

Milliman Analysis: Corporate pension funded status improves by \$25 billion in October



Robust investment gains during October help counteract an otherwise disappointing third quarter; pension assets are up 1.74% for the year.

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The funded status of the 100 largest corporate defined benefit pension plans improved by \$25 billion during October as measured by the Milliman 100 Pension Funding Index (PFI). The deficit fell to \$287 billion from \$312 billion at the end of September due to the strong pension asset investment gains of the Milliman 100 companies during October. As of October 31, the funded ratio climbed to 83.3% from 81.7% at the end of September.

The market value of assets rose by \$33 billion as a result of October's robust investment gain of 2.75%, the highest monthly return recorded in 2015. The Milliman 100 PFI asset value increased to \$1.429 trillion from \$1.396 trillion at the end of September. By comparison, the 2015 Milliman Pension Funding Study reported that the monthly median expected investment return during 2014 was 0.59% (7.3% annualized).

The funded status gain was partially offset by the pension liability increase due to the drop in the benchmark corporate bond interest rates used to value liabilities. The projected benefit obligation (PBO), or pension liabilities, increased by \$8 billion during October, raising the Milliman 100 PFI value to \$1.716 trillion from \$1.708 trillion at the end of September. The PBO change resulted from a decrease of three

HIGHLIGHTS

	\$ BILLION		FUNDED STATUS	FUNDED PERCENTAGE
	MV	PBO		
SEP 2015	1,396	1,708	(312)	81.7%
OCT 2015	1,429	1,716	(287)	83.3%
MONTHLY CHANGE	+33	+8	+25	1.6%
YTD CHANGE	(26)	(69)	+43	1.8%

Note: Numbers may not add up precisely due to rounding

basis points in the monthly discount rate to 4.16% for October, from 4.19% for September.

Over the last 12 months (Nov 2014 – Oct 2015), the cumulative asset return for these pensions has been 3.39% and the Milliman 100 PFI funded status deficit has improved by \$7 billion. The rise in funded status over the past 12 months is primarily due to the 16 basis points uptick in discount rates since last October. This rise has helped to offset the funded status losses caused by poor investment returns. The funded ratio of the Milliman 100 companies has inched upward over the past 12 months to 83.3% from 83.1%.

