

Milliman Analysis: Corporate pension funded status improves as interest rates rise in March

A \$16 billion decrease in liabilities, while assets remained flat, moves the Milliman 100 Pension Funding Index funded status deficit to \$172 billion



John Ehrhardt, FSA, MAAA, EA
Zorast Wadia, FSA, MAAA, EA

The funded status of the 100 largest corporate defined benefit pension plans improved by \$16 billion during March 2011, as measured by the Milliman 100 Pension Funding Index (PFI). The deficit decreased to \$172 billion from \$188 billion at the end of February 2011.

March's funded status increase was due primarily to an increase in corporate bond interest rates that are the benchmarks used to value pension liabilities. As of March 31, 2011, the funded ratio climbed to 87.8%, up from 86.8% at the end of February 2011. The last time the funded status was this high was prior to November 2008.

The Milliman 100 PFI asset value remained at \$1.233 trillion as of the end of March 2011 as a result of a small investment gain of 0.16% for the month. By comparison, the Milliman 2011 Pension Funding Study published in March 2011 reported that the median expected monthly investment return during 2010 on pension assets for the Milliman 100 PFI companies would be 0.64% (8% annualized).

The projected benefit obligation (PBO), or pension liabilities, decreased by \$16 billion during March, lowering the Milliman 100 PFI value to \$1.405 trillion from \$1.421 trillion at the end of

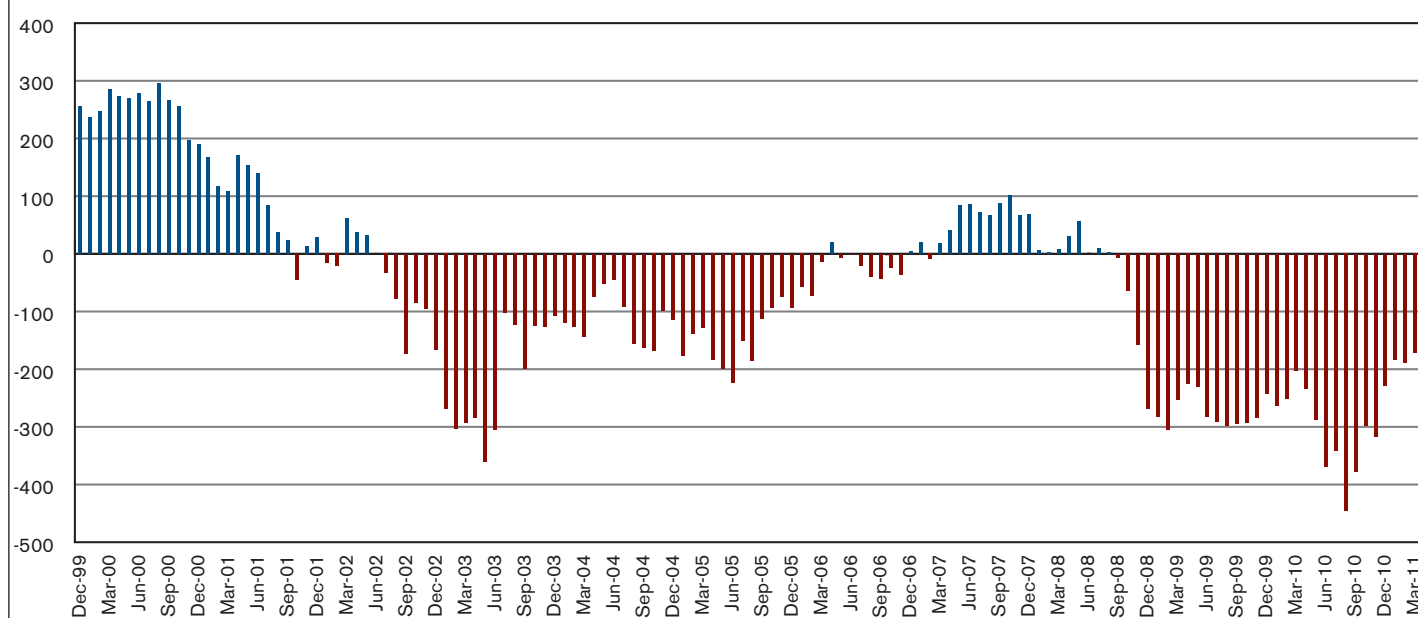
February 2011. The change resulted from an increase of 10 basis points in the monthly discount rate to 5.53% for March, from 5.43% for February 2011.

