

Milliman analysis: Corporate pension funded status drops by \$16 billion in July



Discount rates decline and reduce the funded ratio to 84.8%

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The funded status of the 100 largest corporate defined benefit pension plans worsened by \$16 billion during July as measured by the Milliman 100 Pension Funding Index (PFI). The deficit rose to \$261 billion primarily due to a decrease in the benchmark corporate bond interest rates used to value pension liabilities. Pension asset gains during July helped to dampen the funded status decrease. As of July 31, the funded ratio declined to 84.8%, down from 85.5% at the end of June. This breaks the upward momentum from the second quarter of 2015 where the funded ratio had increased for three consecutive months.

The projected benefit obligation (PBO), or pension liabilities, increased by \$16 billion during July, raising the Milliman 100 PFI value to \$1.718 trillion from \$1.692 trillion at the end of June. The PBO change resulted from a decrease of 11 basis points in the monthly discount rate to 4.14% for July, from 4.25% for June.

The market value of assets increased by \$10 billion as a result of July's investment gain of 1.07%. The Milliman 100 PFI asset value increased to \$1.457 trillion from \$1.447 trillion at the end of June. By comparison, the 2015 Milliman Pension Funding Study reported

	\$ BILLION			FUNDED PERCENTAGE
	MV	PBO	FUNDED STATUS	
JUN 2015	1,447	1,692	(246)	85.5%
JUL 2015	1,457	1,718	(261)	84.8%
MONTHLY CHANGE	+10	+26	(16)	-0.7%
YTD CHANGE	+2	(66)	+68	3.3%

Note: Numbers may not add up precisely due to rounding

that the monthly median expected investment return during 2014 was 0.59% (7.3% annualized).

Over the last 12 months (Aug 2014 – July 2015), the cumulative asset return for these pensions has been 6.5% and the Milliman 100 PFI funded status deficit has improved by \$19 billion. The rise in funded status over the past 12 months is primarily due to increases in discount rates experienced throughout much of 2015 after initially beginning the year below the 4.00% mark. The funded ratio of the Milliman 100 companies has improved over the past 12 months to 84.8% from 83.7%.

