

## Milliman Analysis: 2010 ends on a high note for corporate pensions, but funded status still down for the year

Funded status deficit of \$291 billion,  
79.8% at year end compares to 81.9% at year end 2009



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### YEAR IN REVIEW

The change in the December funded status of the 100 largest corporate defined benefit pension plans as measured by the Milliman 100 Pension Funding Index (PFI) brings an overall negative year to an optimistic close. The impact of historically low interest rates drove the funded status down by \$49 billion during 2010. Although assets were up for the year by \$50 billion, the increase in the liabilities was almost twice as big at \$99 billion. During 2010, the cumulative asset return has been 10.4% while the cumulative liability return (i.e., the PBO increase) was 12.0%. The discount rate for the December 2010 funded status is 5.32%. For comparison, the discount rate at the end of 2009 was 5.80%, and the average expected return for 2010 was 8.1%.

The 2010 year started out on a positive note with the funded status reaching 84.3% at the end of March. From there, the Milliman 100 PFI began to rapidly deteriorate, reaching its 10-year low of 70.1% in August. From August until the end of the year, the investment return was 8.3% and discount rates rose 54 basis points to 5.32% from 4.78%; consequently, the funded status rose to 79.8% as of December 31, 2010. By comparison, the funded ratio reported at the end of 2009 was 81.9%.

The \$49 billion funding decrease during 2010 added to the \$242 billion deficit already in place at the end of 2009, bringing the 2010 year-end funded status deficit to \$291 billion. The loss in funded status during 2010 resulted in a charge to corporate balance sheets at the end of the 2010 fiscal year and is expected to produce an estimated increase of \$4 billion in pension expense for 2011.

### DECEMBER 2010 REVIEW

The funded status increased by \$44 billion during December 2010, ending with a deficit of \$291 billion. December's funded status improvement was primarily due to strong investment performance coupled with an increase in corporate bond interest rates. In December, the funded ratio rose to 79.8% from 77.0% at the end

of November. December's \$24 billion increase in market value brings the Milliman 100 PFI asset value to \$1.145 trillion, up from \$1.121 trillion at the end of November 2010, an investment gain of 2.6% for the month.

The PBO, or pension liabilities, decreased by \$20 billion during December, lowering the Milliman 100 PFI value to \$1.436 trillion from \$1.456 trillion at the end of November 2010. The change resulted from an increase of 12 basis points in the monthly discount rate to 5.32% for December from 5.20% for November 2010.

