

Milliman Analysis: Corporate pension funded status drops by \$3 billion in November



Funded status declines slightly to 83.3% as a result of meager investment gain and unchanged interest rates.

All eyes are on Fed policy and the bond market as the December 31 measurement date nears. Rates are up 32 basis points this year. Will December include a rate hike as well?

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The funded status of the 100 largest corporate defined benefit pension plans fell by \$3 billion during November, as measured by the Milliman 100 Pension Funding Index (PFI). The deficit widened to \$286 billion due to flat investment performance of the assets of the Milliman 100 companies during November. Interest rates did not change at all in November, and there was no corresponding liability change. As of November 30, the funded ratio slipped back to 83.3%, from 83.5% at the end of October.

The market value of assets dropped by \$3 billion as a result of November's microscopic investment gain of 0.16%. This is coming off October, which boasted the highest monthly return for 2015 of 2.97%. The Milliman 100 PFI asset value dropped to \$1.429 trillion from \$1.432 trillion at the end of October. 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 Milliman 100 PFI projected benefit obligation (PBO), or pension liabilities, remained at \$1.716 trillion, recording no change during November. This was due to static November benchmark corporate

HIGHLIGHTS

	\$ BILLION		FUNDED STATUS	FUNDED PERCENTAGE
	MV	PBO		
OCT 2015	1,432	1,716	(284)	83.5%
NOV 2015	1,429	1,716	(286)	83.3%
MONTHLY CHANGE	(3)	+0	(3)	-0.2%
YTD CHANGE	(26)	(69)	+43	1.8%

Note: Numbers may not add up precisely due to rounding

bond interest rates used to value liabilities. The discount rate remained steady at 4.16% for November, unchanged from October.

Over the last 12 months (Dec 2014 – Nov 2015), the cumulative asset return for these pensions has been 2.13% and the Milliman 100 PFI funded status deficit has improved by \$17 billion. The rise in funded status over the past 12 months is primarily due to the small uptick in discount rates. 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 82.8%.

