

## Milliman analysis: Corporate pension funded ratio above 91% for the second straight month



Pension funded status increases by \$3 billion during October, the month with the highest investment return in 2013.

Corporate CFOs, investors, and participants cheer a remarkable \$392 billion improvement in pension funded status over the last 12 months.

All eyes on Fed policy as the December 31 measurement date nears.

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The funded status of the 100 largest corporate defined benefit pension plans improved by \$3 billion during October as measured by the Milliman 100 Pension Funding Index (PFI). The deficit declined modestly to \$126 billion from \$129 billion at the end of September, due to a robust investment gain of almost 2.4% during October. The PFI funded ratio increased to 91.9% from 91.5% at the end of September.

### HIGHLIGHTS

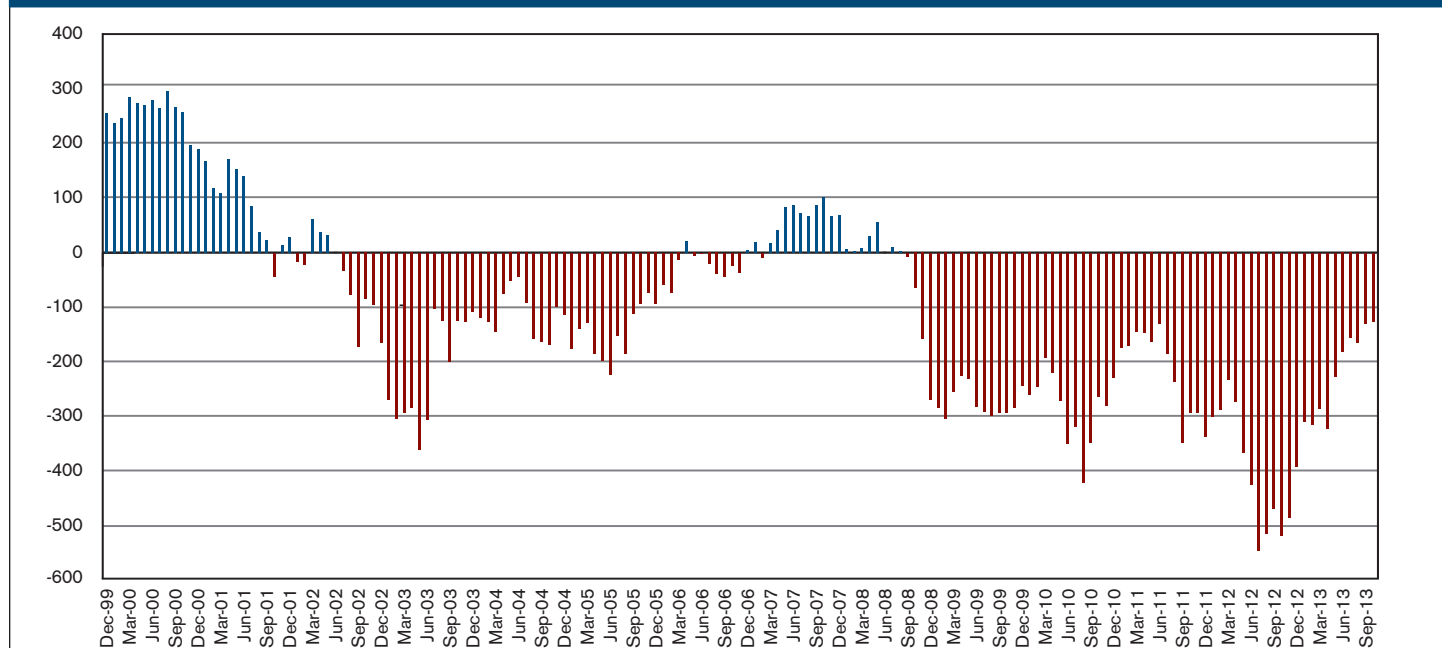
	\$ BILLION			FUNDED PERCENTAGE
	MV	PBO	FUNDED STATUS	
SEPTEMBER 2013	1,398	1,527	(129)	91.5%
OCTOBER 2013	1,429	1,556	(126)	91.9%
MONTHLY CHANGE	+31	+28	+3	+0.4%
YTD CHANGE	+107	(157)	+265	+14.7%

NOTE: NUMBERS MAY NOT ADD UP PRECISELY DUE TO ROUNDING

The projected benefit obligation (PBO), or pension liabilities, increased to \$1.556 trillion from \$1.527 trillion at the end of September. This change was based on a 13 basis point decrease in the monthly discount rate to 4.67% for October, from 4.80% for September.

The market value of assets increased by \$31 billion as a result of October's investment gain of 2.36%. The Milliman 100 PFI asset value climbed to \$1.429 trillion, up from \$1.398 trillion at the end of September. By comparison, the 2013 Milliman Pension Funding Study reported that the monthly median expected investment return

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



during 2012 was 0.60% (7.5% annualized). October's investment return was the best of the year thus far and followed September's above average return of 2.27%.

Over the last 12 months (November 2012 to October 2013), the cumulative asset return for these pensions has been 9.80% and the Milliman 100 PFI funded status deficit has improved by \$392 billion, primarily due to rising interest rates. The discount rate as of October 31, 2012 was 3.96%, and ranked among the lowest ever in the 13-year history of the Milliman 100 PFI. The funded ratio of the Milliman 100 companies has improved over the past 12 months to 91.9% from 72.0%.

