

Milliman analysis: Plunging interest rates in April inflate corporate pension funding deficit by \$37 billion



An asset increase of \$23 billion is not enough to offset a \$60 billion increase in liabilities as interest rates fall below 4.0%, raising the Milliman 100 PFI funded status deficit to \$321 billion

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The funded status of the 100 largest corporate defined benefit pension plans deteriorated by \$37 billion during April as measured by the Milliman 100 Pension Funding Index (PFI). The deficit increased to \$321 billion from \$284 billion at the end of March, due to a drop in the benchmark corporate bond interest rates used to value pension liabilities. April's robust investment performance was not enough to keep the Milliman 100 PFI's funded status from losing ground. As of April 30, the funded ratio fell to 81.2%, down from 82.8% at the end of March.

The projected benefit obligation (PBO), or pension liabilities, increased by \$60 billion during April, raising the Milliman 100 PFI value to \$1.711 trillion from \$1.651 trillion at the end of March. The change resulted from a decrease of 24 basis

HIGHLIGHTS

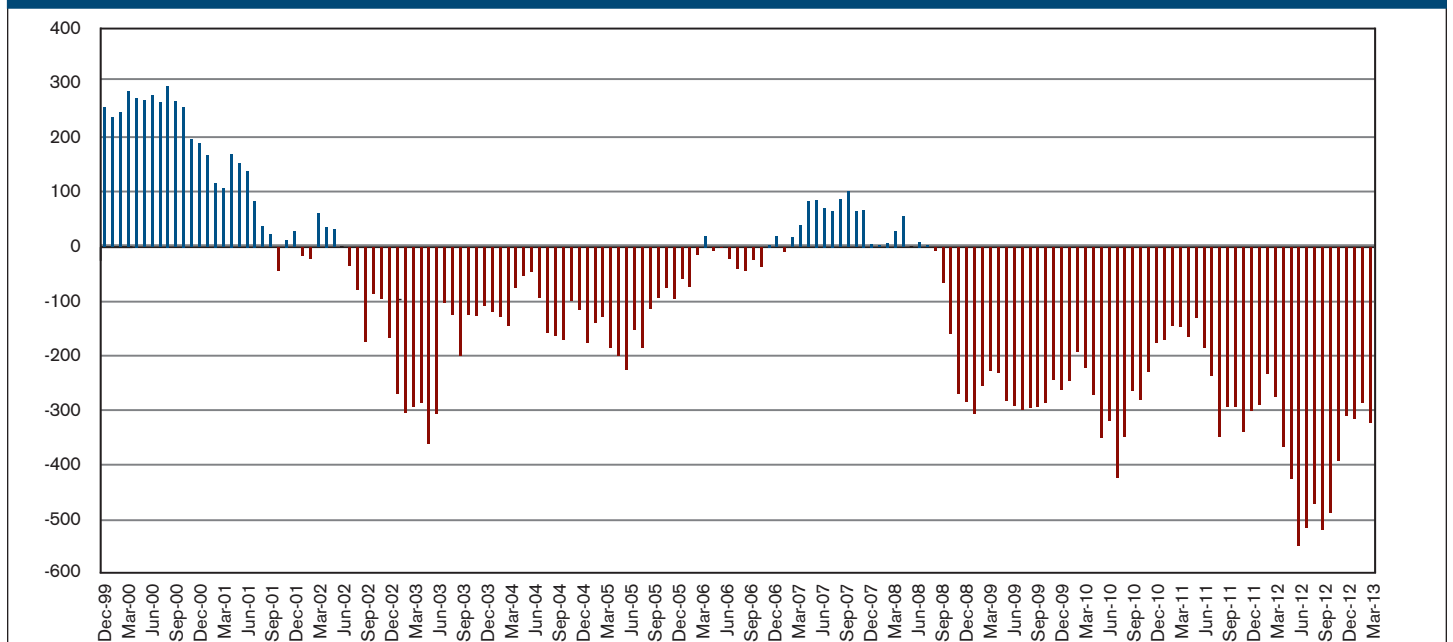
	\$ BILLION			FUNDED PERCENTAGE
	MV	PBO	FUNDED STATUS	
MARCH 2013	1,367	1,651	(284)	82.8%
APRIL 2013	1,390	1,711	(321)	81.2%
MONTHLY CHANGE	+23	+60	(37)	-1.6%
YTD CHANGE	+68	(2)	+70	+4.0%

NOTE: NUMBERS MAY NOT ADD UP PRECISELY DUE TO ROUNDING

points in the monthly discount rate to 3.98% for April, from 4.22% for March.

Offsetting the liability increase was April's \$23 billion increase in market value. April's strong investment gain brings the Milliman 100 PFI asset value to \$1.390 trillion, up from \$1.367 trillion at the end of March, based on an investment gain of

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



1.78% for the month. By comparison, the 2013 Milliman Pension Funding Study reported that the median expected investment return during 2012 was 0.60% (7.85% annualized). April was the strongest investment return month seen so far during 2013 and makes it four consecutive months of investment gains.

Over the last 12 months (May 2012 to April 2013), the cumulative asset return for these pensions has been 9.28% and the Milliman 100 PFI funded status deficit has risen by \$48 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 a year ago on April 30, 2012, was 4.76%. The funded ratio of the Milliman 100 companies has slightly decreased over the past 12 months, to 81.2% from 82.6%.