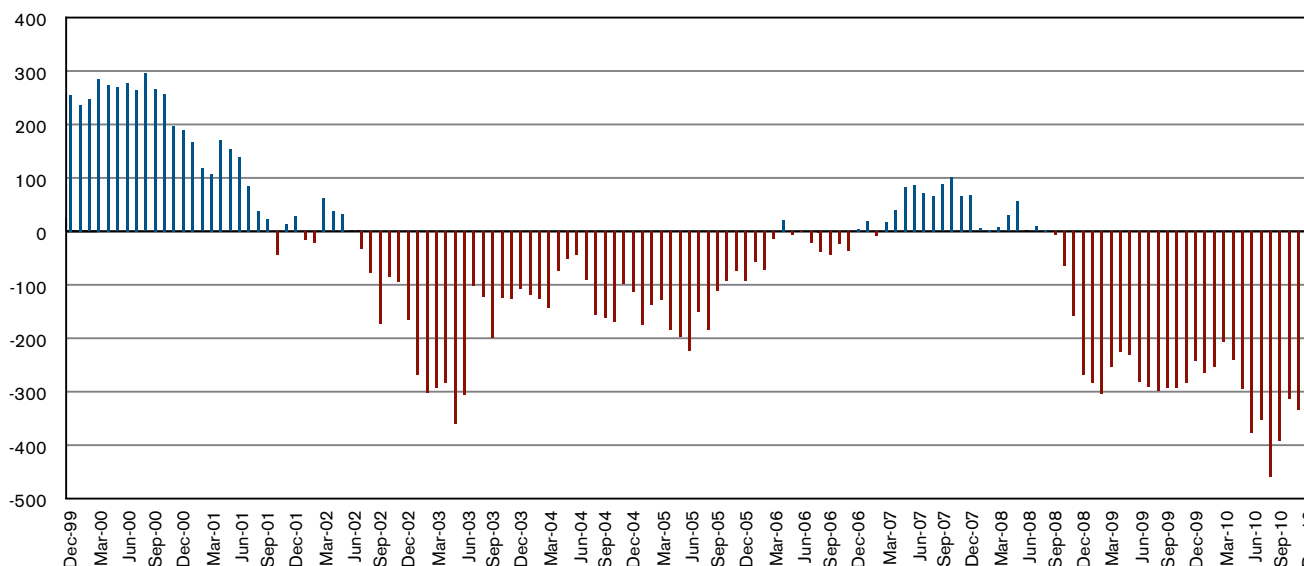
### 2011-2012 PROJECTIONS

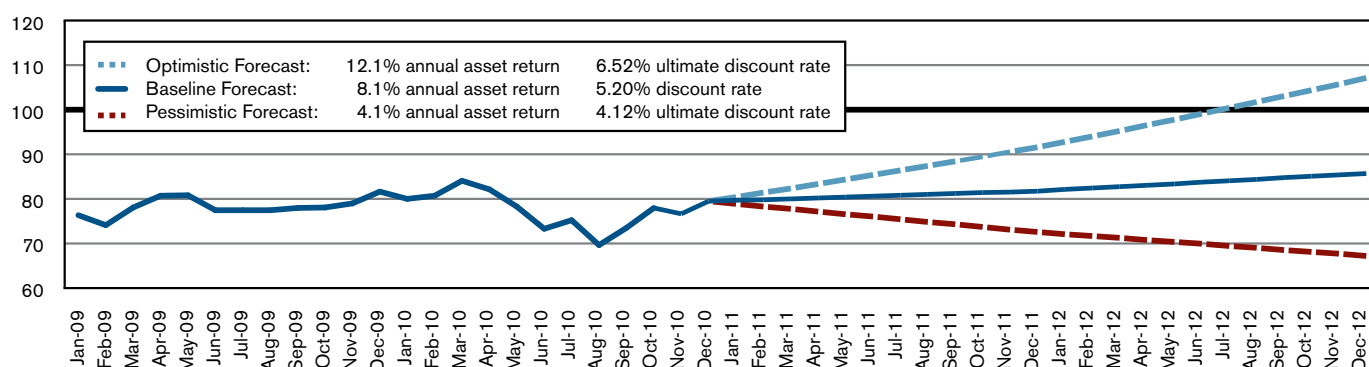
If the Milliman 100 PFI companies were to achieve their 8.1% median 2010 asset return expected for their pension plan portfolios and if the current discount rate of 5.32% were to be maintained during years 2011 and 2012, the funded status of the surveyed plans would increase, resulting in a projected pension deficit of \$261 billion (funded ratio of 82.0%) by the end of 2011 and a projected pension deficit of \$208 billion (funded ratio of 85.9%) 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 would increase by 50% over their 2011 expected level.

Under an optimistic forecast with rising interest rates (reaching 6.52% 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 (4.12% discount rate at the end of 2012 and 4.1% annual returns), the funded ratio would decline to 68% 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 – DECEMBER 2010 (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
DECEMBER	2009	1,094,517	1,336,858	(242,341)	N/A	81.9%
JANUARY	2010	1,077,253	1,342,076	(264,823)	(22,482)	80.3%
FEBRUARY	2010	1,086,106	1,340,106	(254,000)	10,823	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	1,079,880	1,374,430	(294,550)	(54,732)	78.6%
JUNE	2010	1,060,504	1,438,287	(377,783)	(83,233)	73.7%
JULY	2010	1,092,848	1,445,070	(352,222)	25,561	75.6%
AUGUST	2010	1,075,889	1,535,658	(459,769)	(107,547)	70.1%
SEPTEMBER	2010	1,113,983	1,506,537	(392,554)	67,215	73.9%
OCTOBER	2010	1,129,389	1,442,640	(313,251)	79,303	78.3%
NOVEMBER	2010	1,121,006	1,455,919	(334,913)	(21,662)	77.0%
DECEMBER	2010	1,145,447	1,435,901	(290,454)	44,459	79.8%

**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
DECEMBER	2009	0.84%	13.21%	5.80%	-2.02%	13.46%
JANUARY	2010	-1.14%	-1.14%	5.78%	0.78%	0.78%
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	3.52%	3.01%	5.23%	0.81%	10.93%
AUGUST	2010	-1.11%	1.87%	4.78%	6.59%	18.24%
SEPTEMBER	2010	4.00%	5.95%	4.93%	-1.59%	16.36%
OCTOBER	2010	1.82%	7.88%	5.27%	-3.91%	11.81%
NOVEMBER	2010	-0.31%	7.54%	5.20%	1.26%	13.21%
DECEMBER	2010	2.62%	10.36%	5.32%	-1.04%	12.04%

#### 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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