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

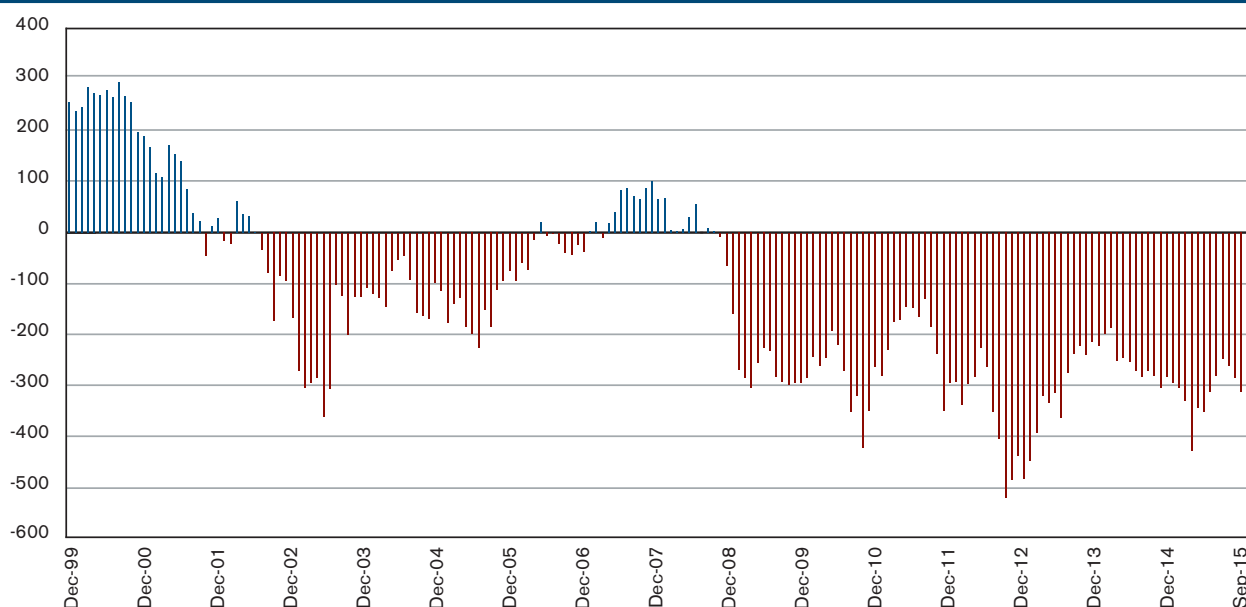
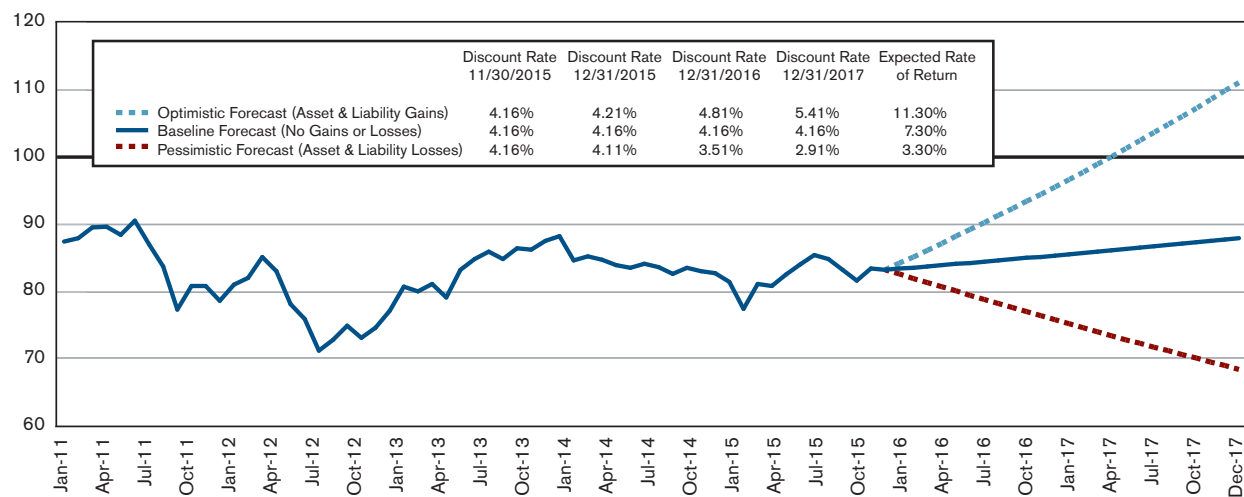


FIGURE 2: MILLIMAN 100 PENSION FUNDING INDEX – PENSION FUNDED RATIO



2015-2017 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 through 2017, we forecast the funded status of the surveyed plans would increase. This would result in a projected pension deficit of \$248 billion (funded ratio of 85.6%) by the end of 2016 and a projected pension deficit of \$208 billion (funded ratio of 88.0%) by the end of 2017. For purposes of this forecast, we have assumed 2015 aggregate contributions of \$32 billion, 2016 aggregate contributions of \$36 billion, and 2017 aggregate contributions of \$39 billion.

Under an optimistic forecast with rising interest rates (reaching 4.81% by the end of 2016 and 5.41% by the end of 2017) and asset gains (11.3% annual returns), the funded ratio would climb to 97% by the end of 2016 and 111% by the end of 2017.

Under a pessimistic forecast with similar interest rate and asset movements (3.51% discount rate at the end of 2016 and 2.91% by the end of 2017 and 3.3% annual returns), the funded ratio would decline to 75% by the end of 2016 and 69% by the end of 2017.

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 – NOVEMBER 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
NOVEMBER	2014	1,461,607	1,764,912	(303,305)	N/A	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	1,395,962	1,707,660	(311,698)	(27,617)	81.7%
OCTOBER	2015	1,432,182	1,715,849	(283,667)	28,031	83.5%
NOVEMBER	2015	1,429,273	1,715,749	(286,476)	(2,809)	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
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	-0.96%	-0.97%	4.19%	0.84%	-1.73%
OCTOBER	2015	2.97%	1.97%	4.16%	0.79%	-0.95%
NOVEMBER	2015	0.16%	2.13%	4.16%	0.30%	-0.65%

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