

## Milliman analysis: Funded status drops by \$5 billion in March

The Milliman 100 PFI funded status deficit increases to \$266 billion



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The funded status of the 100 largest corporate defined benefit pension plans dropped by \$5 billion during March as measured by the Milliman 100 Pension Funding Index (PFI). The deficit increased to \$266 billion from \$261 billion at the end of February, due to both a drop in the benchmark corporate bond interest rates used to value pension liabilities and flat asset returns during March. As of March 31, the funded ratio fell to 84.0%, down from 84.3% at the end of February. This latest PFI reflects the annual update of the Milliman 100 companies and their 2013 financial figures included in the Milliman 2014 Pension Funding Study, published on April 2, 2014.

A meager investment gain of 0.29% for the month kept the Milliman 100 PFI asset value at \$1.399 trillion, unchanged from the end of February. By comparison, the 2014 Milliman Pension Funding Study reported that the monthly median expected investment return during 2013 was 0.60% (7.4% annualized).

The projected benefit obligation (PBO), or pension liabilities, increased by \$5 billion during March, raising the Milliman 100 PFI

### HIGHLIGHTS

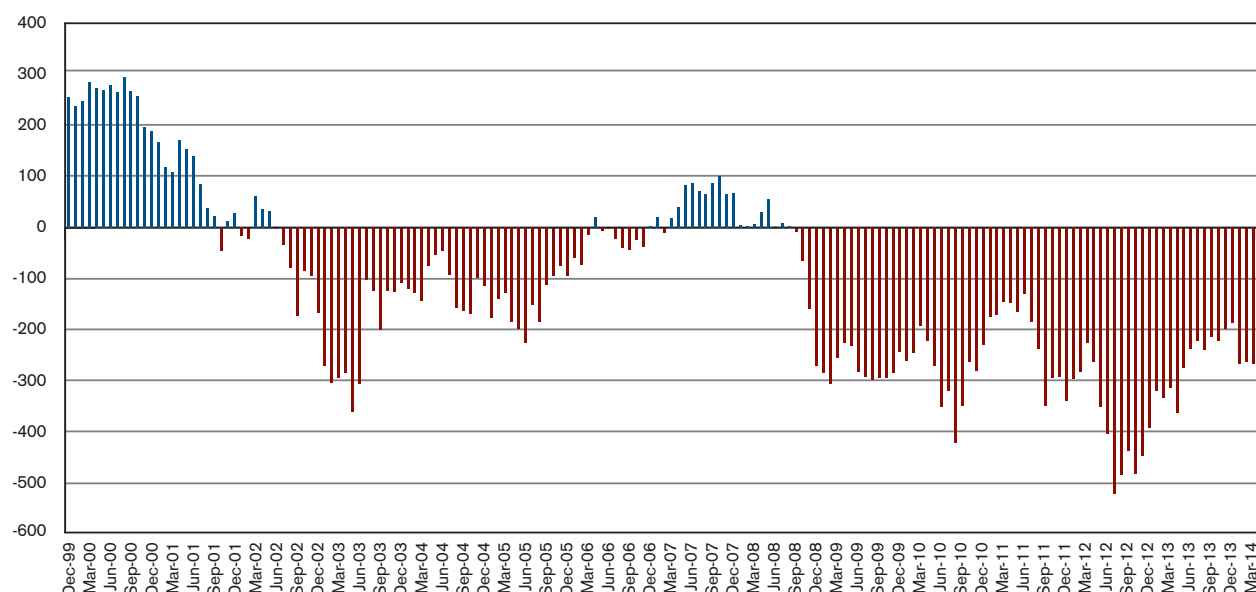
	\$ BILLION			
	MV	PBO	FUNDED STATUS	FUNDED PERCENTAGE
FEBRUARY 2014	1,399	1,660	(261)	84.3%
MARCH 2014	1,399	1,665	(266)	84.0%
MONTHLY CHANGE	0	+4	(5)	-0.3%
YTD CHANGE	(4)	+75	(79)	-4.3%