### 2013-2014 PROJECTIONS

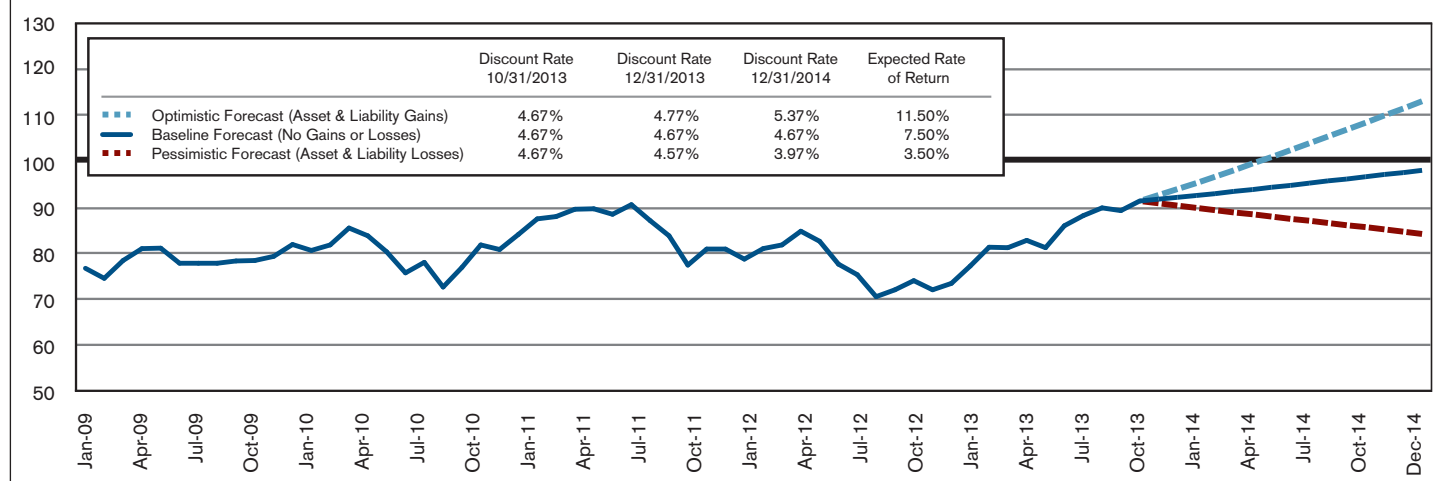
If the Milliman 100 PFI companies were to achieve the expected 7.5% (as per the 2013 pension funding study) median asset return for their pension plan portfolios for the remainder of the projection period and the current discount rate of 4.67% were maintained during years 2013 and 2014, we forecast the funded status of the surveyed plans would increase. This would result in a projected

pension deficit of \$113 billion (funded ratio of 92.7%) by the end of 2013 and a projected pension deficit of \$27 billion (funded ratio of 98.2%) 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 4.77% by the end of 2013 and 5.37% by the end of 2014) and asset gains (11.5% annual returns), the funded ratio would climb to 95% by the end of 2013 and 113% by the end of 2014. Under a pessimistic forecast with similar interest rate and asset movements (4.57% discount rate at the end of 2013 and 3.97% by the end of 2014 and 3.5% annual returns), the funded ratio would decline to 91% by the end of 2013 and 85% by the end of 2014.

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



**MILLIMAN 100 PENSION FUNDING INDEX – OCTOBER 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
OCTOBER	2012	1,334,050	1,851,841	(517,791)	N/A	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	1,342,030	1,651,004	(308,974)	81,721	81.3%
FEBRUARY	2013	1,351,607	1,665,403	(313,796)	(4,822)	81.2%
MARCH	2013	1,366,947	1,651,385	(284,438)	29,358	82.8%
APRIL	2013	1,389,460	1,710,739	(321,279)	(36,841)	81.2%
MAY	2013	1,383,901	1,609,793	(225,892)	95,387	86.0%
JUNE	2013	1,356,420	1,537,932	(181,512)	44,380	88.2%
JULY	2013	1,384,839	1,540,452	(155,613)	25,899	89.9%
AUGUST	2013	1,368,743	1,532,490	(163,747)	(8,134)	89.3%
SEPTEMBER	2013	1,398,136	1,527,475	(129,339)	34,408	91.5%
OCTOBER	2013	1,429,476	1,555,573	(126,097)	3,242	91.9%

**PENSION ASSET AND LIABILITY RETURNS**

END OF MONTH	YEAR	ASSET RETURNS		DISCOUNT RATE	LIABILITY RETURNS	
		MONTHLY	YEAR-TO-DATE		MONTHLY	YEAR-TO-DATE
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%	2.49%	4.16%	1.18%	-2.15%
MARCH	2013	1.26%	3.78%	4.22%	-0.53%	-2.67%
APRIL	2013	1.77%	5.62%	3.98%	3.90%	1.12%
MAY	2013	-0.28%	5.33%	4.41%	-5.59%	-4.53%
JUNE	2013	-1.87%	3.36%	4.74%	-4.12%	-8.46%
JULY	2013	2.22%	5.65%	4.73%	0.51%	-7.99%
AUGUST	2013	-1.04%	4.55%	4.77%	-0.17%	-8.14%
SEPTEMBER	2013	2.27%	6.93%	4.80%	0.03%	-8.12%
OCTOBER	2013	2.36%	9.45%	4.67%	2.19%	-6.11%

**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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