

Milliman analysis: Corporate pension funded status improves in June by \$36 billion



Discount rates rise for third consecutive month, fueling funded status improvement of \$107 billion in second quarter of 2015

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The funded status of the 100 largest corporate defined benefit pension plans increased by \$36 billion during June as measured by the Milliman 100 Pension Funding Index (PFI). The deficit fell to \$244 billion at the end of June primarily due to an increase in the benchmark corporate bond interest rates used to value pension liabilities. June's funded status gain would have been higher were it not for the disappointing 1.56% investment loss. As of June 30, the funded ratio rose to 85.6%, up from 84.1% at the end of May. The funded ratio is up year-to-date from 81.5% as of December 31, 2014. June marked the third consecutive month where interest rates rose and funded status improved. The discount rate at the end of June was 4.25%, breaking the previous seven-month streak where interest rates were below 4.00%.

The projected benefit obligation (PBO), or pension liabilities, decreased by \$64 billion during June, lowering the Milliman 100 PFI value to \$1.692 trillion, down from \$1.756 trillion at the end of May. The PBO change resulted from an increase of 28 basis points in the monthly discount rate to 4.25% for June, from 3.97% for May. Prior to June 2015, the last time

HIGHLIGHTS

	\$ BILLION		FUNDED STATUS	FUNDED PERCENTAGE
	MV	PBO		
MAY 2015	1,477	1,756	(279)	84.1%
JUN 2015	1,449	1,692	(244)	85.6%
MONTHLY CHANGE	(28)	(64)	+36	1.5%
YTD CHANGE	(6)	(92)	+86	4.1%

Note: Numbers may not add up precisely due to rounding

the discount rate was at or above 4.00% was in October 2014.

The market value of assets decreased by \$28 billion as a result of June's investment loss of 1.56%. The Milliman 100 PFI asset value decreased to \$1.449 trillion, down from \$1.477 trillion at the end of May. By comparison, the 2015 Milliman Pension Funding Study reported that the monthly median expected investment return during 2014 was 0.59% (7.3% annualized).

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

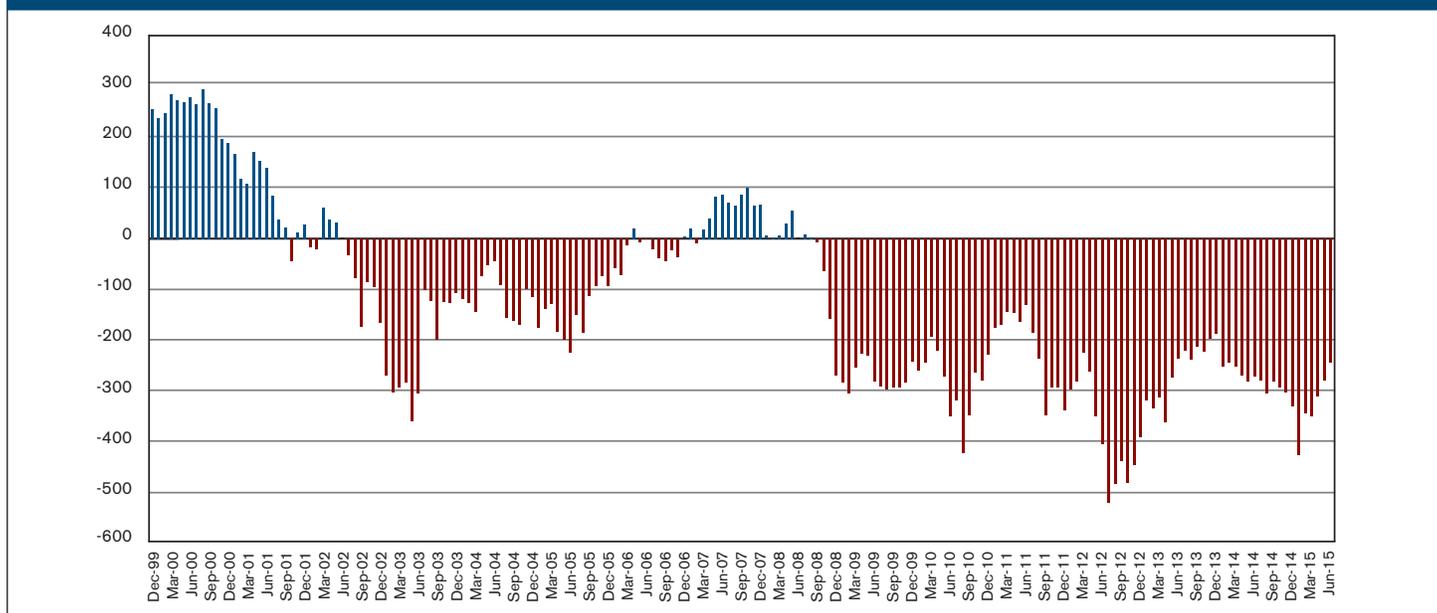
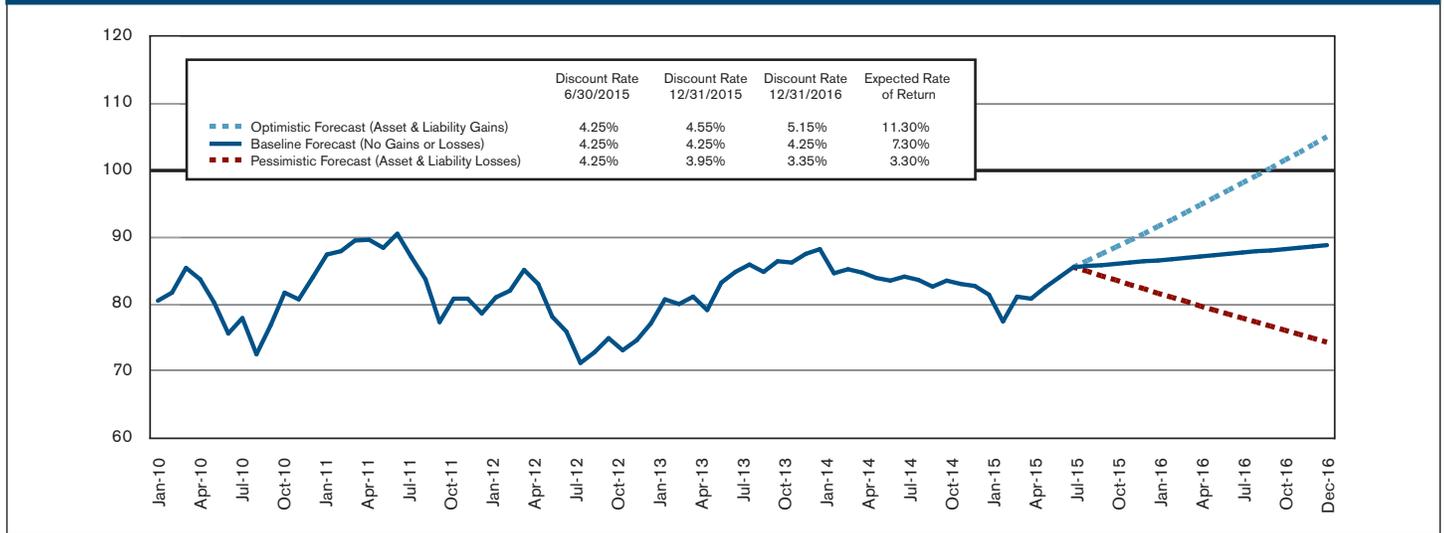