For the quarter ended March 31, 2011, the assets had a net gain of 2.6%. Since the start of 2011, the funded status has surged by \$56 billion due to a combination of asset gains and interest rate increases. For the first quarter of 2011, the funded ratio of the Milliman 100 companies increased to 87.8% from 84.1%.

Over the last 12 months (April 2010 – March 2011), the cumulative asset return has been 9.7% and the Milliman 100 PFI funded status has increased by \$31 billion. For these 12 months, the funded ratio of the Milliman 100 companies improved to 87.8% from 84.6%.

This month's study reflects the annual update of the Milliman 100 companies and their 2010 financial figures that are included in the Milliman 2011 Pension Funding Study published on March 29, 2011. The actual December 31, 2010 pension liability was \$20 billion less than projected due to slightly higher actual year-end discount rates for the Milliman 100 companies than projected based on changes in interest rates. The actual PFI asset value was \$87 billion higher than projected due to investment gains

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



and \$30 billion of excess contributions made by the Milliman 100 companies during their 2010 fiscal years. The net adjustments based on the results of the Milliman 2011 Pension Funding Study were a funded status gain of \$107 billion and a corresponding increase to the funded ratio, bringing the overall funded status to 84.1% as of December 31, 2010.

2011-2013 PROJECTIONS

If the Milliman 100 PFI companies were to achieve an 8.0% median asset return (as per the 2011 pension funding study) expected for their pension plan portfolios and the current discount rate of 5.53% were to be maintained during years 2011 through 2013, we forecast the funded status of the surveyed plans would increase. This would result in a projected pension deficit of \$128 billion (funded ratio of 90.9%) by the end of 2011, a projected pension deficit of \$68 billion (funded ratio of 95.3%) by the end of 2012, and a projected pension deficit of \$3 billion (funded ratio of 99.8%) by the end of 2013. For purposes of this forecast, we have assumed 2011-2013 aggregate contributions to remain level with 2010 contribution amounts, which were a record \$60 billion.

Under an optimistic forecast with rising interest rates (reaching 6.58% by the end of 2012 and 7.18% by the end of 2013) and asset gains (12% annual returns), the funded ratio would climb

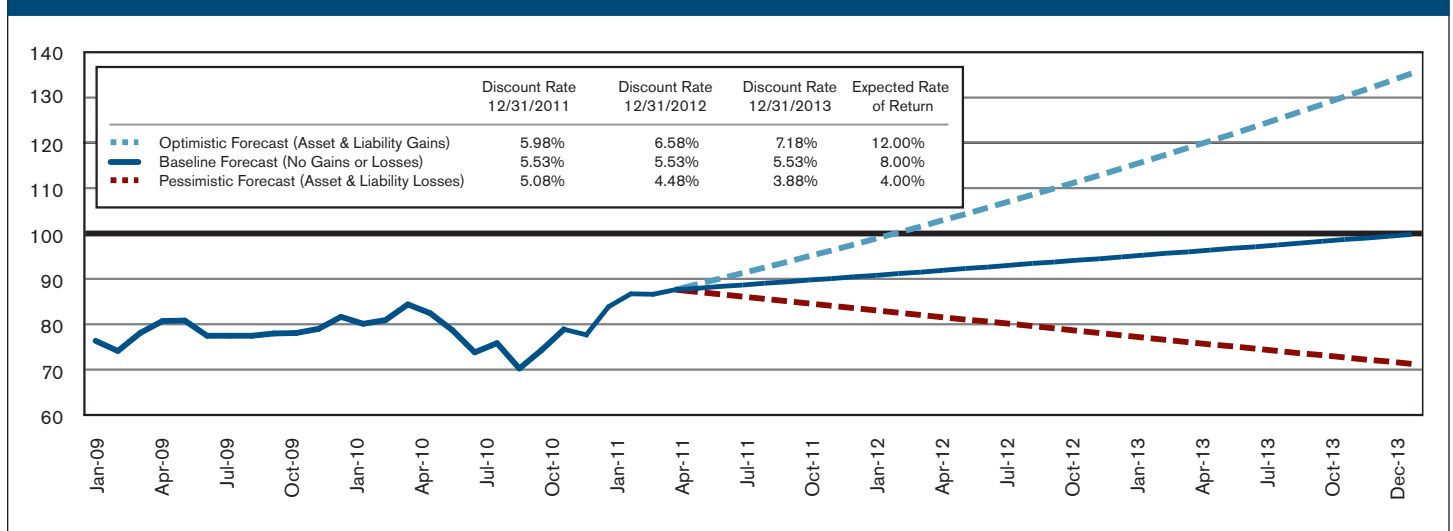
to 116% by the end of 2012 and 135% by the end of 2013. Under a pessimistic forecast with similar interest rate and asset movements (4.48% discount rate at the end of 2012 and 3.88% by the end of 2013 and 4% annual returns), the funded ratio would decline to 77% by the end of 2012 and 72% by the end of 2013.

