

Milliman Analysis: A second consecutive month of pension gains



Funded status increased by \$79 billion during October
Forecast for end of years 2011 and 2012

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

The funded status of the 100 largest corporate defined benefit pension plans improved by \$79 billion during October 2010 as measured by the Milliman 100 Pension Funding Index (PFI). The deficit declined to \$313 billion from \$393 billion in September. The funded status improvement was due to strong investment performance coupled with an increase in interest rates. October's gains mark the second consecutive month of improved pension funded status following the historic deficit of \$460 billion (funded ratio of 70.1%) at the end of August. As of October 31, 2010, the funded ratio climbed to 78.3% from 73.9%, the largest two-month increase in the funded ratio since 2003.

October's \$15 billion increase in market value brings the Milliman 100 PFI asset value to \$1.129 trillion, up from \$1.114 trillion at the end of September 2010. The monthly asset return was 1.82%. By comparison, the Milliman 2010 Pension Funding Study published in April 2010 reported that the surveyed companies' 2010 median expected monthly investment return on pension assets was 0.65% (8.10% annualized).

The projected benefit obligation (PBO), or pension liabilities, decreased by \$64 billion during October, reducing the Milliman 100 PFI liability value to \$1.443 trillion (down from \$1.507 trillion at the end of September). As was the case in September, increases in the monthly discount rate drove the change—October ended with a 5.27% discount rate, a 34 basis point improvement. Since the historic low in August, this rate has increased by a total of 49 basis points, or almost one-half of 1%. For a pension plan with a liability duration of 12, a 49 basis point increase could reduce the PBO by approximately 6%.

Over the last 12 months (November 2009–October 2010), the cumulative asset return has been 11.43% and the Milliman 100 PFI funded status has decreased by

\$21 billion, due primarily to the recent lower trending discount rates. The funded status deficit as of October 31, 2010 is \$313 billion compared to the \$292 billion deficit as of one year ago. For the past 12 months, the funded ratio of the Milliman 100 companies dropped slightly to 78.3% from 78.4%.

2011-2012 PROJECTIONS

If the Milliman PFI 100 companies were to achieve their 8.1% median asset return expected for their pension plan portfolios and the current discount rate of 5.27% were maintained during years 2011 and 2012, we forecast the funded status of the surveyed plans would increase, with a projected pension deficit of \$283 billion (and a funded ratio of 80.7%) by the end of 2011 and a projected pension deficit of \$230 billion (a funded ratio of 84.5%) 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 will increase by 50% over their 2011 expected level.

Under an optimistic forecast with rising interest rates (reaching 6.57% 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 (3.97% discount rate at the end of 2012 and 4.1% returns), the funded ratio would decline to 65% by the end of 2012.