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

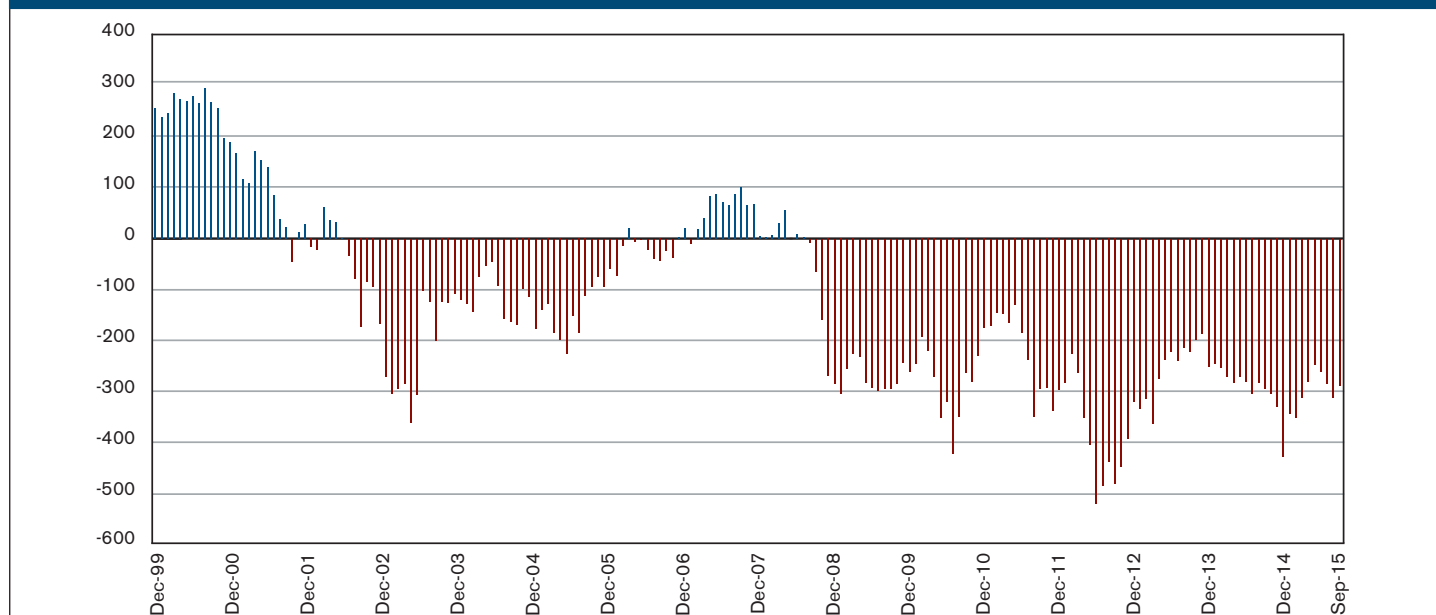
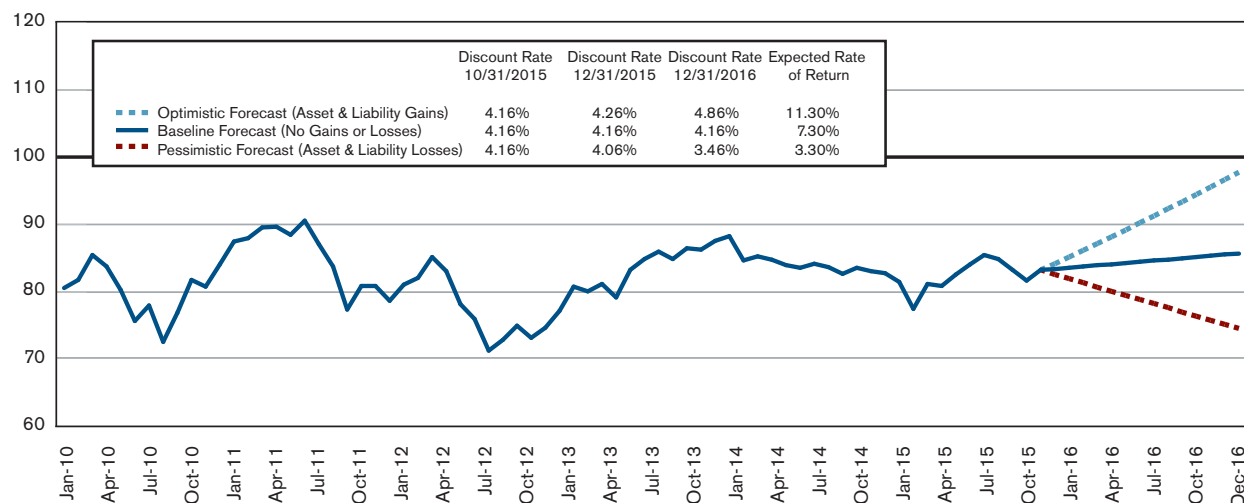


FIGURE 2: MILLIMAN 100 PENSION FUNDING INDEX – PENSION FUNDED RATIO


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 4.16% 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 \$282 billion (funded ratio of 83.6%) by the end of 2015 and a projected pension deficit of \$246 billion (funded ratio of 85.7%) 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 4.26% by the end of 2015 and 4.86% by the end of 2016) and asset gains (11.3% annual returns), the funded ratio would climb to 85% by the end of 2015 and 98% by the end of 2016. Under a pessimistic forecast with similar interest rate and asset movements (4.06% discount rate at the end of 2015 and 3.46% by the end of 2016 and 3.3% annual returns), the funded ratio would decline to 82% by the end of 2015 and 75% 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 – OCTOBER 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
OCTOBER	2014	1,444,651	1,738,390	(293,739)	N/A	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	1,479,378	1,790,601	(311,223)	39,275	82.6%
MAY	2015	1,476,896	1,756,407	(279,511)	31,712	84.1%
JUNE	2015	1,446,951	1,692,416	(245,465)	34,046	85.5%
JULY	2015	1,458,824	1,718,461	(259,637)	(14,172)	84.9%
AUGUST	2015	1,414,728	1,698,809	(284,081)	(24,444)	83.3%
SEPTEMBER	2015	1,395,817	1,707,660	(311,843)	(27,762)	81.7%
OCTOBER	2015	1,428,963	1,715,849	(286,886)	24,957	83.3%

PENSION ASSET AND LIABILITY RETURNS

END OF MONTH	YEAR	ASSET RETURNS		DISCOUNT RATE	LIABILITY RETURNS	
		MONTHLY	YEAR-TO-DATE		MONTHLY	YEAR-TO-DATE
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	-1.68%	1.55%	4.25%	-3.33%	-3.52%
JULY	2015	1.18%	2.74%	4.14%	1.85%	-1.73%
AUGUST	2015	-2.67%	0.00%	4.23%	-0.83%	-2.54%
SEPTEMBER	2015	-0.97%	-0.98%	4.19%	0.84%	-1.73%
OCTOBER	2015	2.75%	1.74%	4.16%	0.79%	-0.95%

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