

## Milliman analysis: Corporate pension funded status drops by \$22 billion in August as discount rates fall below 4% and reach an all-time low



Blistering 1.92% investment gain adds \$24 billion to the asset total, but it is not enough to offset a \$46 billion increase in liabilities, raising the Milliman 100 PFI funded status deficit to \$281 billion

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The funded status of the 100 largest corporate defined benefit pension plans deteriorated by \$22 billion during August as measured by the Milliman 100 Pension Funding Index (PFI). The deficit increased to \$281 billion from \$259 billion at the end of July, due to a drop in the benchmark corporate bond interest rates used to value pension liabilities. August's robust investment gain was not enough to improve the Milliman 100 PFI's funded status. As of August 31, the funded ratio dropped to 84.0%, down from 84.8% at the end of July.

The projected benefit obligation (PBO), or pension liabilities, increased by \$46 billion during August, raising the Milliman 100 PFI value to \$1.754 trillion from \$1.708 trillion at the end of July. The PBO change resulted from a decrease of 21 basis points in the monthly discount rate to 3.89% for August, from 4.10% for July. The August 31 discount rate of 3.89% is the lowest ever recorded in the 14-year history of the Milliman 100 PFI.

### HIGHLIGHTS

	\$ BILLION			FUNDED PERCENTAGE
	MV	PBO	FUNDED STATUS	
JUL 2014	1,449	1,708	(259)	84.8%
AUG 2014	1,473	1,754	(281)	84.0%
MONTHLY CHANGE	+24	+46	(22)	-0.8%
YTD CHANGE	+70	+165	(95)	-4.3%

Note: Numbers may not add up precisely due to rounding

Discount rates have decreased by 79 basis points during the first eight months of 2014, resulting in a liability increase of \$165 billion. This decrease completely erases the interest rate increase of 72 basis points that occurred in calendar year 2013. Fortunately, the strong year-to-date asset performance has mitigated deeper funded status erosion.