FIGURE 2: MILLIMAN 100 PENSION FUNDING INDEX – PENSION FUNDED RATIO



SECOND QUARTER 2015 SUMMARY

The year was off to a rough start with the funded status deficit increasing by \$96 billion during January as discount rates had fallen by 43 basis points. February boasted funded status gains and the resulting funded status deficit was \$350 billion at the end of the first quarter. In contrast, the funded status deficit improved to \$244 billion by the end of the second quarter. The funded ratio of the Milliman 100 companies increased to 85.6% at the end of June from 80.9% at the end of March primarily due to interest rate increases during this period. However, plan assets partially offset the second quarter gains by having returns of -1.19%. The cumulative investment gain for 2015 is an anemic 1.68%.

Over the last 12 months (July 2014–June 2015), the cumulative asset return for these pensions has been 5.14% and the Milliman 100 PFI funded status deficit has improved by \$27 billion. The discount rate as of a year ago on June 30, 2014 was 4.08%, 17 basis points lower than where it stands a year later as of June 30, 2015. The funded ratio of the Milliman 100 companies has increased over the past 12 months to 85.6% from 84.2%.

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 4.25% were 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 \$227 billion (funded ratio of 86.6%) by the end of 2015 and a projected pension deficit of \$189 billion (funded ratio of 88.9%) 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 4.55% by the end of 2015 and 5.15% by the end of 2016) and asset gains (11.3% annual returns), the funded ratio would climb to

92% by the end of 2015 and 105% by the end of 2016. Under a pessimistic forecast with similar interest rate and asset movements (3.95% discount rate at the end of 2015 and 3.35% 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 – JUNE 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
JUNE	2014	1,445,290	1,715,825	(270,535)	N/A	84.2%
JULY	2014	1,433,889	1,713,759	(279,870)	(9,335)	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	1,476,955	1,756,407	(279,452)	31,741	84.1%
JUNE	2015	1,448,859	1,692,416	(243,557)	35,895	85.6%

PENSION ASSET AND LIABILITY RETURNS

END OF MONTH	YEAR	ASSET RETURNS			LIABILITY RETURNS	
		MONTHLY	YEAR-TO-DATE	DISCOUNT RATE	MONTHLY	YEAR-TO-DATE
JUNE	2014	1.04%	5.86%	4.08%	0.12%	9.77%
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%	3.29%	3.97%	-1.61%	-0.19%
JUNE	2015	-1.56%	1.68%	4.25%	-3.33%	-3.52%

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