

Milliman Analysis: Pension Funded Status Declined for Third Consecutive Month



Funded status decreased by \$83 billion during June

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The funded status of the 100 largest corporate defined benefit pension plans deteriorated by \$83 billion during June 2010 as measured by the Milliman 100 Pension Funding Index (PFI). This follows a \$55 billion decrease in funded status during May 2010. The funded status decline was the combined result of poor investment performance coupled with plan liability increases. As of June 30, 2010, the funded ratio fell to 73.7%, down from 78.6% at the end of May 2010. 73.7% is the lowest funded status level since May 31, 2003, and marked the biggest monthly decline in funded status since December 2008.

June's \$19 billion decrease in market value lowers the Milliman 100 PFI asset value to \$1.061 trillion, down from \$1.080 trillion at the end of May 2010. The June 2010 asset performance was a loss of approximately 1.36%. By comparison, the Milliman 2010 Pension Funding Study reported that the median expected monthly investment return on pension assets for the Milliman 100 PFI companies was 0.65% (8.10% annualized).

The projected benefit obligation (PBO), or pension liabilities, increased by \$64 billion during June, moving the Milliman 100 PFI value to \$1.438 trillion from \$1.374 trillion at the end of May 2010. The change resulted from a decrease in the monthly discount rate to 5.26% for June from 5.61% for May 2010.

For the quarter ended June 30, 2010, the cumulative asset performance was a loss of 3.62%. The funded status has fallen by \$171 billion due a combination of asset losses and interest rate declines over the past quarter.

For the second quarter of 2010, the funded ratio of the Milliman 100 companies has fallen to 73.7% from 84.4%.

Over the last 12 months (July 2009 to June 2010), the cumulative asset return has been 10.37%; however, the Milliman 100 PFI funded status has decreased by \$96 billion, due primarily to lower trending discount rates. For these 12 months, the funded ratio of the Milliman 100 companies decreased to 73.7% from 77.8%

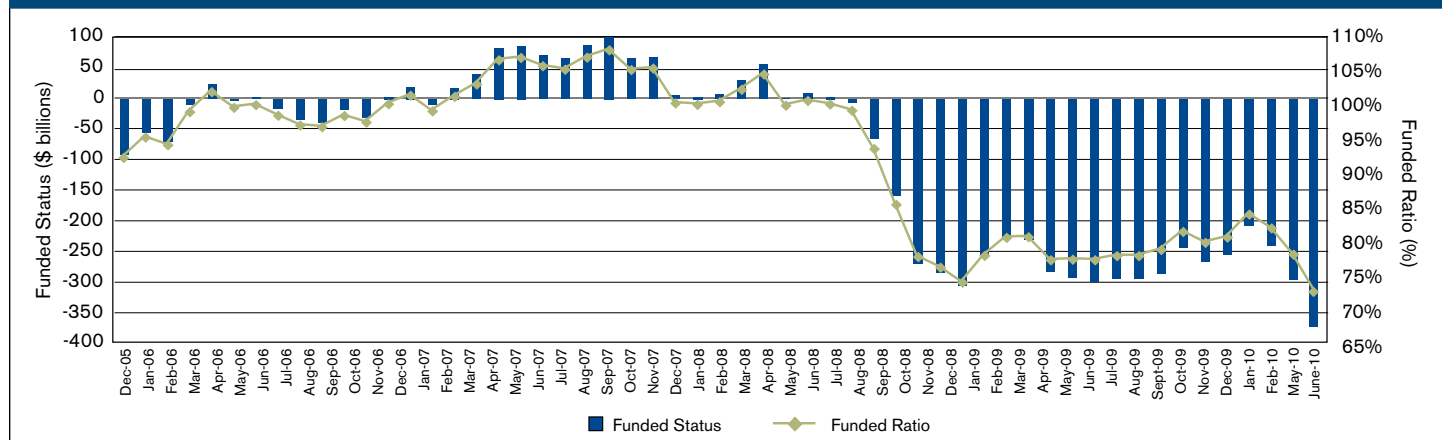
WHAT TO EXPECT FOR THE REST OF 2010

If the Milliman PFI 100 companies were to achieve their 8.1% median asset return expected for their pension plan portfolios for 2010 and the current discount rate of 5.26% were maintained for the balance of 2010, we forecast the funded status of the surveyed plans would increase, with a projected pension deficit of \$374 billion and a funded ratio of 74.2%. Asset returns of 25.6% for the remaining six months of 2010 (equivalent to a compounded annual return of 57.8%) would be needed to achieve a funded ratio of 80% and a projected deficit of \$289 billion at the end of the year.