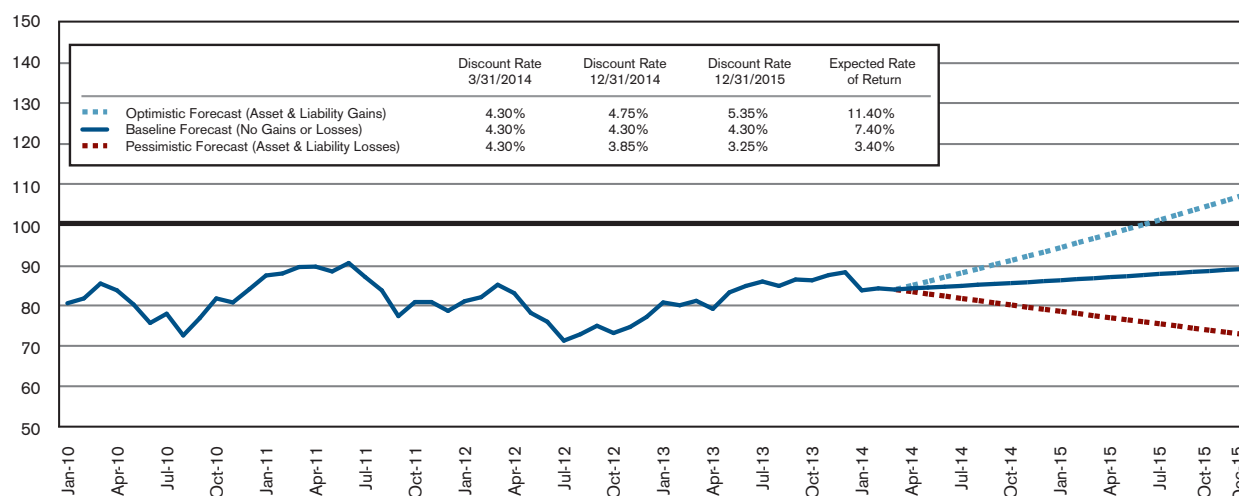
NOTE: NUMBERS MAY NOT ADD UP PRECISELY DUE TO ROUNDING

value to \$1.665 trillion from \$1.660 trillion at the end of February. The change resulted from a small decrease of two basis points in the monthly discount rate to 4.30% for March, from 4.32% for February.

For the quarter ended March 31, 2014, the assets had a net gain of 0.62%. Since the start of 2014, the funded status has deteriorated by \$79 billion due to a combination of asset underperformance and interest rate decreases. This is quite a reversal coming off of 2013,

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



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


where the funded status increase during the year was the largest improvement ever recorded in the 14-year history of the Milliman 100 PFI. For the first quarter of 2014, the funded ratio of the Milliman 100 companies decreased to 84.0% from 88.3%.

Over the last 12 months (April 2013 to March 2014), the cumulative asset return for these pensions has been 7.90% and the Milliman 100 PFI funded status deficit has improved by \$48 billion. The primary reason for the increase in funded status has been the strong asset performance experienced throughout most of 2013. Discount rates had rebounded from all-time lows during 2013, as well, although they have since changed their direction thus far in 2014. The discount rate as of a year ago on March 31, 2013, was 4.22%, only eight basis points lower than where it stands a year later as of March 31, 2014. The funded ratio of the Milliman 100 companies has marginally increased over the past 12 months to 84.0% from 81.2%.

### PFI RECONCILIATION

This March 31 PFI publication reflects the annual update of the Milliman 100 companies and their 2013 financial figures included in the Milliman 2014 Pension Funding Study published on April 2, 2014.

The actual December 31, 2013, pension liability was \$66 billion higher than projected due to the lower-than-expected discount rates as of December 31, 2013, and liability losses associated with the new composition of the 2013 Milliman 100 companies' data. The discount rate was 15 basis points lower than projected, standing at 4.68% as of December 31, 2013. This December 31, 2013, pension liability re-measurement resulted in a funded ratio decrease of approximately 4% for the Milliman 100 plans.

