

## Milliman Analysis: Corporate pension funded status falls as interest rates drop in May

A \$26 billion increase in liabilities and flat asset performance increases funded status deficit to \$210 billion



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

The funded status of the 100 largest corporate defined benefit pension plans worsened by \$26 billion during May 2011, as measured by the Milliman 100 Pension Funding Index (PFI). May's funded status erosion was due primarily to a decrease in corporate bond interest rates that are the benchmarks used to value pension liabilities. As of May 31, the funded ratio fell to 85.6%, down from 87.2% at the end of April, increasing the funded status deficit to \$210 billion. Although, this was the first time the deficit crossed the \$200 billion threshold since December 2010, it still paled in comparison to the \$446 billion nadir witnessed at the end of August 2010.

The Milliman 100 PFI asset value remained at \$1.252 trillion as a result of a small investment gain of 0.12% for the month and due to assumed benefit payments in excess of assumed contributions. By comparison, the Milliman 2011 Pension Funding Study, published in March 2011, reported a 0.64% (8.00% annualized) median expected monthly investment return during 2010.

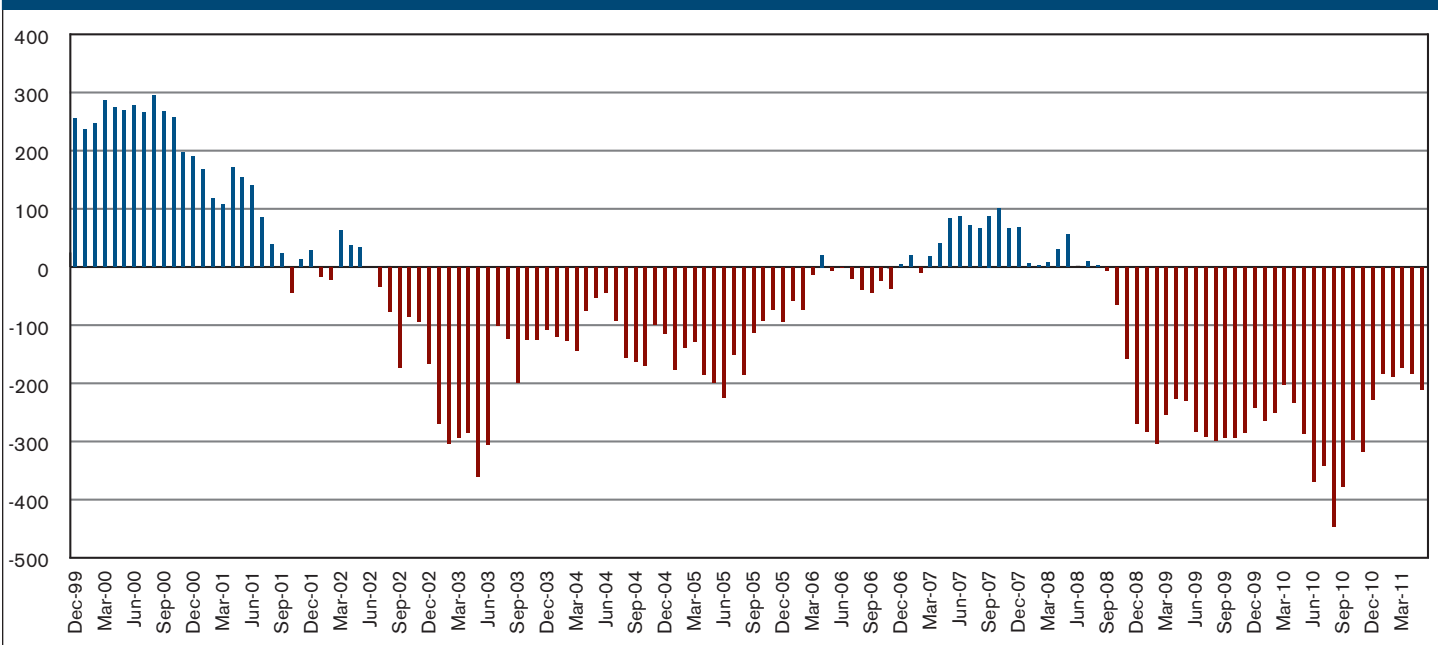
The projected benefit obligation (PBO), or pension liabilities, increased by \$26 billion during May, moving the Milliman 100 PFI value to \$1.462 trillion. The change resulted from a decrease of 13 basis points in the monthly discount rate to 5.24% for May, from 5.37% for April.