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 1: MILLIMAN 100 PENSION FUNDING INDEX PENSION SURPLUS/DEFICIT

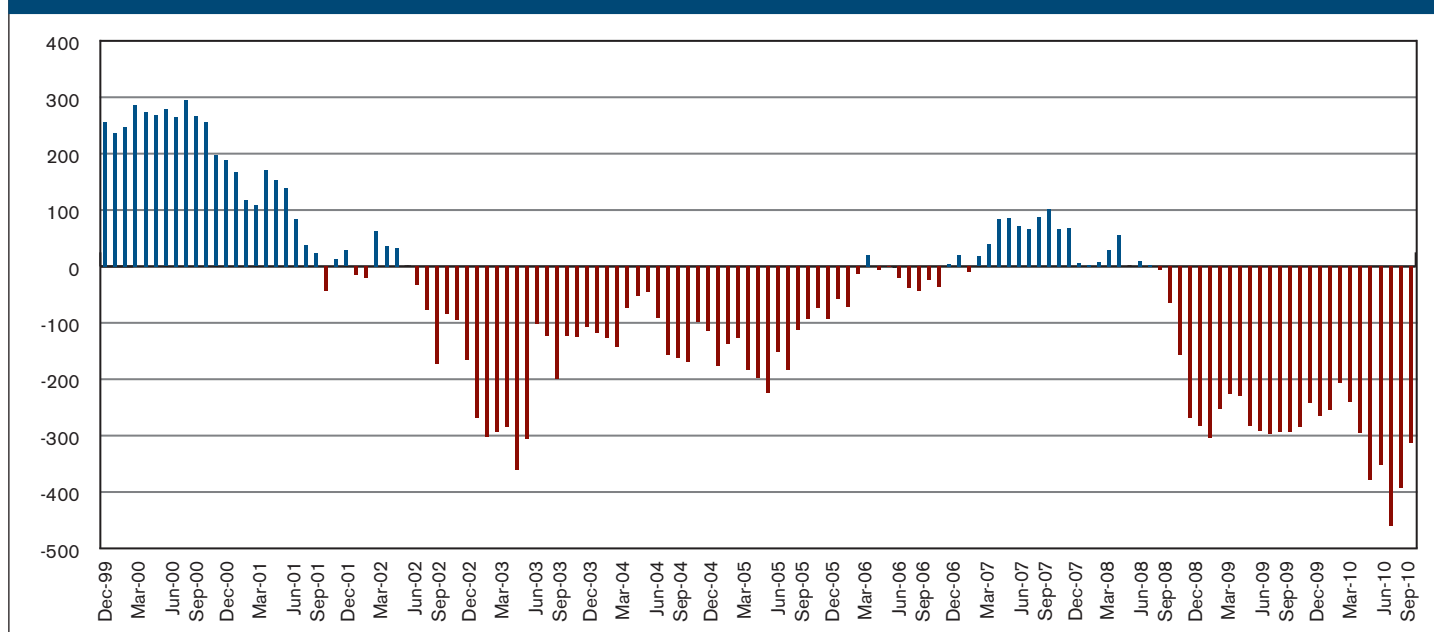
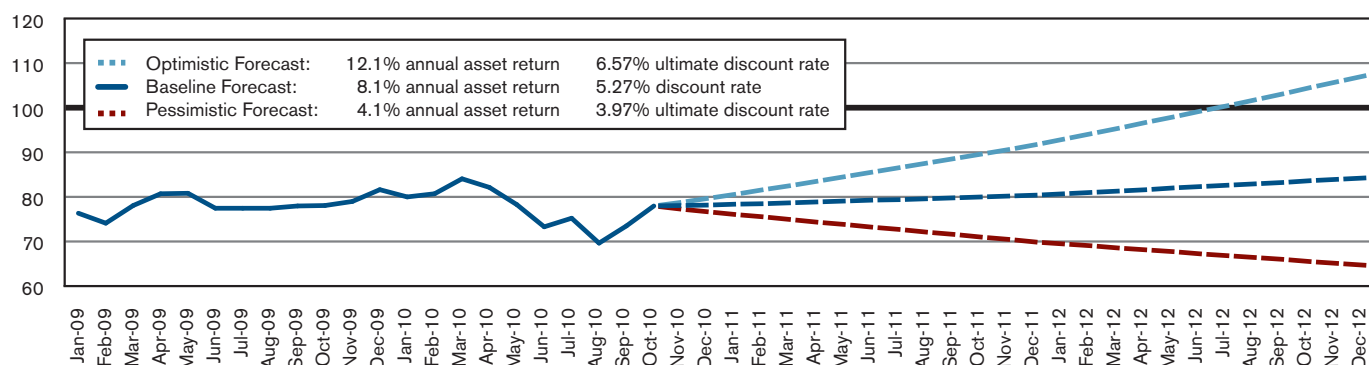


FIGURE 2: MILLIMAN 100 PENSION FUNDING INDEX – PENSION FUNDED RATIO

MILLIMAN 100 PENSION FUNDING INDEX – OCTOBER 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
OCTOBER	2009	1,059,167	1,351,750	(292,583)	N/A	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	1,086,106	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	1,075,870	1,535,658	(459,788)	(107,566)	70.1%
SEPTEMBER	2010	1,113,965	1,506,537	(392,572)	67,216	73.9%
OCTOBER	2010	1,129,371	1,442,640	(313,269)	79,303	78.3%

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
OCTOBER	2009	-0.27%	9.60%	5.24%	0.09%	13.94%
NOVEMBER	2009	2.44%	12.27%	5.09%	1.64%	15.81%
DECEMBER	2009	0.84%	13.21%	5.40%	-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%

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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Milliman 100 Pension Funding Index

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

One Pennsylvania Plaza, 38th Floor
New York, NY 10119
+1 646 473 3000
www.milliman.com