The actual PFI asset value was \$47 billion lower than projected due to actual contributions for 2013 that were lower than expected, primarily attributable to the timing effects of the Moving Ahead for Progress in the

21st Century Act (MAP-21), which was passed during July 2012. The December 31, 2013, asset value re-measurement resulted in a funded ratio decrease of approximately 3% for the Milliman 100 plans.

The net adjustments based on the results of the Milliman 2014 Pension Funding Study were a funded status loss of \$113 billion and a corresponding decrease to the funded ratio, bringing it to 88.3% as of December 31, 2013. This denotes a decrease from the 95.2% funded status figure previously projected at year-end 2013.

### 2014-2015 PROJECTIONS

If the Milliman 100 PFI companies were to achieve the expected 7.4% (as per the 2014 pension funding study) median asset return for their pension plan portfolios and the current discount rate of 4.30% were maintained during years 2014 and 2015, we forecast the funded status of the surveyed plans would increase. This would result in a projected pension deficit of \$232 billion (funded ratio of 86.1%) by the end of 2014 and a projected pension deficit of \$182 billion (funded ratio of 89.1%) by the end of 2015. For purposes of this forecast, we have assumed 2014 aggregate contributions of \$44 billion and 2015 aggregate contributions of \$48 billion. Before the reflection of the fiscal year-end 2013 data, our index was previously projecting surplus funding by the end of 2015 for the Milliman 100 companies. However, the combined effect of lower discount rates and employer contributions will now push the projected return to surplus beyond year 2016.

Under an optimistic forecast with rising interest rates (reaching 4.75% by the end of 2014 and 5.35% by the end of 2015) and asset gains (11.4% annual returns), the funded ratio would climb to 93% by the end of 2014 and 107% 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 79% by the end of 2014 and 73% by the end of 2015.

**MILLIMAN 100 PENSION FUNDING INDEX – MARCH 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
MARCH	2013	1,355,707	1,669,064	(313,357)	N/A	81.2%
APRIL	2013	1,374,247	1,735,202	(360,955)	(47,598)	79.2%
MAY	2013	1,364,987	1,638,618	(273,631)	87,324	83.3%
JUNE	2013	1,334,204	1,571,037	(236,833)	36,798	84.9%
JULY	2013	1,358,441	1,579,207	(220,766)	16,067	86.0%
AUGUST	2013	1,338,989	1,576,631	(237,642)	(16,876)	84.9%
SEPTEMBER	2013	1,363,793	1,577,060	(213,267)	24,375	86.5%
OCTOBER	2013	1,390,229	1,611,781	(221,552)	(8,285)	86.3%
NOVEMBER	2013	1,396,677	1,593,818	(197,141)	24,411	87.6%
DECEMBER	2013	1,403,005	1,589,236	(186,231)	10,910	88.3%
JANUARY	2014	1,375,664	1,641,543	(265,879)	(79,648)	83.8%
FEBRUARY	2014	1,399,076	1,660,091	(261,015)	4,864	84.3%
MARCH	2014	1,398,962	1,664,589	(265,627)	(4,612)	84.0%

**PENSION ASSET AND LIABILITY RETURNS**

END OF MONTH	YEAR	ASSET RETURNS		DISCOUNT RATE	LIABILITY RETURNS	
		MONTHLY	YEAR-TO-DATE		MONTHLY	YEAR-TO-DATE
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%	5.66%	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	-1.65%	-1.65%	4.41%	3.64%	3.64%
FEBRUARY	2014	2.01%	0.33%	4.32%	1.46%	5.15%
MARCH	2014	0.29%	0.62%	4.30%	0.60%	5.78%

The March 31 report (published in April) of the Milliman 100 Pension Funding Index (Milliman 100 PFI) reflects the annual update of the Milliman 100 companies and their 2013 financial figures included in the Milliman 2014 Pension Funding Study published on April 2, 2014. The March 31 Milliman 100 PFI replaces previously published results for January and February 2014 and adjusts the monthly projections for 2013 to reflect actual gains and losses for 2013. Go to [milliman.com](http://milliman.com) to view the Milliman 2014 Pension Funding Study.

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**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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Milliman 100 Pension Funding Index

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