

Milliman Analysis: Second Consecutive Month of Increased Pension Funding Cannot Counteract Overall Deficit for 2009



Funded status increased by \$37 billion during December but was still down for the year by \$31 billion

John Ehrhardt, FSA, MAAA, EA
Zorast Wadia, FSA, MAAA, EA

The funded status of the largest corporate defined benefit pension plans improved for the second straight month during December 2009. The assets of the largest 100 corporate pension plans, as measured by the Milliman 100 Pension Funding Index (PFI), increased by \$5 billion during December due to investment gains. The asset gains were coupled with liability decreases of roughly \$32 billion based on increases in discount rates. The net result is that the funded status for the pensions sponsored by these companies increased by \$37 billion during December 2009. The funded ratio increased to 77.7% as of the end of the month. By comparison, the funded ratio reported at the end of 2008 was 78.3%.

December's \$5 billion increase in market value raises the total pension asset value in the Milliman 100 Index to \$1.041 trillion, up from \$1.036 trillion at the end of November. The monthly asset return was approximately 0.83%. By comparison, the companies' expected monthly asset return rate was 0.65% (8.10% annualized).

At the same time, the projected benefit obligation (PBO), or pension liabilities, decreased by \$32 billion during December, moving to \$1.341 trillion from \$1.373 trillion at the end of November, due to an increase in the monthly discount rate to 5.40% for December (from 5.09% for November).

YEAR IN REVIEW

The change in the December funding status brings an overall negative year to a more optimistic close. The lingering impact of the financial crisis drove the funded status down by \$31 billion during 2009. Although assets were up for the year by \$74 billion, liabilities also increased by \$105 billion, primarily due to lower interest rates. During 2009, the cumulative asset return was 13.21% while the cumulative liability return (i.e., the PBO increase) was 13.46%.

2009 was generally a volatile year. It began with a 78.3% funded ratio. At the end of February 2009, the PFI reported a funded ratio of 73.8%, the lowest level since May 2003, before creeping back to 77.7% by year end, in large part due to the two strong months to end the year.

The \$31 billion funding decrease during 2009 added to the \$269 billion deficit already in place at the end of 2008. The resulting 2009 year-end funded status was -\$300 billion. The loss in funded status during 2009 resulted in a charge to corporate balance sheets at the end of the 2009 fiscal year. Even though the funded status has declined, we expect 2009 asset gains to offset liability increases due to interest rate declines, thus resulting in little change to pension expense for 2010.

