Milliman analysis: Funded status improves in February due to a rise in corporate bond discount rates and investment gains

January losses and February gains offset each other; the pension funding ratio settles at 83.3%, just 0.2% from where we started the year

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The funded status of the 100 largest corporate defined benefit pension plans improved by $80 billion during February as measured by the Milliman 100 Pension Funding Index (PFI). The deficit fell to $303 billion from $383 billion at the end of January, due to an increase in the benchmark corporate bond interest rates used to value pension liabilities and robust investment gains. As of February 28, the funded ratio increased to 83.3%, up from 79.6% at the end of January.

The projected benefit obligation (PBO), or pension liabilities, decreased to $1.816 trillion from $1.876 trillion at the end of January. The change resulted from an increase of 25 basis points in the monthly discount rate to 3.63% for February, from 3.38% for January. While January's discount rate was the lowest ever in the history of the Milliman 100 PFI, February's discount rate was not much better, ranking as the second lowest in our study's history.

The market value of assets increased by $20 billion as a result of February's investment gain of 1.70%. The Milliman 100 PFI asset value increased to $1.513 trillion, up from $1.493 trillion at the end of January.

HIGHLIGHTS

	$ BILLION			
	MV	PBO	FUNDED STATUS	FUNDED PERCENTAGE
JAN 2015	1,493	1,876	(383)	79.6%
FEB 2015	1,513	1,816	(303)	83.3%
MONTHLY CHANGE	+20	(60)	+80	+3.7%
YTD CHANGE	+30	+40	(10)	-0.2%

Note: Numbers may not add up precisely due to rounding

By comparison, the 2014 Milliman Pension Funding Study reported that the monthly median expected investment return during 2013 was 0.60% (7.4% annualized). The expected rate of return for 2014 will be updated in the 2015 Milliman Pension Funding Study, due out by the end of this month.

Over the last 12 months (March 2014 to February 2015), the cumulative asset return for these pensions has been 10.37%, but the