FOOTNOTE

This March 31 report of the Milliman 100 Pension Funding Index reflects the annual update of the Milliman 100 companies and their 2010 financial figures included in the Milliman 2011 Pension Funding Study published on March 29, 2011. The March 31 Milliman 100 PFI replaces previously published results for January and February 2011 Milliman 100 PFIs and adjusts the monthly projections for 2010 to reflect actual results for 2010. Please go to www.milliman.com to view the Milliman 2011 Pension Funding Study.

John Ehrhardt is a principal and consulting actuary with the New York office of Milliman. Zorast Wadia is a consulting actuary with the New York office of Milliman. Contact them at john.ehrhardt@milliman.com or at 646.473.3000.

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



MILLIMAN 100 PENSION FUNDING INDEX – MARCH 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
MARCH	2010	1,114,949	1,317,346	(202,397)	N/A	84.6%
APRIL	2010	1,120,626	1,354,294	(233,668)	(31,271)	82.7%
MAY	2010	1,079,861	1,366,668	(286,807)	(53,139)	79.0%
JUNE	2010	1,060,466	1,428,546	(368,080)	(81,272)	74.2%
JULY	2010	1,092,791	1,433,658	(340,867)	27,213	76.2%
AUGUST	2010	1,075,832	1,521,806	(445,974)	(105,107)	70.7%
SEPTEMBER	2010	1,113,943	1,491,257	(377,314)	68,659	74.7%
OCTOBER	2010	1,129,348	1,426,392	(297,044)	80,270	79.2%
NOVEMBER	2010	1,121,194	1,437,892	(316,698)	(19,654)	78.0%
DECEMBER	2010	1,208,162	1,436,204	(228,042)	88,656	84.1%
JANUARY	2011	1,215,876	1,399,652	(183,776)	44,266	86.9%
FEBRUARY	2011	1,233,217	1,421,372	(188,155)	(4,379)	86.8%
MARCH	2011	1,233,137	1,404,940	(171,803)	16,352	87.8%

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
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%	5.34%	-1.04%	12.04%
JANUARY	2011	0.80%	0.80%	5.55%	-2.18%	-2.18%
FEBRUARY	2011	1.59%	2.41%	5.43%	1.92%	-0.30%
MARCH	2011	0.16%	2.57%	5.53%	-0.79%	-1.08%

ABOUT THE MILLIMAN 100 MONTHLY PENSION FUNDING INDEX

For the past 11 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 2010 fiscal year and for previous fiscal years. The 2011 Milliman 100 Pension Funding Study was published on March 29, 2011. 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.

The materials in this document represent the opinion of the authors and are not representative of the views of Milliman, Inc. Milliman does not certify the information, nor does it guarantee the accuracy and completeness of such information. Use of such information is voluntary and should not be relied upon unless an independent review of its accuracy and completeness has been performed. Materials may not be reproduced without the express consent of Milliman.

Copyright © 2011 Milliman, Inc.