

Milliman analysis: Pension funded status declines by \$17 billion in August

The funding deficit for the 100 largest corporate pensions reaches \$298 billion

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The funded status of the 100 largest corporate defined benefit pension plans decreased by \$17 billion during August as measured by the Milliman 100 Pension Funding Index (PFI). The funded status deficit swelled to \$298 billion from \$281 billion at the end of July due to a decrease in the benchmark corporate bond interest rates used to value pension liabilities. The funded status decline was only partially offset by a 0.85% investment gain and a \$7 billion increase in pension assets. As of August 31, the funded ratio fell to 83.0%, down from 83.8% at the end of July. The funded ratio is now below the mark at the start of the year of 83.3%.

The projected benefit obligation (PBO) increased by \$25 billion during August, raising the Milliman 100 PFI liability value to \$1.757 trillion from \$1.732 trillion at the end of July. The change resulted from a decrease of 11 basis points in the monthly discount rate to 3.60% for August, from 3.71% in July.

August's 0.85% investment return raised the Milliman 100 PFI asset value to \$1.459 trillion. By comparison, the 2017 Milliman Pension Funding Study reported that the monthly median expected investment return during 2016 was 0.57% (7.0% annualized).

HIGHLIGHTS

	\$ BILLION			
	MV	PBO	FUNDED STATUS	FUNDED PERCENTAGE
JUL 2017	1,452	1,732	(281)	83.8%
AUG 2017	1,459	1,757	(298)	83.0%
MONTHLY CHANGE	+7	+25	(17)	-0.8%
YTD CHANGE	+62	+81	(18)	-0.3%

Note: Numbers may not add up precisely due to rounding

Over the last 12 months (September 2016 – August 2017), the cumulative asset return for these pensions has been 7.53% and the Milliman 100 PFI funded status deficit has improved by \$126 billion. Discount rates experienced an increase over the last 12 months moving from 3.32% as of August 31, 2016, to 3.60% a year later. The funded ratio of the Milliman 100 companies has increased over the past 12 months to 83.0% from 77.0%.

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

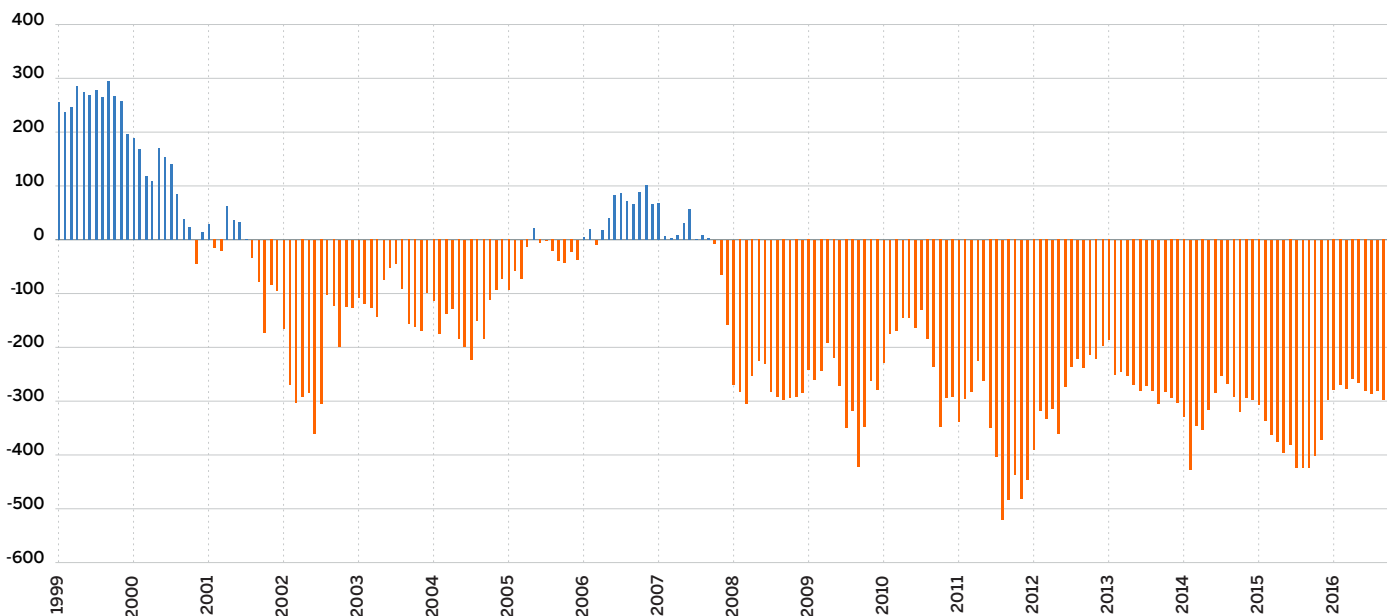
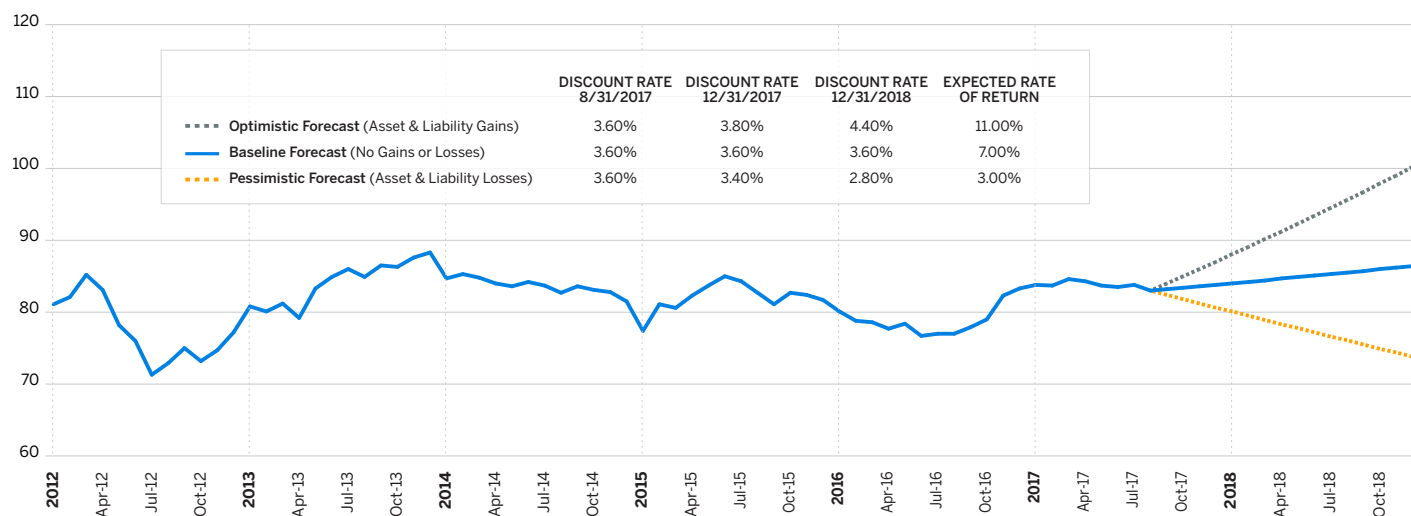


