Milliman analysis: Pension plans off to a solid start as funded status improves to 82.2% in January

Defined benefit plan funded status increased by $41 billion thanks to $35 billion liability decrease

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The funded status of the 100 largest corporate defined benefit pension plans improved by $41 billion during January 2011 as measured by the Milliman 100 Pension Funding Index (PFI). The pension funding deficit declined to $250 billion from $291 billion at the end of December 2010, primarily due to an increase in corporate bond interest rates that are the benchmarks used to value pension liabilities. Though not as significant, financial markets also performed well in January. As of January 31, 2011, the funded ratio increased to 82.2%, up from 79.8% at the end of 2010.

January's $6 billion increase in market value brings the Milliman 100 PFI asset value to $1.151 trillion, up from $1.145 trillion at the end of December based on an investment gain of 0.8% for the month. By comparison, the Milliman 2010 Pension Funding Study published in April 2010 reported that the median expected monthly investment return during 2010 on pension assets for the Milliman 100 PFI companies would be 0.65% (8.10% annualized).

The projected benefit obligation (PBO), or pension liabilities, decreased by $35 billion during January, lowering the Milliman 100 PFI value to $1.401 trillion from $1.436 trillion at the end of December. A 20-basis-point improvement increased the monthly discount rate from 5.3 in December to 5.52% in January.

Over the last 12 months (February 2010 – January 2011), the cumulative asset return has been 12.5% and the Milliman 100 PFI funded status has improved by $15 billion. For these 12 months, the funded ratio of the Milliman 100 companies improved from 80.3% to 82.2%.

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) expected for their pension plan portfolios and the current discount rate of 5.52% was maintained during 2011 and 2012, we forecast the funded status of the surveyed plans would increase, resulting in a pension deficit of $223 billion (funded ratio of 84.3%) by the end of 2011 and a projected pension deficit of $168 billion (funded ratio of 88.3%) 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 6.67% by the end of 2012) and asset gains (12.1% annual returns), the funded ratio would climb to 108% by the end of 2012. Under a pessimistic forecast with declining interest rates and depressed asset returns (4.37% discount rate at the end of 2012 and 4.1% annual returns), the funded ratio would decline to 70% by the end of 2012.

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

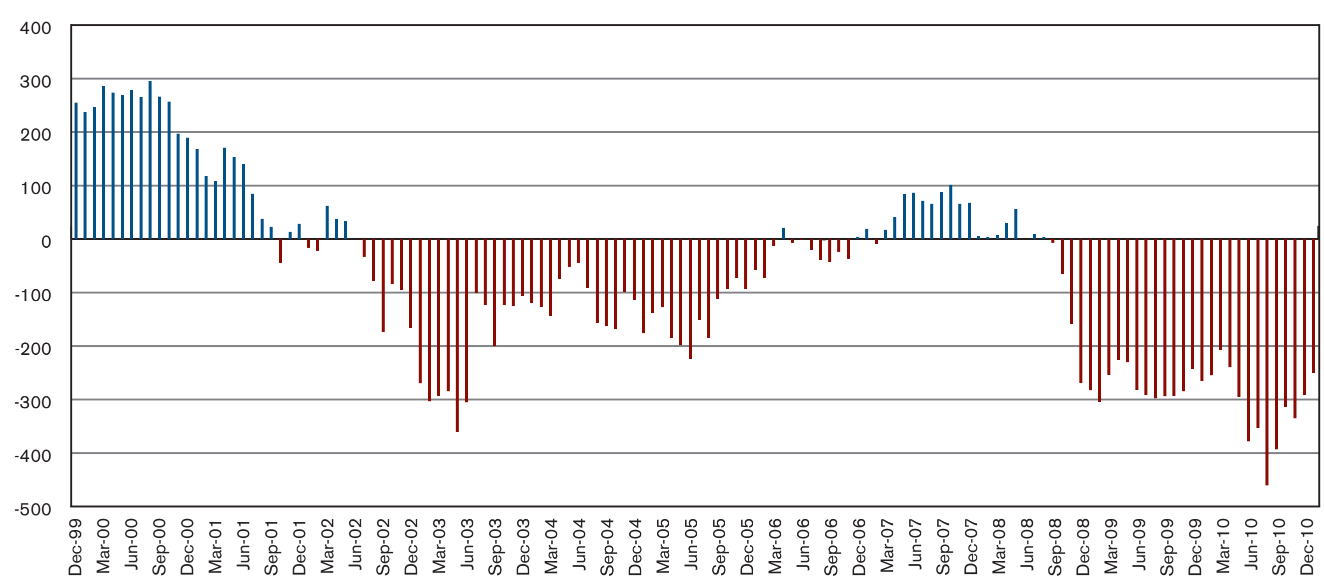
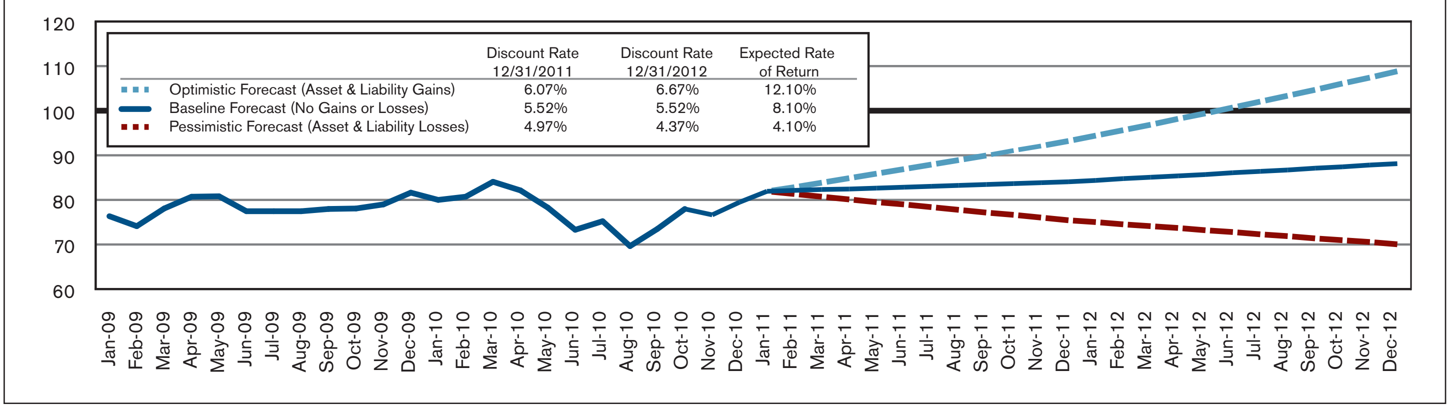


FIGURE 2: MILLIMAN 100 PENSION FUNDING INDEX – PENSION FUNDED RATIO



MILLIMAN 100 PENSION FUNDING INDEX – JANUARY 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
JANUARY	2010	1,077,253	1,342,076	(264,823)	N/A	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%
JANUARY	2011	1,151,249	1,401,042	(249,793)	40,661	82.2%

PENSION ASSET AND LIABILTY RETURNS (ALL DOLLAR AMOUNTS IN MILLIONS)

		ASSET RETURNS			LIABILITY RETURNS	
END OF MONTH	YEAR	MONTHLY	YEAR-TO-DATE	DISCOUNT RATE	MONTHLY	YEAR-TO-DATE
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%
JANUARY	2011	0.82%	0.82%	5.52%	-2.08%	-2.08%

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.

Milliman 100 Pension Funding Index

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