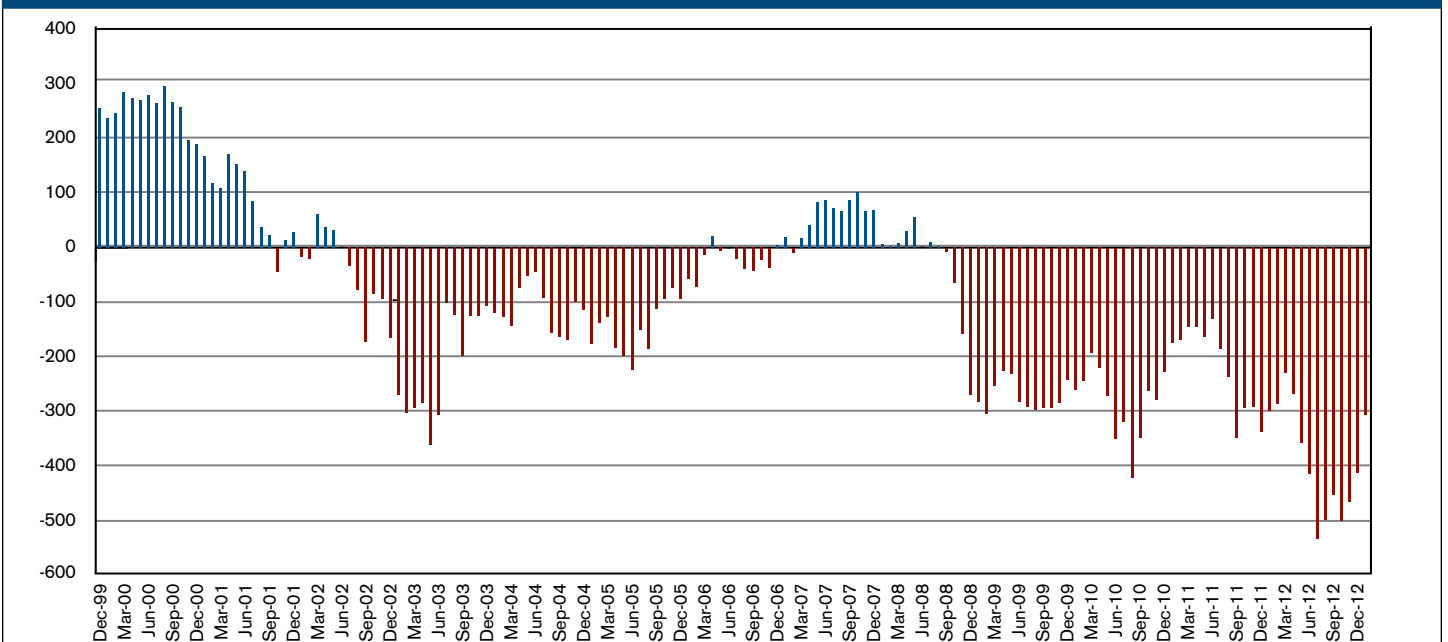
January's \$23 billion increase in the market value of assets brings the Milliman 100 PFI asset value to \$1.360 trillion, up

	\$ BILLION			FUNDED PERCENTAGE
	MV	PBO	FUNDED STATUS	
DECEMBER 2012	1,337	1,748	(411)	76.5%
JANUARY 2013	1,360	1,665	(305)	81.7%
MONTHLY CHANGE	+23	(83)	+106	+5.2%
YTD CHANGE	+23	(83)	+106	+5.2%

NOTE: NUMBERS MAY NOT ADD UP PRECISELY DUE TO ROUNDING

from \$1.337 trillion at the end of December 2012. The strong investment gain was 1.79% for the month. By comparison, the 2012 Milliman Pension Funding Study published in March 2012 reported that the median expected investment return during 2011 was 0.63% (7.80% annualized). The expected rate of return for 2012 will be updated in the 2013 Milliman Pension Funding Study, due out by the end of March.

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



The projected benefit obligation (PBO), or pension liabilities, decreased by \$83 billion during January, lowering the Milliman 100 PFI value to \$1.665 trillion from \$1.748 trillion at the end of December. The change resulted from an increase of 27 basis points in the monthly discount rate to 4.45% for January, from 4.18% for December.

Over the last 12 months (February 2012 to January 2013), the cumulative asset return for these pensions has been 8.54% and the Milliman 100 PFI funded status deficit has risen by \$8 billion. The primary reason for the increase in the funded status deficit has been the lower trending discount rates seen throughout most of 2012. The discount rate as of January 31, 2012, was 4.71%. In spite of this, the funded ratio of the Milliman 100 companies has slightly increased over the past 12 months to 81.7% from 81.1%.

