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FOR IMMEDIATE RELEASE

Press Release

One-third of 100 largest public pensions reduced interest rate assumptions in latest reported fiscal year, Milliman study finds

Analysis finds 79-basis-point gap between sponsor-reported discount rate and independently-determined rate assumptions, indicating further reductions likely

SEATTLE – October 31, 2017 – Milliman, Inc., a premier global consulting and actuarial firm, today released the results of its 2017 Public Pension Funding Study (PPFS), which analyzes funding levels of the nation's 100 largest public pension plans, including an independent assessment on the expected real return of each plan's investments.

As of June 30, 2017, the estimated aggregate funded ratio of the nation's largest public pension plans is 70.7%, up from 67.7% at the end of the plans' latest reported fiscal years (generally June 30, 2016). Total assets for these plans at their fiscal year-ends were reported at $3.19 trillion, and as of June 30, 2017, are estimated to have jumped to a combined $3.44 trillion thanks to strong market performance in late 2016 and early 2017. As for Total Pension Liability (TPL), the Milliman 100 public plans reported at their latest fiscal year-ends an aggregate TPL of $4.72 trillion, covering more than 26 million members; this figure is estimated to have risen to $4.87 trillion as of June 30, 2017.

An in-depth analysis by Milliman, however, estimates these plans' total liabilities could be even higher. Based on the market's consensus views that long-term investment returns have been declining, the study recalibrated total pension liability for each plan using independently determined interest rate assumptions. For this study, we use the term "interest rate" to indicate the assumption the plan sponsor has chosen to determine contribution amounts, and the term "discount rate" to indicate the rate used to measure liabilities for financial reporting purposes. In aggregate, Milliman estimates the recalibrated TPL for the Milliman 100 plans is $4.98 trillion as of their fiscal year-ends–$260 billion higher than reported by sponsors.

"In this low-interest-rate environment, market expectations on investment returns have been falling faster than plan sponsors can reassess rates," said Becky Sielman, author of Milliman's PPFS. "And the gap that creates between sponsor-reported and our recalibrated market-based liabilities is widening, which is all the more reason plans should continue to monitor emerging investment return expectations and adjust their assumptions as needed."

While plan sponsors report a median discount rate of 7.50% (with a spread of 6.50%-8.50%), Milliman's assessment of the expected real return for each plan's investments puts the median rate at 6.71%-lower than all but six of the 100 sponsor-reported rates. Despite one-third of the plans lowering their discount rates since the last study, this gap between sponsor-reported and independently determined rates continues to widen, indicating further reductions in discount rates will be likely in the coming years.

To view the Milliman 100 Public Pension Funding Study, go to http://www.milliman.com/ppfs/. To receive regular updates of Milliman's pension funding analysis, contact us at pensionfunding@milliman.com.

About Milliman

Milliman is among the world's largest providers of actuarial and related products and services. The firm has consulting practices in healthcare, property & casualty insurance, life insurance and financial services, and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe. For further information, visit milliman.com.

About the Milliman Public Pension Funding Study

This Milliman Public Pension Funding Study is based on the most recently available Comprehensive Annual Financial Reports, which reflect measurement dates ranging from June 30, 2015 to December 31, 2016; 89 are from June 30, 2016 or later. For the purposes of this study, the reported asset allocation of each of the plans has been analyzed to determine an independent measure of the expected long-term median real rate of return on plan assets. The sponsor-reported Total Pension Liability for each plan has then been recalibrated to reflect this independently determined investment return assumption. This study therefore adjusts for differences between each plan's reported discount rate and an independently calibrated current market assessment of the expected real return based on actual asset allocations. This study is not intended to price the plans' liabilities for purposes of determining contribution amounts or near-term plan settlement purposes nor to analyze the funding of individual plans.

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