

## Milliman analysis: Corporate pension funded status drops \$6 billion as interest rates fall in February

Despite a \$15 billion increase in assets,  
funded status deficit grows to \$255 billion as liabilities increase



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The funded status of the 100 largest corporate defined benefit pension plans declined by a modest \$6 billion during February 2011, as measured by the Milliman 100 Pension Funding Index (PFI). The deficit increased to \$255 billion from \$249 billion at the end of January 2011 and marks the first monthly decline since last November. Prior to February 2011, the pension funded ratio had improved in four out of the last five months.

The funded status decline was due primarily to a decrease in the corporate bond interest rates that are the benchmarks used to value pension liabilities. Although financial markets performed well in February, investment gains were not enough to offset the pension liability increase. As of February 28, 2011, the funded ratio sat at 82.1%, down from 82.2% at the end of January 2011.

February's \$15 billion increase in market value brings the Milliman 100 PFI asset value to \$1.167 trillion, up from \$1.152 trillion at the end of January 2011. This increase was driven by an investment gain of 1.63% for the month. By comparison, the Milliman 2010 Pension Funding Study reported that the surveyed companies' 2010 median expected monthly investment return on pension assets was 0.65% (8.10% annualized).

The projected benefit obligation (PBO), or pension liabilities, increased by \$21 billion during February, raising the Milliman 100 PFI value to \$1.422 trillion from \$1.401 trillion at the end of January 2011. The change resulted from a decrease of 11 basis points in the monthly discount rate to 5.41% for February from 5.52% for January 2011.

Over the last 12 months (March 2010 – February 2011), the cumulative asset return has been 13%, but the Milliman 100 PFI funded status has dropped by \$1 billion as asset improvements have lagged liability increases. For these 12 months, the funded ratio of the Milliman 100 companies improved slightly from 81.0% to 82.1%.

