

Milliman analysis: Volatile year for corporate pensions continues in September, this time with a positive swing



Funded status increased by \$67 billion during September

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The funded status of the 100 largest corporate defined benefit pension plans improved by \$67 billion during September 2010 as measured by the Milliman 100 Pension Funding Index (PFI). The deficit declined to \$393 billion from a deficit of \$460 billion. The funded status improvement was due to strong investment performance coupled by an increase in interest rates. As of September 30, 2010, the funded ratio climbed to 73.9%, up from its all-time low of 70.1% at the end of August 2010. This marks the largest one-month improvement in funded status since September 2005 for the Milliman 100 PFI.

September's \$38 billion increase in market value brings the Milliman 100 PFI asset value to \$1.114 trillion, up from \$1.076 trillion at the end of August 2010. The monthly asset return was 4.01%. By comparison, the Milliman 2010 Pension Funding Study published in April 2010 reported that the median expected monthly investment return during 2010 on pension assets for the Milliman 100 PFI companies would be 0.65% (8.10% annualized).

The projected benefit obligation (PBO), or pension liabilities, decreased by \$29 billion during September, reducing the Milliman 100 PFI value to \$1.507 trillion from \$1.536 trillion at the end of August 2010. The change resulted from an increase of 15 basis points in the monthly discount rate to 4.93% for September from 4.78% for August 2010.

Over the last 12 months (October 2009-September 2010), the cumulative asset return has been 9.15% and the Milliman 100 PFI funded status has decreased by \$99 billion, due primarily to lower trending discount rates. For these 12 months, the funded ratio of the Milliman 100 companies declined to 73.9% from 78.3%.

WHAT TO EXPECT FOR THE REST OF 2010

If the Milliman PFI 100 companies were to achieve their 8.1% median asset return expected for their pension plan portfolios for 2010 and the current discount rate of 4.93% were maintained for the balance of 2010, we forecast the funded status of the surveyed plans would increase, with a projected pension deficit of \$390 billion and a funded ratio of 74.2%.

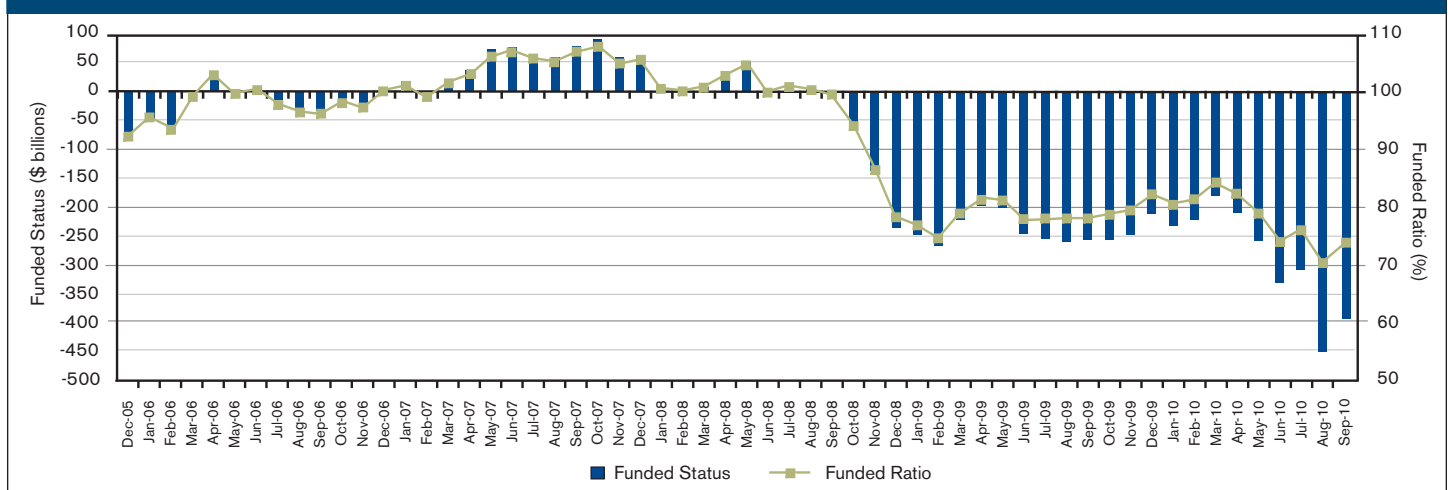
If asset returns were to increase/decrease by 200 basis points for the remainder of the year compared with the median asset return expectation of 8.1%, the projected year-end funded status would increase/decrease by approximately \$5 billion.

If discount rates were to increase/decrease by 25 basis points by the end of the year relative to the current discount rate of 4.93%, the projected year-end funded status would decrease/increase by approximately \$50 billion.