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

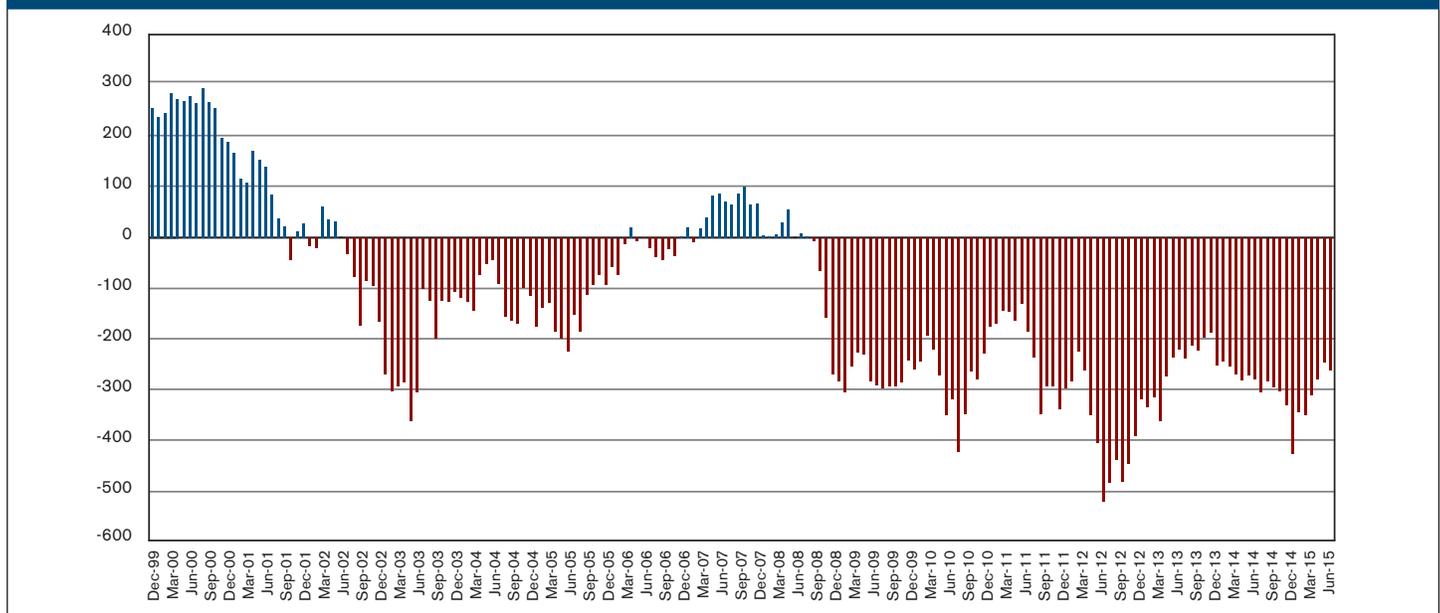
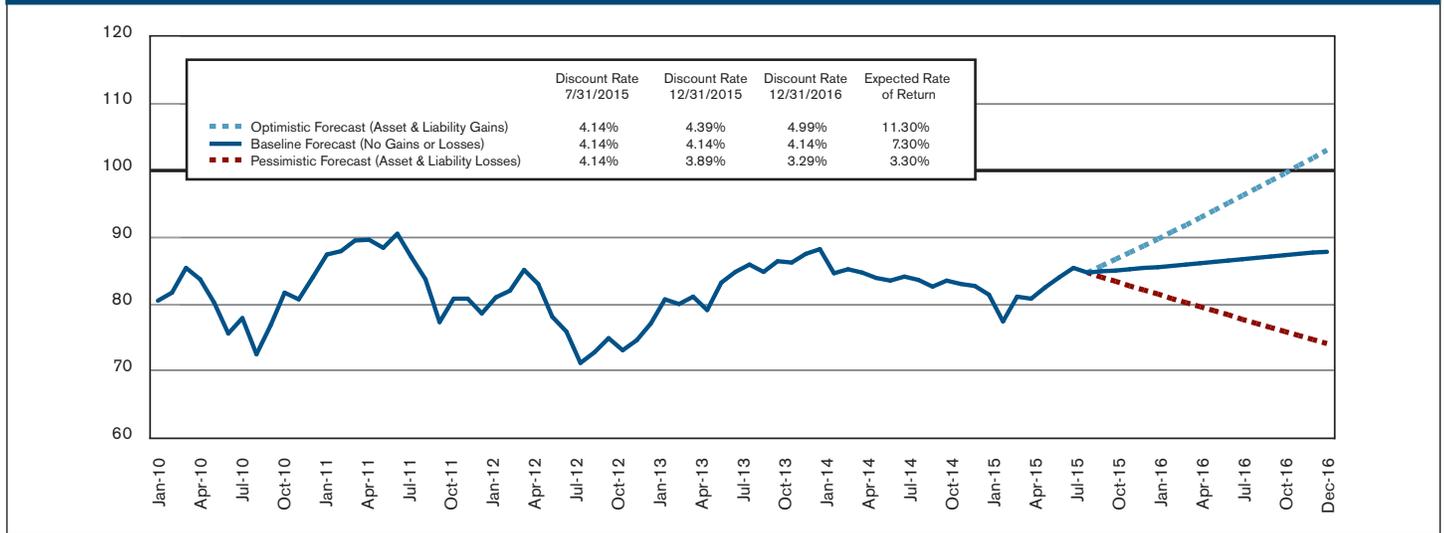


FIGURE 2: MILLIMAN 100 PENSION FUNDING INDEX – PENSION FUNDED RATIO



2015-2016 PROJECTIONS

If the Milliman 100 PFI companies were to achieve the expected 7.3% (as per the 2015 pension funding study) median asset return for their pension plan portfolios and the current discount rate of 4.14% was maintained during years 2015 and 2016, we forecast the funded status of the surveyed plans would increase. This would result in a projected pension deficit of \$247 billion (funded ratio of 85.6%) by the end of 2015 and a projected pension deficit of \$208 billion (funded ratio of 87.9%) by the end of 2016. For purposes of this forecast, we have assumed 2015 aggregate contributions of \$32 billion and 2016 aggregate contributions of \$36 billion.