Over the last 12 months (June 2010 – May 2011), the cumulative asset return has been 14.3% and the Milliman 100 PFI funded status has increased by \$77 billion. For these 12 months, the funded ratio of the Milliman 100 companies improved to 85.6% from 79.0%.

### 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 if the current discount rate of 5.24% were maintained from 2011 through 2013, we forecast a projected pension deficit of \$176 billion (funded ratio of 88.0%) by

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



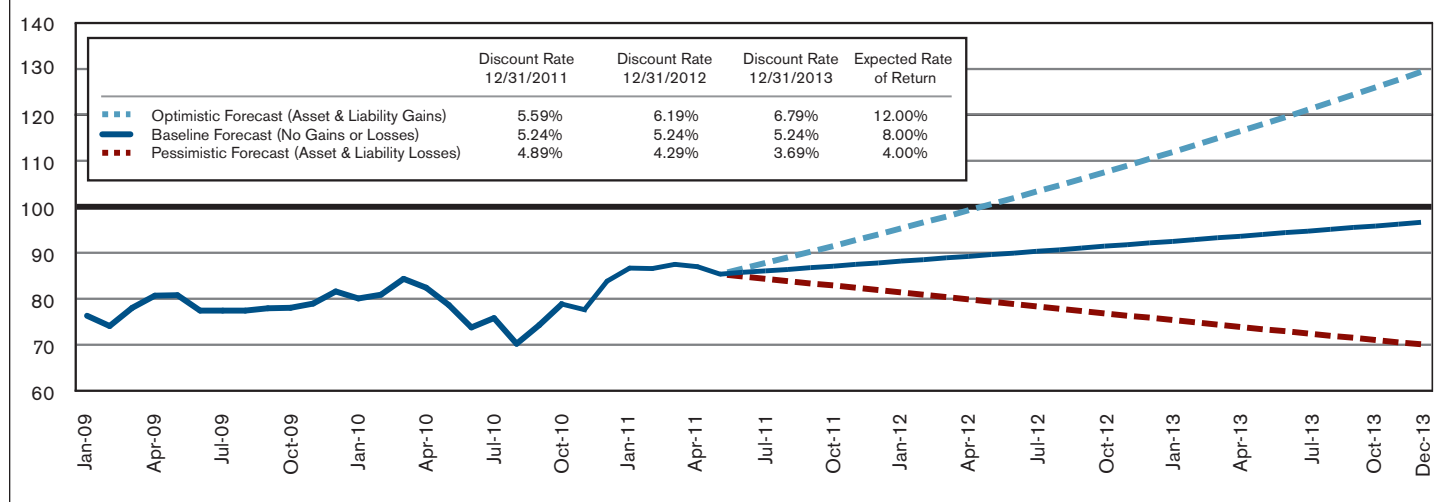
the end of 2011, a projected pension deficit of \$115 billion (funded ratio of 92.3%) by the end of 2012, and a projected pension deficit of \$50 billion (funded ratio of 96.7%) by the end of 2013. For purposes of this forecast, we have assumed 2011-2013 aggregate contributions to remain level with 2010 contribution amounts, which were a record \$60 billion.

Under an optimistic forecast with rising interest rates (reaching 6.19% by the end of 2012 and 6.79% by the end of 2013) and asset gains (12.0% annual returns), the funded ratio would climb

to 110% by the end of 2012 and to 129% by the end of 2013. Under a pessimistic forecast (4.29% discount rate at the end of 2012 and 3.69% by the end of 2013 and 4.0% annual returns), the funded ratio would decline to 76% by the end of 2012 and to 70% by the end of 2013.

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](mailto:john.ehrhardt@milliman.com) or at 646.473.3000.

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



#### 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 than 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 – MAY 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
MAY	2010	1,079,861	1,366,668	(286,807)	N/A	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	1,208,155	1,436,204	(228,049)	88,649	84.1%
JANUARY	2011	1,215,845	1,399,652	(183,807)	44,242	86.9%
FEBRUARY	2011	1,233,162	1,421,372	(188,210)	(4,403)	86.8%
MARCH	2011	1,232,481	1,404,940	(172,459)	15,751	87.7%
APRIL	2011	1,252,395	1,436,117	(183,722)	(11,263)	87.2%
MAY	2011	1,251,862	1,462,019	(210,157)	(26,435)	85.6%

**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
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%	2.40%	5.43%	1.92%	-0.30%
MARCH	2011	0.11%	2.51%	5.53%	-0.79%	-1.08%
APRIL	2011	1.78%	4.34%	5.37%	2.58%	1.48%
MAY	2011	0.12%	4.46%	5.24%	2.16%	3.66%

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