2013-2014 PROJECTIONS

If the Milliman 100 PFI companies were to achieve the expected 7.5% (as per the 2013 pension funding study) median asset return for their pension plan portfolios and the current discount rate of 3.98% were maintained during years 2013 and 2014, we forecast the funded status of the surveyed plans would

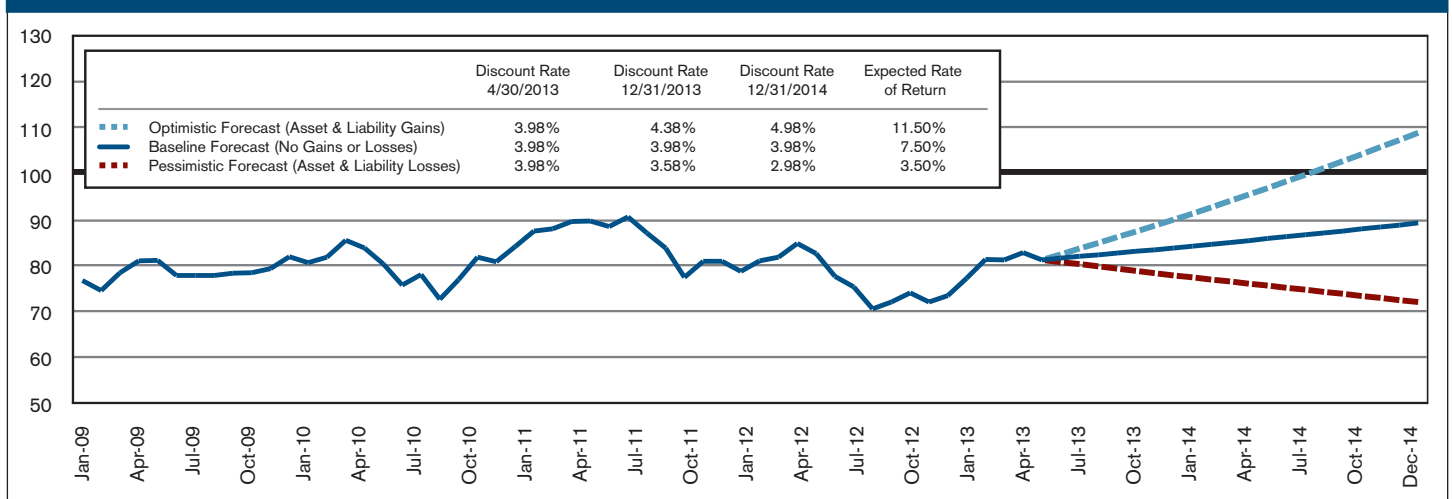
increase. This would result in a projected pension deficit of \$271 billion (funded ratio of 84.2%) by the end of 2013 and a projected pension deficit of \$185 billion (funded ratio of 89.3%) by the end of 2014. For purposes of this forecast, we have assumed 2013 aggregate contributions of \$74 billion and 2014 aggregate contributions of \$81 billion.

Under an optimistic forecast with rising interest rates (reaching 4.38% by the end of 2013 and 4.98% by the end of 2014) and asset gains (11.5% annual returns), the funded ratio would climb to 91% by the end of 2013 and 109% by the end of 2014.

Under a pessimistic forecast with similar interest rate and asset movements (3.58% discount rate at the end of 2013 and 2.98% by the end of 2014 and 3.5% annual returns), the funded ratio would decline to 77% by the end of 2013 and 72% by the end of 2014.

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



MILLIMAN 100 PENSION FUNDING INDEX – APRIL 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
APRIL	2012	1,298,481	1,571,717	(273,235)	N/A	82.6%
MAY	2012	1,269,002	1,634,658	(365,656)	(92,421)	77.6%
JUNE	2012	1,290,860	1,714,945	(424,085)	(58,429)	75.3%
JULY	2012	1,306,535	1,852,645	(546,110)	(122,025)	70.5%
AUGUST	2012	1,319,055	1,832,240	(513,186)	32,924	72.0%
SEPTEMBER	2012	1,335,728	1,804,898	(469,170)	44,016	74.0%
OCTOBER	2012	1,334,050	1,851,841	(517,791)	(48,621)	72.0%
NOVEMBER	2012	1,341,551	1,827,021	(485,470)	32,321	73.4%
DECEMBER	2012	1,322,002	1,712,697	(390,695)	94,775	77.2%
JANUARY	2013	1,342,057	1,651,004	(308,947)	81,748	81.3%
FEBRUARY	2013	1,351,635	1,665,403	(313,768)	(4,821)	81.2%
MARCH	2013	1,367,002	1,651,385	(284,383)	29,385	82.8%
APRIL	2013	1,389,598	1,710,739	(321,141)	(36,758)	81.2%

PENSION ASSET AND LIABILITY RETURNS

END OF MONTH	YEAR	ASSET RETURNS		DISCOUNT RATE	LIABILITY RETURNS	
		MONTHLY	YEAR-TO-DATE		MONTHLY	YEAR-TO-DATE
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	-0.30%	8.07%	3.96%	-4.20%	12.01%
JANUARY	2013	1.64%	1.64%	4.22%	-3.30%	-3.30%
FEBRUARY	2013	0.84%	2.50%	4.16%	1.18%	-2.15%
MARCH	2013	1.26%	3.79%	4.22%	-0.53%	-2.67%
APRIL	2013	1.78%	5.63%	3.98%	3.90%	1.12%

ABOUT THE MILLIMAN 100 MONTHLY PENSION FUNDING INDEX

For the past 13 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 2012 fiscal year and for previous fiscal years. This pension plan accounting disclosure information was summarized as part of the Milliman 2013 Pension Funding Study, which was published on March 25, 2013. 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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Milliman 100 Pension Funding Index

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