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

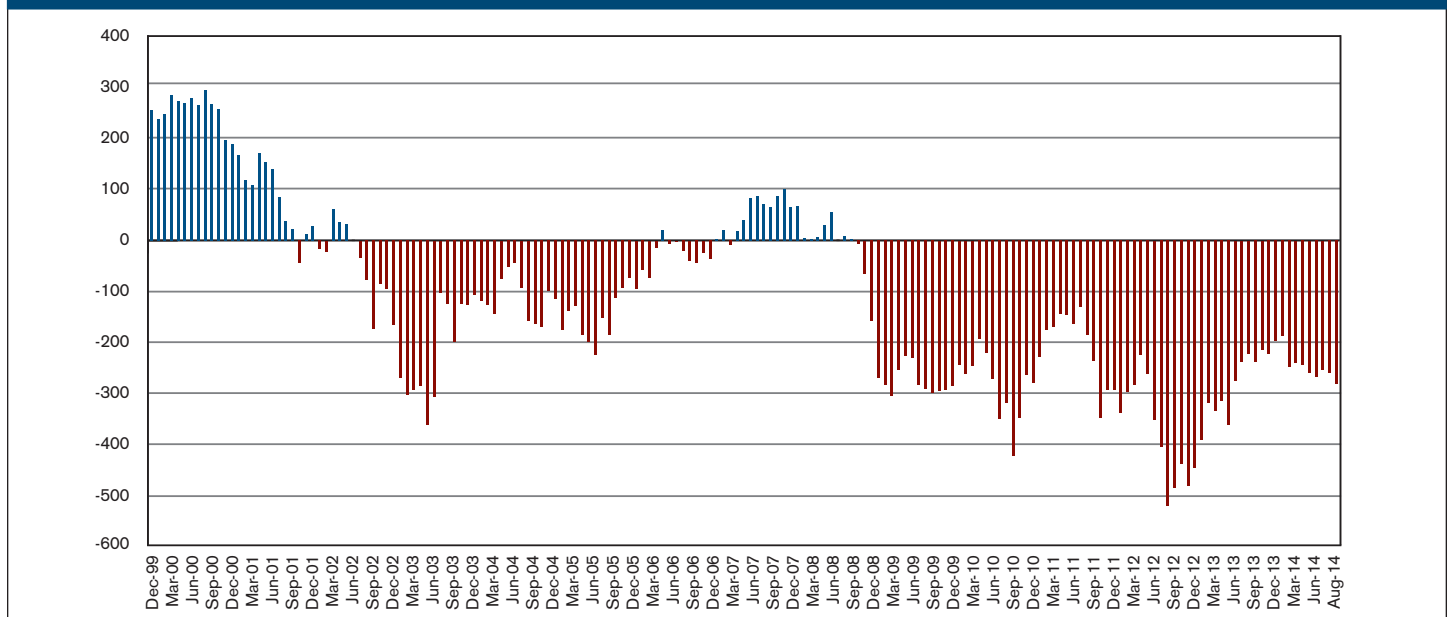
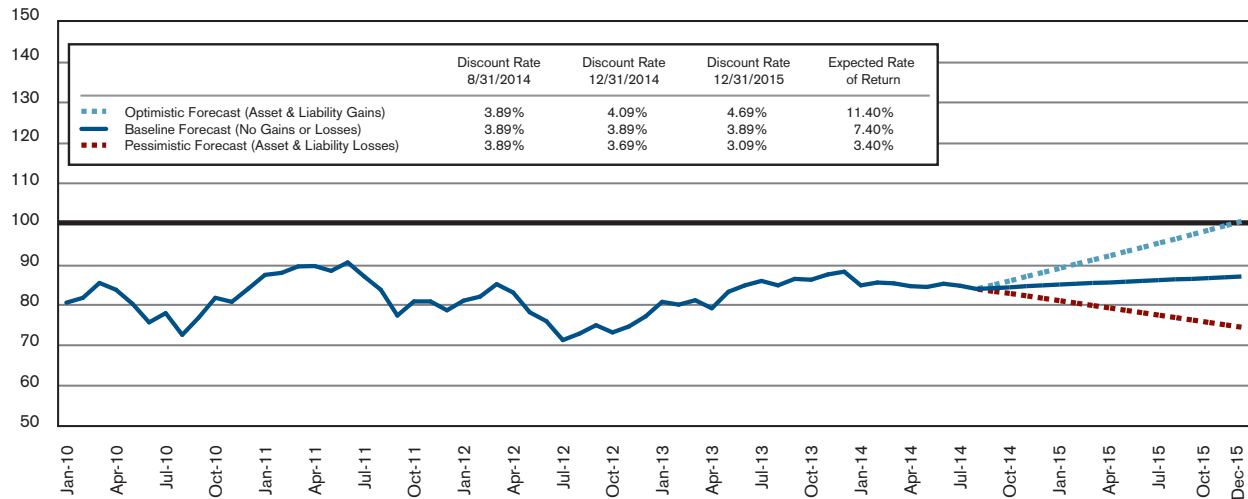


FIGURE 2: MILLIMAN 100 PENSION FUNDING INDEX – PENSION FUNDED RATIO



The market value of assets increased by \$24 billion as a result of August’s investment gain of 1.92%. The Milliman 100 PFI asset value increased to \$1.473 trillion, up from \$1.449 trillion at the end of July. By comparison, the 2014 Milliman Pension Funding Study reported that the monthly median expected investment return during 2013 was 0.60% (7.4% annualized).

Over the last 12 months (September 2013 to August 2014), the cumulative asset return for these pensions has been 14% but the Milliman 100 PFI funded status deficit has worsened by \$44 billion. The drop in funded status over the past 12 months is primarily due to the decline in interest rates. Since August 31, 2013, the discount rate has dropped 88 basis points, to 3.89% from 4.77%. The funded ratio of the Milliman 100 companies has decreased over the past 12 months, to 84.0% from 84.9%.

**2014-2015 PROJECTIONS: ADJUSTED FOR EFFECT OF HATFA**

If the Milliman 100 PFI companies were to achieve the expected 7.4% (as per the 2014 Milliman Pension Funding Study) median asset return for their pension plan portfolios and the current discount rate of 3.89% were maintained during 2014 and 2015, we forecast that the funded status of the surveyed plans would increase. This would result in a projected pension deficit of \$265 billion (funded ratio of 84.9%) by the end of 2014 and a projected pension deficit of \$228 billion (funded ratio of 87.1%) by the end of 2015.