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

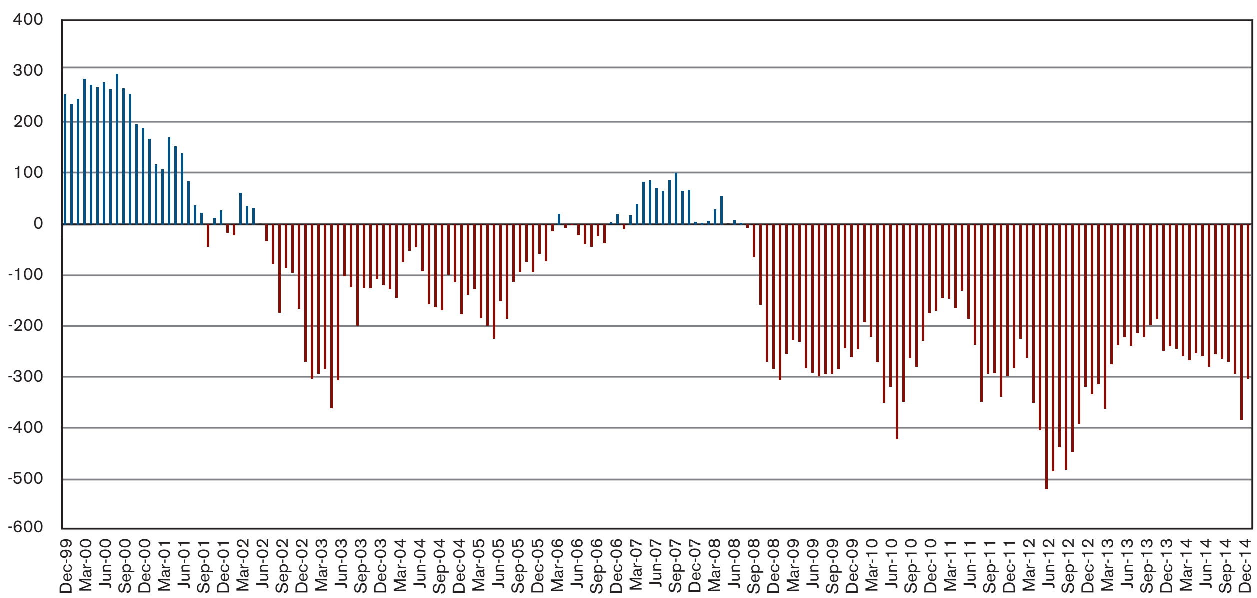
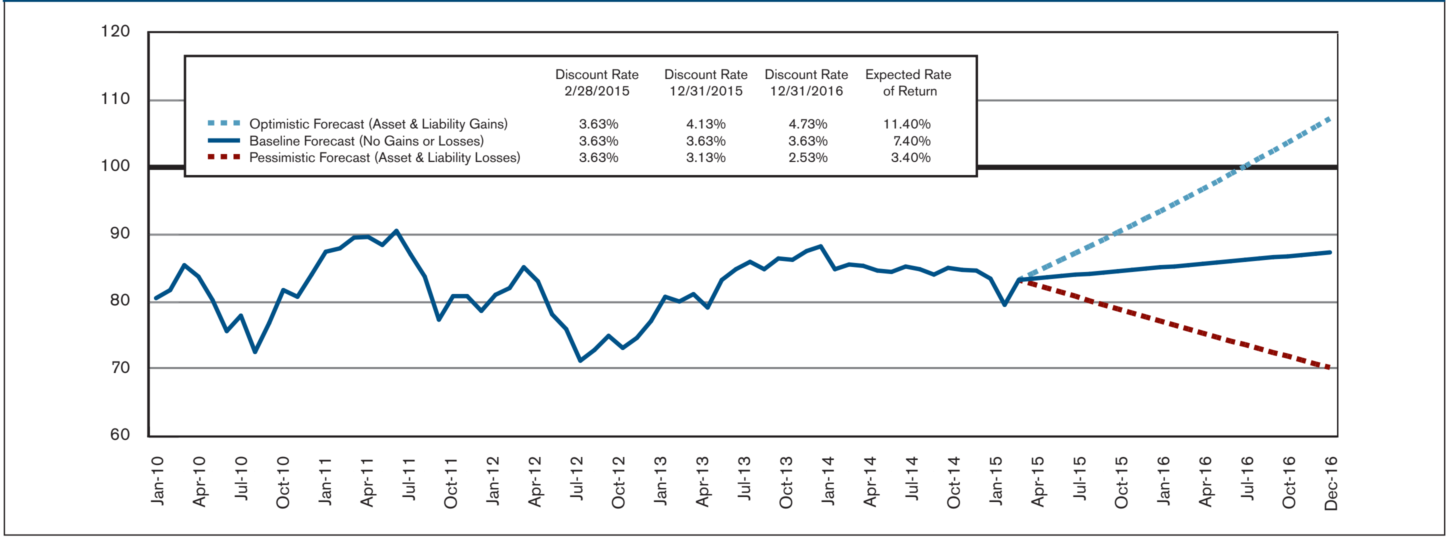


FIGURE 2: MILLIMAN 100 PENSION FUNDING INDEX – PENSION FUNDED RATIO



Milliman 100 PFI funded status deficit has deteriorated by $64 billion. The reason for the drop in funded status in spite of asset returns above expectations was the declining interest rates experienced during most of 2014. The funded ratio of the Milliman 100 companies has decreased over the past 12 months to 83.3% from 85.6%.

December 31 pension disclosures are expected to reflect adoption by many plan sponsors of new mortality assumptions that generally reflect increases in life expectancy, resulting in higher pension liabilities. The magnitude of these increases depends on the age, gender, and composition of annuitants and non-annuitants by individual pension plan. The March Milliman 100 PFI has not been adjusted to estimate the increase in PBO to reflect the mortality tables finalized by the Society of Actuaries last October. However, our preliminary analysis of the impact indicates an estimated increase of 6% to 8% in pension liabilities. This would imply a PBO increase of up to $145 billion and would decrease the funded ratio by more than six percentage points, bringing it to 77.2%.