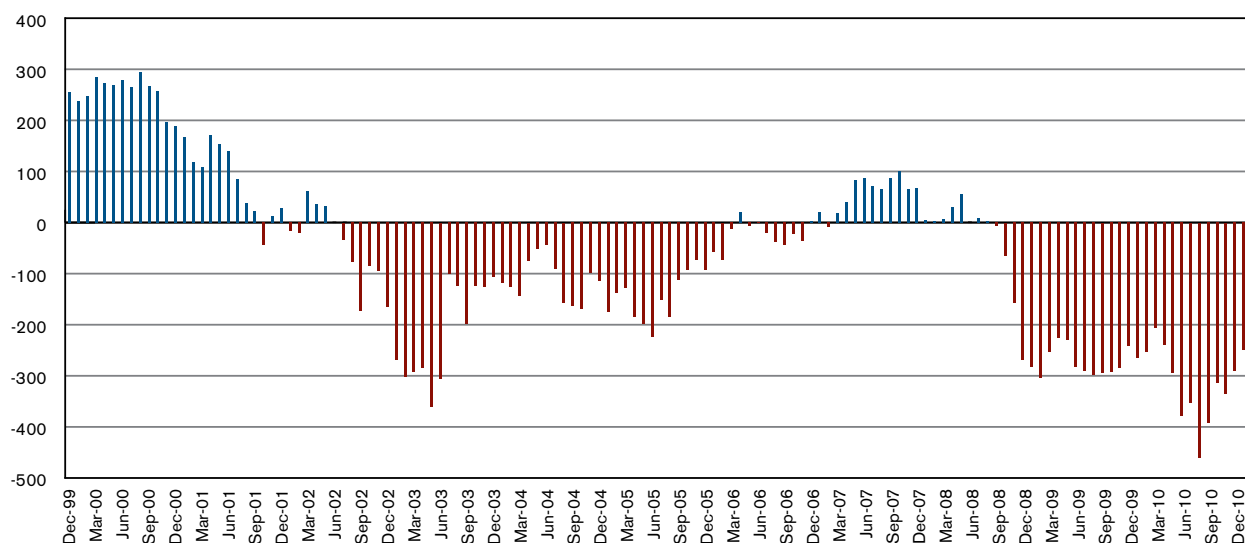
### 2011-2012 PROJECTIONS

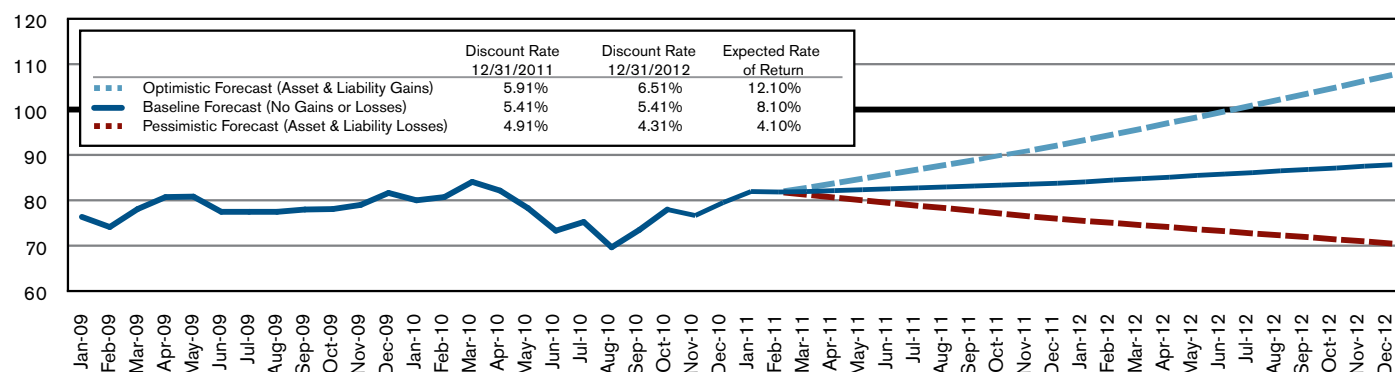
If the Milliman 100 PFI companies were to achieve an 8.1% median asset return (as per the 2010 pension funding study) they expected for their pension plan portfolios and the current discount rate of 5.41% were maintained during years 2011 and 2012, we forecast the funded status of the surveyed plans would increase. This would result in a projected pension deficit of \$230 billion (funded ratio of 84.0%) by the end of 2011 and a projected pension deficit of \$175 billion (funded ratio of 88.0%) by the end of 2012. For purposes of this forecast, we have assumed 2011 aggregate contributions to increase by 50% over their 2010 level. We have further assumed that 2012 aggregate contributions will increase by 50% over their 2011 expected level.

Under an optimistic forecast with rising interest rates (reaching 6.51% by the end of 2012) and asset gains (12.1% annual returns), the funded ratio would climb to 107% by the end of 2012. Under a pessimistic forecast with similar interest rate and asset movements (4.31% discount rate at the end of 2012 and 4.1% annual returns), the funded ratio would decline to 71% by the end of 2012.

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



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

**MILLIMAN 100 PENSION FUNDING INDEX – FEBRUARY 2011 (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
FEBRUARY	2010	1,086,106	1,340,106	(254,000)	N/A	81.0%
MARCH	2010	1,114,949	1,321,830	(206,881)	47,119	84.3%
APRIL	2010	1,120,626	1,360,444	(239,818)	(32,937)	82.4%
MAY	2010	1,079,861	1,374,430	(294,569)	(54,751)	78.6%
JUNE	2010	1,060,466	1,438,287	(377,821)	(83,252)	73.7%
JULY	2010	1,092,791	1,445,070	(352,279)	25,542	75.6%
AUGUST	2010	1,075,832	1,535,658	(459,826)	(107,547)	70.1%
SEPTEMBER	2010	1,113,943	1,506,537	(392,594)	67,232	73.9%
OCTOBER	2010	1,129,348	1,442,640	(313,292)	79,302	78.3%
NOVEMBER	2010	1,121,194	1,455,919	(334,725)	(21,433)	77.0%
DECEMBER	2010	1,145,773	1,435,901	(290,128)	44,597	79.8%
JANUARY	2011	1,151,830	1,401,042	(249,212)	40,916	82.2%
FEBRUARY	2011	1,166,992	1,422,261	(255,269)	(6,057)	82.1%

**PENSION ASSET AND LIABILITY RETURNS (ALL DOLLAR AMOUNTS IN MILLIONS)**

END OF MONTH	YEAR	ASSET RETURNS		DISCOUNT RATE	LIABILITY RETURNS	
		MONTHLY	YEAR-TO-DATE		MONTHLY	YEAR-TO-DATE
FEBRUARY	2010	1.28%	0.13%	5.79%	0.24%	1.02%
MARCH	2010	3.11%	3.24%	5.92%	-0.97%	0.04%
APRIL	2010	0.95%	4.22%	5.69%	3.31%	3.35%
MAY	2010	-3.21%	0.87%	5.61%	1.40%	4.80%
JUNE	2010	-1.35%	-0.49%	5.26%	5.00%	10.04%
JULY	2010	3.51%	3.01%	5.23%	0.81%	10.93%
AUGUST	2010	-1.11%	1.87%	4.78%	6.59%	18.24%
SEPTEMBER	2010	4.00%	5.94%	4.93%	-1.59%	16.36%
OCTOBER	2010	1.82%	7.88%	5.27%	-3.91%	11.81%
NOVEMBER	2010	-0.29%	7.56%	5.20%	1.26%	13.21%
DECEMBER	2010	2.63%	10.39%	5.32%	-1.04%	12.04%
JANUARY	2011	0.84%	0.84%	5.52%	-2.08%	-2.08%
FEBRUARY	2011	1.63%	2.49%	5.41%	1.86%	-0.26%

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

For the past 10 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 2009 fiscal year and for previous fiscal years. The 2010 Milliman 100 Pension Funding Study was published on April 20, 2010. 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 from 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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