

Milliman analysis: Corporate pension funded status drops by \$5 billion in July due to investment losses



In spite of the rise in discount rates, the funded ratio declines to 85.0%

Updated 2014-2015 year-end projections reflective of the Highway and Transportation Funding Act of 2014 (HATFA)

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The funded status of the 100 largest corporate defined benefit pension plans decreased by \$5 billion during July as measured by the Milliman 100 Pension Funding Index (PFI). The deficit rose to \$257 billion from \$252 billion at the end of June, primarily due to declines in equity and fixed income returns during July. As of July 31, the funded ratio declined to 85.0%, down from 85.3% at the end of June.

The projected benefit obligation (PBO), or pension liabilities, decreased by \$3 billion during July, lowering the Milliman 100 PFI value to \$1.708 trillion from \$1.711 trillion at the end of July. The PBO change resulted from a paltry increase of two basis points in the monthly discount rate to 4.10% for July, from 4.08% for June. July marked the second consecutive month where the discount increased, although not by much. The five months of 2014 prior to June all recorded discount rate decreases.

The market value of assets decreased by \$8 billion as a result of July's investment loss of -0.24%. The Milliman 100 PFI asset value

HIGHLIGHTS

| | \$ BILLION | | FUNDED STATUS | FUNDED PERCENTAGE |
|----------------|------------|-------|---------------|-------------------|
| | MV | PBO | | |
| JUN 2014 | 1,459 | 1,711 | (252) | 85.3% |
| JUL 2014 | 1,451 | 1,708 | (257) | 85.0% |
| MONTHLY CHANGE | (8) | (3) | (5) | -0.3% |
| YTD CHANGE | +48 | +119 | (71) | -3.3% |

NOTE: NUMBERS MAY NOT ADD UP PRECISELY DUE TO ROUNDING

decreased to \$1.451 trillion, down from \$1.459 trillion at the end of June. By comparison, the 2014 Milliman Pension Funding Study reported that the monthly median expected investment return during 2013 was 0.60% (7.4% annualized).

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

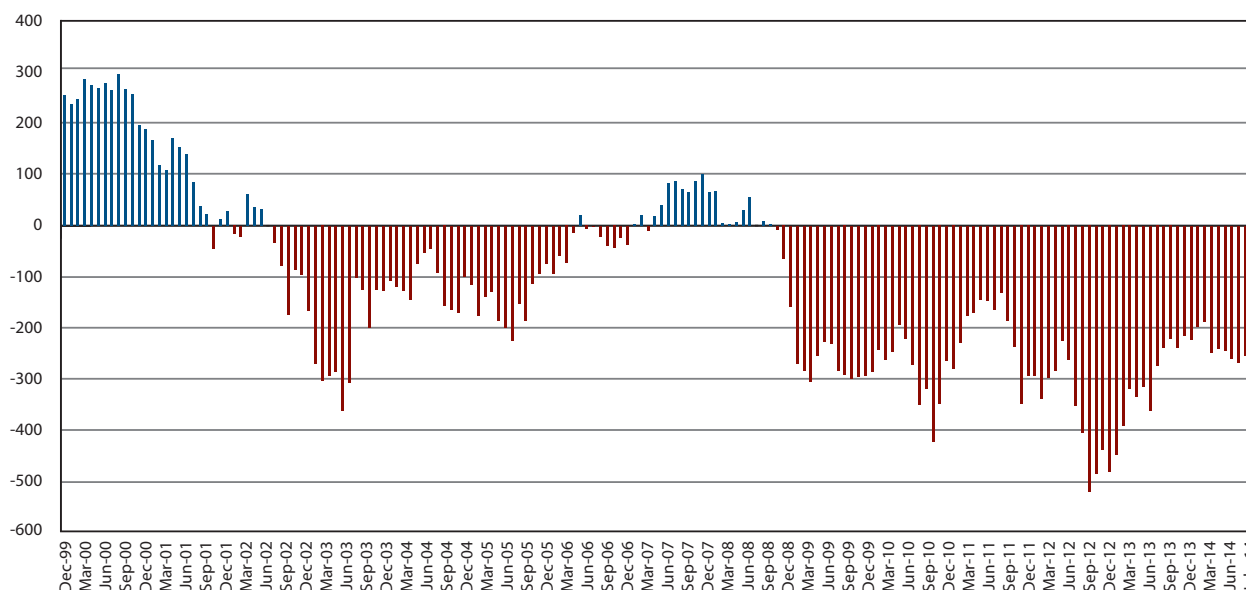
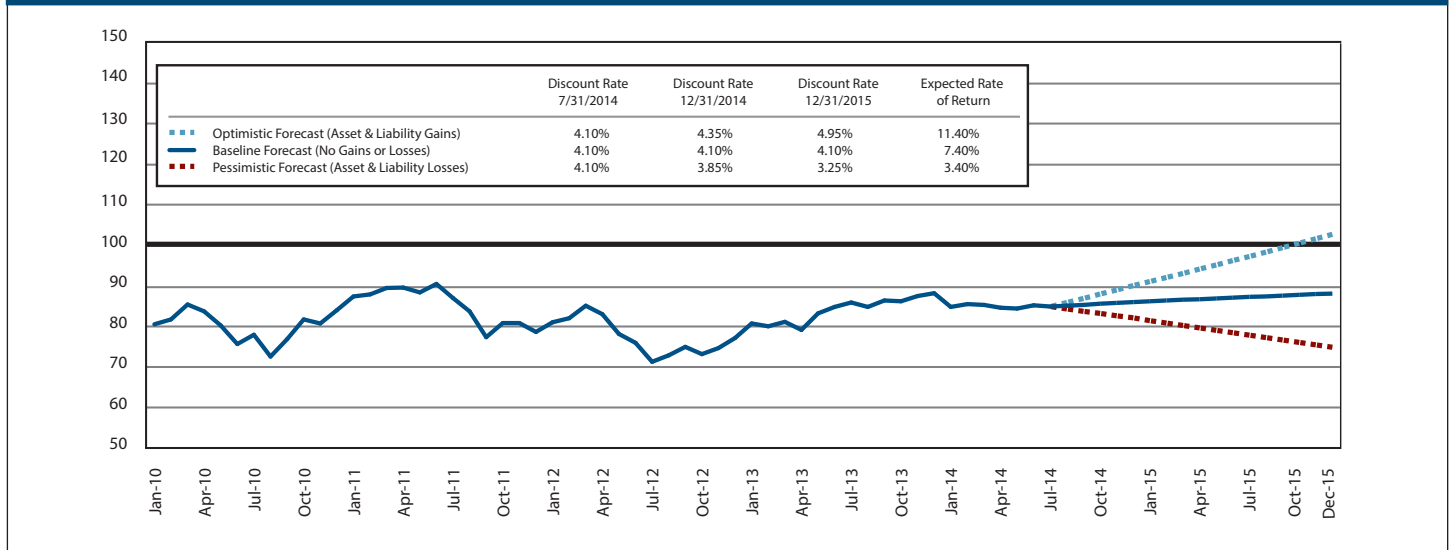