Under an optimistic forecast with rising interest rates (reaching 4.39% by the end of 2015 and 4.99% by the end of 2016) and asset gains (11.3% annual returns), the funded ratio would climb to 90% by the end of 2015 and 103% by the end of 2016. Under a pessimistic forecast with similar interest rate and asset movements (3.89% discount rate at the end of 2015 and 3.29% by the end of 2016 and 3.3% annual returns), the funded ratio would decline to 82% by the end of 2015 and 74% by the end of 2016.

ABOUT THE MILLIMAN 100 MONTHLY PENSION FUNDING INDEX

For the past 15 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 2014 fiscal year and for previous fiscal years. This pension plan accounting disclosure information was summarized as part of the Milliman 2015 Pension Funding Study, which was published on April 2, 2015. 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.

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MILLIMAN 100 PENSION FUNDING INDEX – JULY 2015 (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	2014	1,433,889	1,713,759	(279,870)	N/A	83.7%
AUGUST	2014	1,456,475	1,760,527	(304,052)	(24,182)	82.7%
SEPTEMBER	2014	1,433,650	1,715,644	(281,994)	22,058	83.6%
OCTOBER	2014	1,444,651	1,738,390	(293,739)	(11,745)	83.1%
NOVEMBER	2014	1,461,607	1,764,912	(303,305)	(9,566)	82.8%
DECEMBER	2014	1,455,159	1,784,747	(329,588)	(26,283)	81.5%
JANUARY	2015	1,466,814	1,892,551	(425,737)	(96,149)	77.5%
FEBRUARY	2015	1,484,594	1,827,742	(343,148)	82,589	81.2%
MARCH	2015	1,481,729	1,832,227	(350,498)	(7,350)	80.9%
APRIL	2015	1,479,408	1,790,601	(311,193)	39,305	82.6%
MAY	2015	1,476,926	1,756,407	(279,481)	31,712	84.1%
JUNE	2015	1,446,834	1,692,416	(245,582)	33,899	85.5%
JULY	2015	1,457,155	1,718,461	(261,306)	(15,724)	84.8%

PENSION ASSET AND LIABILITY RETURNS

END OF MONTH	YEAR	ASSET RETURNS			LIABILITY RETURNS	
		MONTHLY	YEAR-TO-DATE	DISCOUNT RATE	MONTHLY	YEAR-TO-DATE
JULY	2014	-0.34%	5.49%	4.10%	0.15%	9.93%
AUGUST	2014	2.03%	7.63%	3.89%	2.99%	13.22%
SEPTEMBER	2014	-1.13%	6.42%	4.10%	-2.29%	10.63%
OCTOBER	2014	1.22%	7.72%	4.00%	1.59%	12.38%
NOVEMBER	2014	1.62%	9.46%	3.89%	1.78%	14.38%
DECEMBER	2014	0.00%	9.46%	3.84%	1.37%	15.95%
JANUARY	2015	1.16%	1.16%	3.41%	6.32%	6.32%
FEBRUARY	2015	1.57%	2.74%	3.67%	-3.15%	2.97%
MARCH	2015	0.15%	2.90%	3.65%	0.52%	3.51%
APRIL	2015	0.19%	3.10%	3.82%	-1.99%	1.45%
MAY	2015	0.18%	3.28%	3.97%	-1.61%	-0.19%
JUNE	2015	-1.69%	1.54%	4.25%	-3.33%	-3.52%
JULY	2015	1.07%	2.63%	4.14%	1.85%	-1.73%

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