FIGURE 2: MILLIMAN 100 PENSION FUNDING INDEX — PENSION FUNDED RATIO

2017-2018 Projections

If the Milliman 100 PFI companies were to achieve the expected 7.0% median asset return (as per the 2017 pension funding study), and if the current discount rate of 3.60% was maintained during years 2017 and 2018, we forecast the funded status of the surveyed plans would increase. This would result in a projected pension deficit of \$284 billion (funded ratio of 83.8%) by the end of 2017 and a projected pension deficit of \$238 billion (funded ratio of 86.4%) by the end of 2018. For purposes of this forecast, we have assumed 2017 aggregate contributions of \$36 billion and 2018 aggregate contributions of \$39 billion.

Under an optimistic forecast with rising interest rates (reaching 3.80% by the end of 2017 and 4.40% by the end of 2018) and asset gains (11.0% annual returns), the funded ratio would climb to 87% by the end of 2017 and 100% by the end of 2018. Under a pessimistic forecast with similar interest rate and asset movements (3.40% discount rate at the end of 2017 and 2.80% by the end of 2018 and 3.0% annual returns), the funded ratio would decline to 81% by the end of 2017 and 74% by the end of 2018.

About the Milliman 100 Monthly Pension Funding Index

For the past 17 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 2016 fiscal year and for previous fiscal years. This pension plan accounting disclosure information was summarized as part of the Milliman 2017 Pension Funding Study, which was published on April 6, 2017. 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.

CONTACT

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MILLIMAN 100 PENSION FUNDING INDEX — AUGUST 2017 (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
AUGUST	2016	1,417,124	1,840,697	(423,573)	N/A	77.0%
SEPTEMBER	2016	1,412,760	1,813,686	(400,926)	22,647	77.9%
OCTOBER	2016	1,394,862	1,765,970	(371,108)	29,818	79.0%
NOVEMBER	2016	1,384,985	1,682,326	(297,341)	73,767	82.3%
DECEMBER	2016	1,396,661	1,676,182	(279,521)	17,820	83.3%
JANUARY	2017	1,403,106	1,673,506	(270,400)	9,121	83.8%
FEBRUARY	2017	1,421,420	1,697,625	(276,205)	(5,805)	83.7%
MARCH	2017	1,422,044	1,680,752	(258,708)	17,497	84.6%
APRIL	2017	1,431,678	1,697,629	(265,951)	(7,243)	84.3%
MAY	2017	1,442,861	1,723,815	(280,954)	(15,003)	83.7%
JUNE	2017	1,442,114	1,727,929	(285,815)	(4,861)	83.5%
JULY	2017	1,451,708	1,732,259	(280,551)	5,264	83.8%
AUGUST	2017	1,458,881	1,756,836	(297,955)	(17,404)	83.0%

PENSION ASSET AND LIABILITY RETURNS

END OF MONTH	YEAR	ASSET RETURNS		DISCOUNT RATE	LIABILITY RETURNS	
		MONTHLY	YEAR-TO-DATE		MONTHLY	YEAR-TO-DATE
AUGUST	2016	0.27%	6.19%	3.32%	0.44%	13.93%
SEPTEMBER	2016	0.06%	6.25%	3.42%	-0.99%	12.81%
OCTOBER	2016	-0.90%	5.29%	3.61%	-2.14%	10.39%
NOVEMBER	2016	-0.34%	4.93%	3.98%	-4.24%	5.71%
DECEMBER	2016	1.22%	6.21%	3.99%	0.16%	5.88%
JANUARY	2017	0.83%	0.83%	4.00%	0.19%	0.19%
FEBRUARY	2017	1.68%	2.52%	3.88%	1.79%	1.98%
MARCH	2017	0.41%	2.94%	3.96%	-0.65%	1.32%
APRIL	2017	1.04%	4.01%	3.88%	1.35%	2.68%
MAY	2017	1.14%	5.20%	3.76%	1.88%	4.61%
JUNE	2017	0.31%	5.52%	3.74%	0.57%	5.21%
JULY	2017	1.02%	6.61%	3.71%	0.58%	5.82%
AUGUST	2017	0.85%	7.51%	3.60%	1.74%	7.66%