FIGURE 2: MILLIMAN 100 PENSION FUNDING INDEX – PENSION FUNDED RATIO



Over the last 12 months (August 2013 to July 2014), the cumulative asset return for these pensions has been 11% but the Milliman 100 PFI funded status deficit has worsened by \$36 billion. The drop in funded status over the past 12 months is primarily due to the decline in interest rates. Since July 31, 2013, the discount rate has dropped 63 basis points to 4.10% from 4.73%. The funded ratio of the Milliman 100 companies has decreased over the past 12 months to 85.0% from 86.0%.

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 if the current discount rate of 4.10% were maintained during years 2014 and 2015, the funded status of the surveyed plans would increase. This would result in a projected pension deficit of \$237 billion (funded ratio of 86.1%) by the end of 2014 and a projected pension deficit of \$202 billion (funded ratio of 88.2%) 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 some Milliman 100 companies to make contributions above the revised lower minimum requirements under HATFA, we expect some plan sponsors to elect to contribute only the minimum.

Under an optimistic forecast with rising interest rates (reaching 4.35% by the end of 2014 and 4.95% by the end of 2015) and asset gains (11.4% annual returns), the funded ratio would climb to 90% by the end of 2014 and 103% by the end of 2015. Under a pessimistic forecast with similar interest rate and asset movements (3.85% discount rate at the end of 2014 and 3.25% 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 – JULY 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 |
|--------------|------|------------------------|------------------------------------|---------------|-------------------------|--------------|
| JULY | 2013 | 1,358,447 | 1,579,207 | (220,760) | N/A | 86.0% |
| AUGUST | 2013 | 1,338,996 | 1,576,631 | (237,635) | (16,875) | 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 | 1,420,827 | 1,664,589 | (243,762) | (5,070) | 85.4% |
| APRIL | 2014 | 1,427,387 | 1,685,496 | (258,109) | (14,347) | 84.7% |
| MAY | 2014 | 1,448,133 | 1,714,506 | (266,373) | (8,264) | 84.5% |
| JUNE | 2014 | 1,459,022 | 1,711,208 | (252,186) | 14,187 | 85.3% |
| JULY | 2014 | 1,451,312 | 1,708,381 | (257,069) | (4,883) | 85.0% |

PENSION ASSET AND LIABILITY RETURNS

| END OF MONTH | YEAR | ASSET RETURNS | | | LIABILITY RETURNS | |
|--------------|------|---------------|--------------|---------------|-------------------|--------------|
| | | MONTHLY | YEAR-TO-DATE | DISCOUNT RATE | MONTHLY | YEAR-TO-DATE |
| JULY | 2013 | 2.22% | 5.66% | 4.73% | 0.51% | -7.99% |
| 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% | 2.18% | 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 | 1.05% | 5.86% | 4.08% | 0.12% | 9.77% |
| JULY | 2014 | -0.24% | 5.61% | 4.10% | 0.15% | 9.93% |

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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