While September 2010 was a largely positive month overall, it would take roughly 17 consecutive months of similar sanguine results to achieve full funding (i.e., a 100% funded ratio). Given the low interest rate environment and asset volatility we experienced thus far in 2010, planning ahead for year-end disclosures remains an important exercise for plan sponsors.

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FIGURE 1: MILLIMAN 100 PENSION FUNDING INDEX PENSION SURPLUS/DEFICIT AND PENSION FUNDED RATIO



ABOUT THE MILLIMAN 100 MONTHLY PENSION FUNDING INDEX

For the past 10 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 2009 fiscal year and for previous fiscal years. The 2010 Milliman 100 Pension Funding Study was published on April 20, 2010. 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 from those for U.S. qualified pension plans. They do not represent the funded status of the companies' U.S. qualified pension plans under ERISA.

MILLIMAN 100 PENSION FUNDING INDEX – SEPTEMBER 2010 (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
SEPTEMBER	2009	1,061,820	1,355,330	(293,510)	4,076	78.3%
OCTOBER	2009	1,059,167	1,351,750	(292,583)	927	78.4%
NOVEMBER	2009	1,085,193	1,369,289	(284,096)	8,487	79.3%
DECEMBER	2009	1,094,517	1,336,858	(242,341)	41,755	81.9%
JANUARY	2010	1,077,253	1,342,076	(264,823)	(22,482)	80.3%
FEBRUARY	2010	1,086,106	1,340,106	(254,000)	10,823	81.0%
MARCH	2010	1,114,949	1,321,830	(206,881)	47,119	84.3%
APRIL	2010	1,120,626	1,360,444	(239,818)	(32,937)	82.4%
MAY	2010	1,079,880	1,374,430	(294,550)	(54,732)	78.6%
JUNE	2010	1,060,504	1,438,287	(377,783)	(83,233)	73.7%
JULY	2010	1,092,848	1,445,070	(352,222)	25,561	75.6%
AUGUST	2010	1,075,889	1,535,658	(459,769)	(107,547)	70.1%
SEPTEMBER	2010	1,114,038	1,506,537	(392,499)	67,270	73.9%

PENSION ASSETS (ALL DOLLAR AMOUNTS IN MILLIONS)

END OF MONTH	YEAR	CHANGE IN MARKET VALUE OF ASSETS		ASSET RETURNS	
		MONTHLY	YEAR-TO-DATE	MONTHLY	YEAR-TO-DATE
SEPTEMBER	2009	20,552	94,805	1.96%	9.90%
OCTOBER	2009	(2,653)	92,152	-0.27%	9.60%
NOVEMBER	2009	26,026	118,178	2.44%	12.27%
DECEMBER	2009	9,324	127,502	0.84%	13.21%
JANUARY	2010	(17,264)	(17,264)	-1.14%	-1.14%
FEBRUARY	2010	8,853	(8,411)	1.28%	0.13%
MARCH	2010	28,843	20,432	3.11%	3.24%
APRIL	2010	5,677	26,109	0.95%	4.22%
MAY	2010	(40,746)	(14,637)	-3.21%	0.87%
JUNE	2010	(19,376)	(34,013)	-1.35%	-0.49%
JULY	2010	32,344	(1,669)	3.52%	3.01%
AUGUST	2010	(16,959)	(18,628)	-1.11%	1.87%
SEPTEMBER	2010	38,149	19,521	4.01%	5.95%

PENSION LIABILITIES (PBO) (ALL DOLLAR AMOUNTS IN MILLIONS)

END OF MONTH	YEAR	DISCOUNT RATE	LIABILITY RETURNS		CHANGE IN PBO	
			MONTHLY	YEAR-TO-DATE	MONTHLY	YEAR-TO-DATE
SEPTEMBER	2009	5.20%	1.59%	13.84%	16,476	119,532
OCTOBER	2009	5.24%	0.09%	13.94%	(3,580)	115,952
NOVEMBER	2009	5.09%	1.64%	15.81%	17,539	133,491
DECEMBER	2009	5.40%	-2.02%	13.46%	(32,431)	101,060
JANUARY	2010	5.78%	0.78%	0.78%	5,218	5,218
FEBRUARY	2010	5.79%	0.24%	1.02%	(1,970)	3,248
MARCH	2010	5.92%	-0.97%	0.04%	(18,276)	(15,028)
APRIL	2010	5.69%	3.31%	3.35%	38,614	23,586
MAY	2010	5.61%	1.40%	4.80%	13,986	37,572
JUNE	2010	5.26%	5.00%	10.04%	63,857	101,429
JULY	2010	5.23%	0.81%	10.93%	6,783	108,212
AUGUST	2010	4.78%	6.59%	18.24%	90,588	198,800
SEPTEMBER	2010	4.93%	-1.59%	16.36%	(29,121)	169,679

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