2013-2014 PROJECTIONS

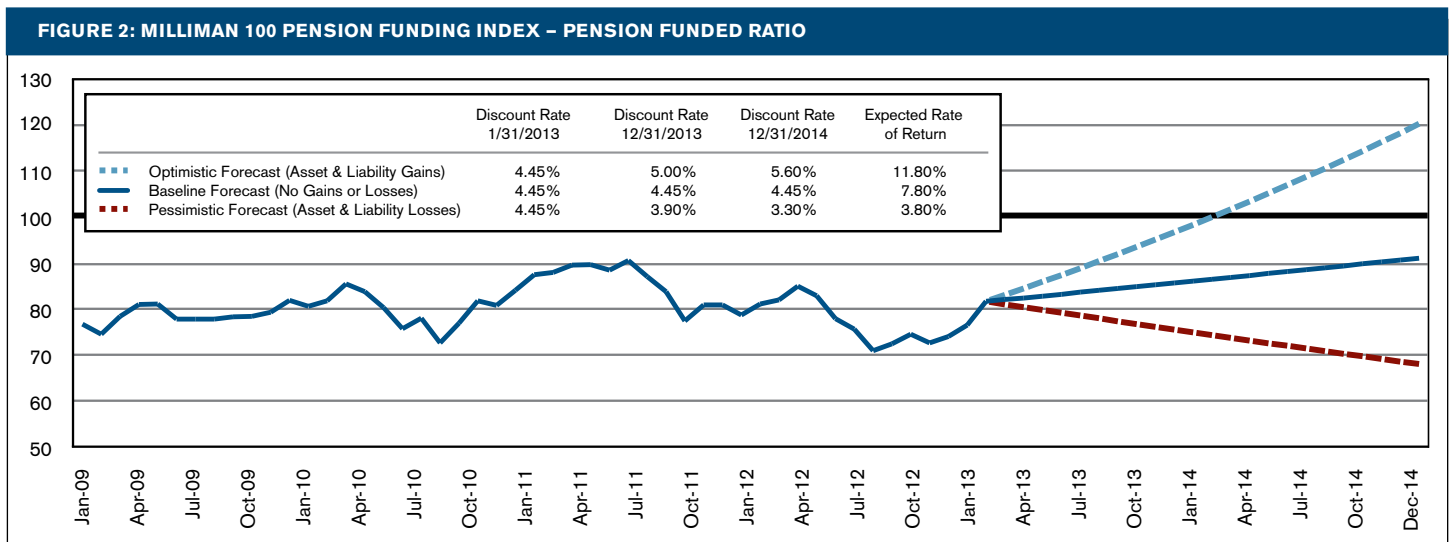
If the Milliman 100 PFI companies were to achieve the expected 7.8% (as per the 2012 pension funding study) median asset return for their pension plan portfolios and the current discount rate of 4.45% was maintained during years 2013 and 2014, we forecast the funded status of the surveyed plans would increase. This would result in a projected pension deficit of \$234 billion (funded ratio of 86.1%) by the end of 2013 and a projected pension deficit of \$150 billion (funded ratio of 91.1%) 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 included 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 5.00% by the end of 2013 and 5.60% by the end of 2014) and asset gains (11.8% annual returns), the funded ratio would climb to 98% by the end of 2013 and 121% by the end of 2014. Under a pessimistic forecast with similar interest rate and asset movements (3.90% discount rate at the end of 2013 and 3.30% by the end of 2014 and 3.8% annual returns), the funded ratio would decline to 75% by the end of 2013 and 68% by the end of 2014.

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MILLIMAN 100 PENSION FUNDING INDEX – JANUARY 2013 (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
JANUARY	2012	1,274,884	1,572,630	(297,746)	N/A	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	1,321,745	1,820,929	(499,184)	(46,059)	72.6%
NOVEMBER	2012	1,327,945	1,793,501	(465,556)	33,628	74.0%
DECEMBER	2012	1,336,952	1,748,374	(411,422)	54,134	76.5%
JANUARY	2013	1,359,977	1,665,512	(305,535)	105,887	81.7%

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
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	0.62%	8.39%	4.05%	-1.25%	16.92%
DECEMBER	2012	0.80%	9.26%	4.18%	-2.20%	14.35%
JANUARY	2013	1.79%	1.79%	4.45%	-4.45%	-4.45%

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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