

Milliman Analysis: Pension Funded Status Up After Three Consecutive Months of Declines

Funded status increased by \$25 billion during July



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The funded status of the 100 largest corporate defined benefit pension plans improved by \$25 billion during July 2010 as measured by the Milliman 100 Pension Funding Index (PFI), the first such monthly increase since March 2010. The funded status had deteriorated by \$138 billion during May and June 2010. The funded status increase was primarily due to a robust performance by the financial markets. As of July 31, 2010, the funded ratio rose to 75.6%, up from 73.7% at the end of June 2010.

July's \$32 billion increase in market value raises the Milliman 100 PFI asset value to \$1.093 trillion, up from \$1.061 trillion at the end of June 2010. The monthly asset return was 3.51%. 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 \$7 billion during July, moving the Milliman 100 PFI value to \$1.445 trillion from \$1.438 trillion at the end of June 2010. The change resulted from a decrease in the monthly discount rate to 5.23% for July (from 5.26% for June 2010).

Over the last 12 months (August 2009 to July 2010), the cumulative asset return has been 10.2%; however, the Milliman 100 PFI funded status has

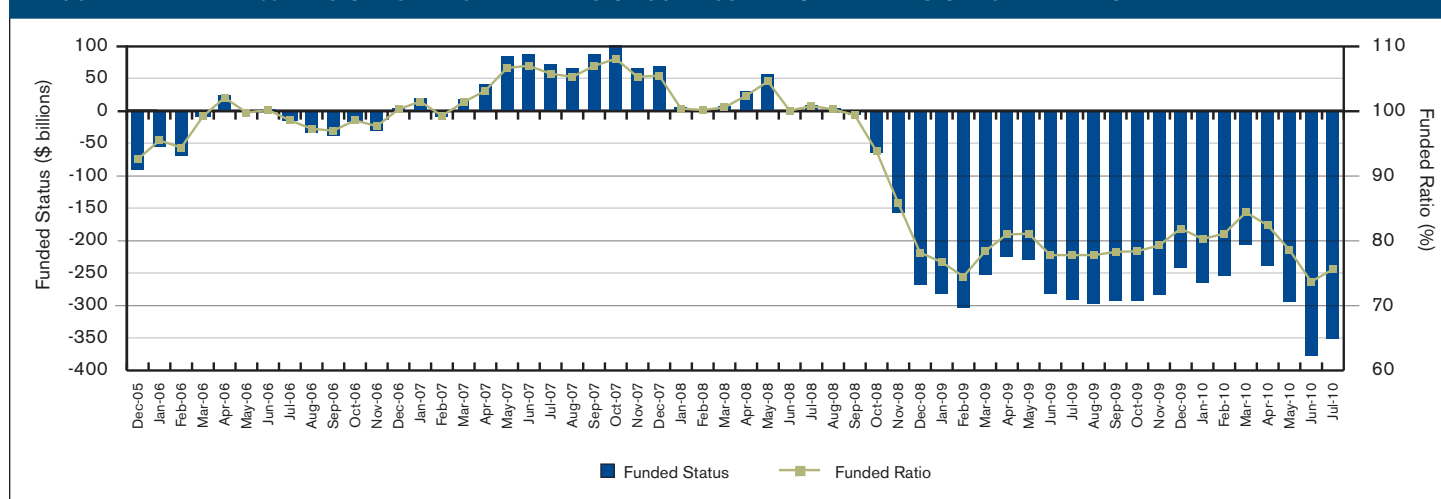
decreased by \$61 billion, due primarily to lower trending discount rates. For these 12 months, the funded ratio of the Milliman 100 companies changed from 77.8% to 75.6%.

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 5.23% were maintained for the balance of 2010, we forecast the funded status of the surveyed plans would increase, with a projected pension deficit of \$348 billion and a funded ratio of 76.0%. If asset returns were to increase/decrease by 200 basis points for the remainder of the year compared to the median asset return expectation of 8.1%, the projected year end funded status would increase/decrease by approximately \$9 billion. If discount rates were to increase/decrease by 25 basis points by the end of the year relative to the current discount rate of 5.23%, the projected year end funded status would decrease/increase by approximately \$46 billion.

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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 – JULY 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
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	1,060,610	1,438,287	(377,677)	(83,271)	73.7%
JULY	2010	1,092,905	1,445,070	(352,165)	25,512	75.6%

PENSION ASSETS (ALL DOLLAR AMOUNTS IN MILLIONS)

END OF MONTH	YEAR	CHANGE IN MARKET MONTHLY	VALUE OF ASSETS YEAR-TO-DATE	ASSET RETURNS MONTHLY	ASSET RETURNS YEAR-TO-DATE
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	(19,414)	(33,907)	-1.35%	-0.48%
JULY	2010	32,295	(1,612)	3.51%	3.02%

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

END OF MONTH	YEAR	DISCOUNT RATE	LIABILITY RETURNS MONTHLY	LIABILITY RETURNS YEAR-TO-DATE	CHANGE IN PBO MONTHLY	CHANGE IN PBO YEAR-TO-DATE
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
JULY	2010	5.23%	0.81%	10.93%	6,783	108,212

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