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

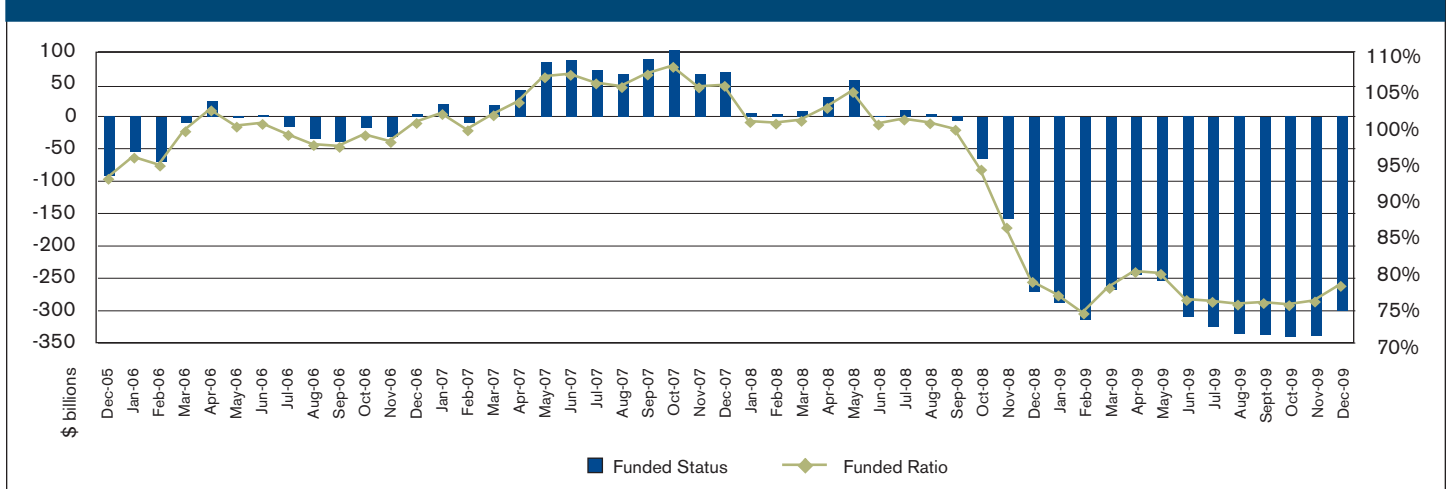
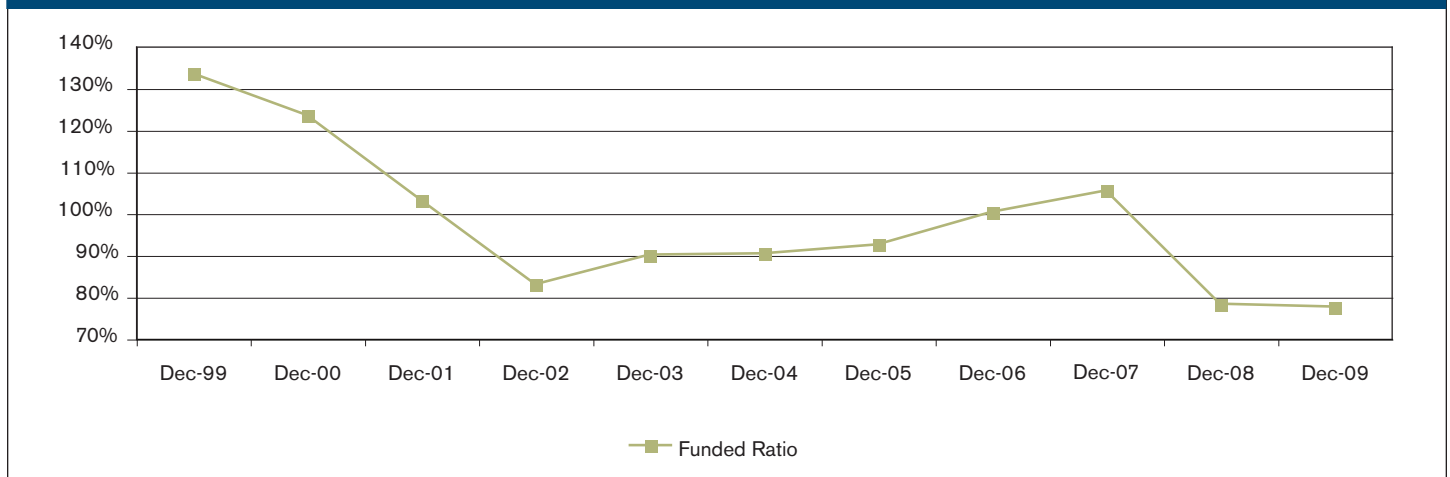


FIGURE 2: MILLIMAN 100 MONTHLY PENSION FUNDING INDEX YEAR-END PENSION FUNDED RATIO



LOOKING TO 2010

Several trends may characterize 2010:

- Many companies will face significant increases in cash contributions as the market downturn works its way through the Pension Protection Act (PPA) funding rules. In particular, companies may be especially active in March as they work to prevent certain benefit restrictions that could first be effective on April 1.
- Adoption of liability-driven investing is likely to continue, with movement from equities to fixed income and with fixed-income investments moving from shorter to longer durations.