Furthermore, the projected asset and liability figures presented in this analysis will be adjusted as part of our annual 2015 Pension Funding Study, where pension settlement and annuity purchase activities that occurred during 2014 will be reflected. De-risking transactions generally result in reductions in pension funded status because the assets paid to the participants or assumed by the insurance companies as part of the risk transfer are larger than the corresponding liabilities that are extinguished from the balance sheets. To offset this decrease effect, many companies engaging in de-risking transactions make additional cash contributions to their pension plans to improve the plan's funded status. As a reader, you may be interested in reviewing the Government Accountability Office report on de-risking transactions at www.gao.gov/assets/670/668106.pdf.

If low discount rates are sustained, the only two ways for the funded status to improve are by exceptional investment returns and higher cash contributions by plan sponsors, the latter of which are expected to remain relatively low given the contribution funding relief implemented by the Highway and Transportation Funding Act passed in August of 2014. Pension plan accounting information disclosed in the footnotes of the Milliman 100 companies' annual reports for the 2014 fiscal year is expected to be available during the first quarter of 2015 as part of the 2015 Milliman Pension Funding Study.

2015-2016 PROJECTIONS

If the Milliman 100 PFI companies were to achieve the expected 7.4% (as per the 2014 Milliman Pension Funding Study) median asset return for their pension plan portfolios and the current discount rate of 3.63% was 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 $270 billion (funded ratio of 85.2%) by the end of 2015 and a projected pension deficit of $230 billion (funded ratio of 87.4%) by the end of 2016. For purposes of this forecast, we have assumed 2014 aggregate contributions of $44 billion and 2015 and 2016 aggregate contributions of $31 billion.

Under an optimistic forecast with rising interest rates (reaching 4.13% by the end of 2015 and 4.73% by the end of 2016) and asset gains (11.4% annual returns), the funded ratio would climb to 94% by the end of 2015 and 107% by the end of 2016. Under a pessimistic forecast with similar interest rate and asset movements (3.13% discount rate at the end of 2015 and 2.53% by the end of 2016 and 3.4% annual returns), the funded ratio would decline to 77% by the end of 2015 and 70% by the end of 2016.

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MILLIMAN 100 PENSION FUNDING INDEX – FEBRUARY 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
FEBRUARY	2014	1,421,399	1,660,091	(238,692)	N/A	85.6%
MARCH	2014	1,420,855	1,664,589	(243,734)	(5,042)	85.4%
APRIL	2014	1,427,415	1,685,496	(258,081)	(14,347)	84.7%
MAY	2014	1,448,133	1,714,506	(266,373)	(8,292)	84.5%
JUNE	2014	1,458,966	1,711,208	(252,242)	14,131	85.3%
JULY	2014	1,449,731	1,708,381	(258,650)	(6,408)	84.9%
AUGUST	2014	1,474,880	1,754,214	(279,334)	(20,684)	84.1%
SEPTEMBER	2014	1,454,047	1,708,725	(254,678)	24,656	85.1%
OCTOBER	2014	1,467,506	1,730,602	(263,096)	(8,418)	84.8%
NOVEMBER	2014	1,487,063	1,756,216	(269,153)	(6,057)	84.7%
DECEMBER	2014	1,482,828	1,775,156	(292,328)	(23,175)	83.5%
JANUARY	2015	1,492,926	1,875,713	(382,787)	(90,459)	79.6%
FEBRUARY	2015	1,512,999	1,815,624	(302,625)	80,162	83.3%

PENSION ASSET AND LIABILTY RETURNS						
		ASSET RETURNS			LIABILITY RETURNS	
END OF MONTH	YEAR	MONTHLY	YEAR-TO-DATE	DISCOUNT RATE	MONTHLY	YEAR-TO-DATE
FEBRUARY	2014	2.30%	1.92%	4.32%	1.46%	5.15%
MARCH	2014	0.26%	2.19%	4.30%	0.60%	5.78%
APRIL	2014	0.76%	2.96%	4.20%	1.58%	7.46%
MAY	2014	1.75%	4.77%	4.06%	2.04%	9.64%
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%	3.80%	1.37%	15.95%
JANUARY	2015	1.04%	1.04%	3.38%	5.94%	5.94%
FEBRUARY	2015	1.70%	2.76%	3.63%	-2.94%	2.83%

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 2013 fiscal year and for previous fiscal years. This pension plan accounting disclosure information was summarized as part of the Milliman 2014 Pension Funding Study, which was published on April 2, 2014. 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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