As we send out this monthly publication, we acknowledge the passage of the recent pension relief legislation signed by the President on June 25. At this time, the effect of the relief provisions is uncertain. For a summary of the relief provisions, please see Milliman's Client Action Bulletin 10-11R at <http://publications.milliman.com/periodicals/cab/pdfs/CAB06-30-10-pension-funding-relief.pdf>.

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FIGURE 1: MILLIMAN 100 PENSION FUNDING INDEX PENSION SURPLUS/DEFICIT AND PENSION FUNDED RATIO



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 – JUNE 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
JUNE	2009	985,979	1,267,937	(281,958)	(51,767)	77.8%
JULY	2009	1,022,662	1,313,632	(290,970)	(9,011)	77.8%
AUGUST	2009	1,041,268	1,338,854	(297,586)	(6,616)	77.8%
SEPTEMBER	2009	1,061,820	1,355,330	(293,510)	4,076	78.3%
OCTOBER	2009	1,059,167	1,351,750	(292,583)	927	78.4%
NOVEMBER	2009	1,085,193	1,369,289	(284,096)	8,487	79.3%
DECEMBER	2009	1,094,517	1,336,858	(242,341)	41,755	81.9%
JANUARY	2010	1,077,253	1,342,076	(264,823)	(22,482)	80.3%
FEBRUARY	2010	1,086,161	1,340,106	(253,945)	10,878	81.1%
MARCH	2010	1,115,061	1,321,830	(206,769)	47,176	84.4%
APRIL	2010	1,120,814	1,360,444	(239,630)	(32,861)	82.4%
MAY	2010	1,080,024	1,374,430	(294,406)	(54,776)	78.6%
JUNE	2010	1,060,500	1,438,287	(377,787)	(83,381)	73.7%

PENSION ASSETS (ALL DOLLAR AMOUNTS IN MILLIONS)

END OF MONTH	YEAR	CHANGE IN MARKET VALUE OF ASSETS		ASSET RETURNS	
		MONTHLY	YEAR-TO-DATE	MONTHLY	YEAR-TO-DATE
JUNE	2009	(1,403)	18,964	-0.14%	2.08%
JULY	2009	36,683	55,647	3.72%	5.87%
AUGUST	2009	18,606	74,253	1.81%	7.79%
SEPTEMBER	2009	20,552	94,805	1.96%	9.90%
OCTOBER	2009	(2,653)	92,152	-0.27%	9.60%
NOVEMBER	2009	26,026	118,178	2.44%	12.27%
DECEMBER	2009	9,324	127,502	0.84%	13.21%
JANUARY	2010	(17,264)	(17,264)	-1.14%	-1.14%
FEBRUARY	2010	8,908	(8,356)	1.28%	0.13%
MARCH	2010	28,900	20,544	3.12%	3.25%
APRIL	2010	5,753	26,297	0.95%	4.24%
MAY	2010	(40,790)	(14,493)	-3.21%	0.89%
JUNE	2010	(19,524)	(34,017)	-1.36%	-0.49%

PENSION LIABILITIES (PBO) (ALL DOLLAR AMOUNTS IN MILLIONS)

END OF MONTH	YEAR	DISCOUNT RATE	LIABILITY RETURNS		CHANGE IN PBO	
			MONTHLY	YEAR-TO-DATE	MONTHLY	YEAR-TO-DATE
JUNE	2009	6.01%	4.56%	5.35%	50,363	32,139
JULY	2009	5.57%	3.99%	9.56%	45,694	77,834
AUGUST	2009	5.34%	2.29%	12.06%	25,222	103,056
SEPTEMBER	2009	5.20%	1.59%	13.84%	16,476	119,532
OCTOBER	2009	5.24%	0.09%	13.94%	(3,580)	115,952
NOVEMBER	2009	5.09%	1.64%	15.81%	17,539	133,491
DECEMBER	2009	5.40%	-2.02%	13.46%	(32,431)	101,060
JANUARY	2010	5.78%	0.78%	0.78%	5,218	5,218
FEBRUARY	2010	5.79%	0.24%	1.02%	(1,970)	3,248
MARCH	2010	5.92%	-0.97%	0.04%	(18,276)	(15,028)
APRIL	2010	5.69%	3.31%	3.35%	38,614	23,586
MAY	2010	5.61%	1.40%	4.80%	13,986	37,572
JUNE	2010	5.26%	5.00%	10.04%	63,857	101,429

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