For purposes of this forecast, we have assumed 2014 aggregate contributions of \$44 billion and 2015 aggregate contributions of \$31 billion. The drop in contribution expectations for 2015 is reflective of the passage of the Highway and Transportation Funding Act of 2014 (HATFA), which was signed into law on August 8 and extended the MAP-21 interest-rate relief provisions for defined benefit plan sponsors. While we expect many of the Milliman 100 companies to make contributions above the minimum requirements, we also expect some plan sponsors who are cash strapped to take advantage of the available contribution relief.

Under an optimistic forecast with rising interest rates (reaching 4.09% by the end of 2014 and 4.69% by the end of 2015) and asset gains (11.4% annual returns), the funded ratio would climb to 88% by the end of 2014 and 101% by the end of 2015. Under a pessimistic forecast with similar interest rate and asset movements (3.69% discount rate at the end of 2014 and 3.09% by the end of 2015 and 3.4% annual returns), the funded ratio would decline to 82% by the end of 2014 and 75% by the end of 2015.

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**MILLIMAN 100 PENSION FUNDING INDEX – AUGUST 2014 (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
AUGUST	2013	1,338,996	1,576,631	(237,635)	N/A	84.9%
SEPTEMBER	2013	1,363,801	1,577,060	(213,259)	24,376	86.5%
OCTOBER	2013	1,390,238	1,611,781	(221,543)	(8,284)	86.3%
NOVEMBER	2013	1,396,687	1,593,818	(197,131)	24,412	87.6%
DECEMBER	2013	1,403,016	1,589,236	(186,220)	10,911	88.3%
JANUARY	2014	1,393,680	1,641,543	(247,863)	(61,643)	84.9%
FEBRUARY	2014	1,421,399	1,660,091	(238,692)	9,171	85.6%
MARCH	2014	1,420,855	1,664,589	(243,734)	(5,042)	85.4%
APRIL	2014	1,427,415	1,685,496	(258,081)	(14,347)	84.7%
MAY	2014	1,448,161	1,714,506	(266,345)	(8,264)	84.5%
JUNE	2014	1,458,883	1,711,208	(252,325)	14,020	85.3%
JULY	2014	1,449,393	1,708,381	(258,988)	(6,663)	84.8%
AUGUST	2014	1,472,987	1,754,214	(281,227)	(22,239)	84.0%

**PENSION ASSET AND LIABILITY RETURNS**

END OF MONTH	YEAR	ASSET RETURNS			LIABILITY RETURNS	
		MONTHLY	YEAR-TO-DATE	DISCOUNT RATE	MONTHLY	YEAR-TO-DATE
AUGUST	2013	-1.04%	4.56%	4.77%	-0.17%	-8.14%
SEPTEMBER	2013	2.26%	6.92%	4.80%	0.03%	-8.12%
OCTOBER	2013	2.34%	9.42%	4.67%	2.19%	-6.11%
NOVEMBER	2013	0.86%	10.36%	4.78%	-1.12%	-7.16%
DECEMBER	2013	0.85%	11.29%	4.68%	-0.29%	-7.43%
JANUARY	2014	-0.36%	-0.36%	4.41%	3.64%	3.64%
FEBRUARY	2014	2.30%	1.92%	4.32%	1.46%	5.15%
MARCH	2014	0.26%	2.19%	4.30%	0.60%	5.78%
APRIL	2014	0.76%	2.96%	4.20%	1.58%	7.46%
MAY	2014	1.75%	4.77%	4.06%	2.04%	9.64%
JUNE	2014	1.03%	5.85%	4.08%	0.12%	9.77%
JULY	2014	-0.36%	5.47%	4.10%	0.15%	9.93%
AUGUST	2014	1.92%	7.50%	3.89%	2.99%	13.22%

**ABOUT THE MILLIMAN 100 MONTHLY PENSION FUNDING INDEX**

For the past 14 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 2013 fiscal year and for previous fiscal years. This pension plan accounting disclosure information was summarized as part of the Milliman 2014 Pension Funding Study, which was published on April 2, 2014. 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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