More detail on 2009 results and additional perspectives on 2010 will be discussed in the 2010 Milliman 100 Pension Funding Study, which is due out in March 2010.

John Ehrhardt is a principal and consulting actuary with the New York office of Milliman. Zorast Wadia is a consulting actuary with the New York office of Milliman. Contact them at john.ehrhardt@milliman.com or at 646.473.3000.

ABOUT THE MILLIMAN 100 MONTHLY PENSION FUNDING INDEX

For the past nine 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 2008 fiscal year and for previous fiscal years. The 2009 Milliman 100 Pension Funding Study was published on March 24, 2009. 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 – DECEMBER 2009 (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
DECEMBER	2008	967,015	1,235,798	(268,783)	(111,149)	78.3%
JANUARY	2009	926,542	1,213,526	(286,984)	(18,201)	76.4%
FEBRUARY	2009	881,105	1,193,144	(312,039)	(25,055)	73.8%
MARCH	2009	908,792	1,174,616	(265,824)	46,215	77.4%
APRIL	2009	946,015	1,188,745	(242,730)	23,094	79.6%
MAY	2009	966,961	1,218,997	(252,036)	(9,306)	79.3%
JUNE	2009	961,533	1,269,716	(308,183)	(56,147)	75.7%
JULY	2009	993,135	1,315,782	(322,647)	(14,464)	75.5%
AUGUST	2009	1,006,989	1,341,359	(334,370)	(11,723)	75.1%
SEPTEMBER	2009	1,022,583	1,358,183	(335,600)	(1,230)	75.3%
OCTOBER	2009	1,015,762	1,354,912	(339,150)	(3,550)	75.0%
NOVEMBER	2009	1,036,489	1,372,813	(336,324)	2,826	75.5%
DECEMBER	2009	1,041,016	1,340,568	(299,552)	36,772	77.7%

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
DECEMBER	2008	14,626	(344,484)	2.19%	-21.21%
JANUARY	2009	(40,473)	(40,473)	-3.77%	-3.77%
FEBRUARY	2009	(45,437)	(85,910)	-4.47%	-8.08%
MARCH	2009	27,687	(58,223)	3.61%	-4.76%
APRIL	2009	37,223	(21,000)	4.55%	-0.42%
MAY	2009	20,946	(54)	2.65%	2.22%
JUNE	2009	(5,428)	(5,482)	-0.14%	2.07%
JULY	2009	31,602	26,120	3.72%	5.87%
AUGUST	2009	13,854	39,974	1.81%	7.78%
SEPTEMBER	2009	15,594	55,568	1.96%	9.89%
OCTOBER	2009	(6,821)	48,747	-0.27%	9.59%
NOVEMBER	2009	20,727	69,474	2.45%	12.27%
DECEMBER	2009	4,527	74,001	0.83%	13.21%

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
DECEMBER	2008	6.26%	11.91%	6.28%	125,775	(7,676)
JANUARY	2009	6.52%	-1.39%	-1.39%	(22,272)	(22,272)
FEBRUARY	2009	6.76%	-1.26%	-2.63%	(20,382)	(42,654)
MARCH	2009	7.00%	-1.12%	-3.72%	(18,528)	(61,182)
APRIL	2009	6.85%	1.64%	-2.14%	14,129	(47,053)
MAY	2009	6.53%	2.97%	0.76%	30,252	(16,801)
JUNE	2009	6.01%	4.56%	5.35%	50,719	33,918
JULY	2009	5.57%	3.99%	9.56%	46,066	79,984
AUGUST	2009	5.34%	2.29%	12.06%	25,577	105,561
SEPTEMBER	2009	5.20%	1.59%	13.84%	16,824	122,385
OCTOBER	2009	5.24%	0.09%	13.94%	(3,271)	119,114
NOVEMBER	2009	5.09%	1.64%	15.81%	17,901	137,015
DECEMBER	2009	5.40%	-2.02%	13.46%	(32,245)	104,770

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