

Milliman Analysis: Public pension funded ratio increases to 71.6% in Q3

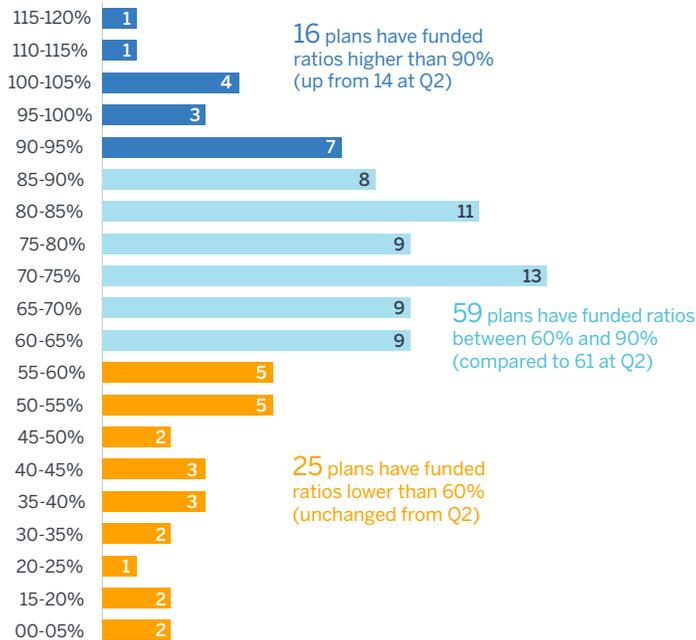
Investment performance for public pensions of 2.97% in the third quarter of 2017 generates a \$36 billion improvement in funded status

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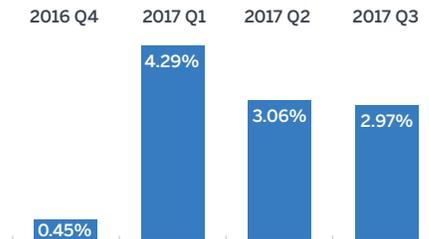
Fueled by another quarter of strong equity returns in Q3, the estimated funded status of the 100 largest U.S. public pension plans grew by \$36 billion from the end of June 2017 through the end of September 2017, as measured by the Milliman 100 Public Pension Funding Index (PPFI). As of September 30, the funded ratio stood at 71.6%, up from 70.7% at the end of June. During the third quarter, the deficit dropped from \$1.428 trillion to \$1.392 trillion.

FUNDED RATIOS AT SEPTEMBER 30, 2017



Overall, Q3 investment performance continued the uniformly strong performance seen in Q2 with an aggregate return for the PPFI plans of 2.97% and a spread ranging from a low of 1.63% to a high of 3.83%. The Milliman 100 PPFI asset value increased from \$3.443 trillion at the end of Q2 to \$3.517 trillion at the end of Q3. Investment income came to approximately \$102 billion, but the plans collectively paid out approximately \$28 billion more in benefits than they took in through contributions from employers and plan members.

QUARTERLY INVESTMENT RETURNS



The total pension liability (TPL) increased from \$4.871 trillion at the end of Q2 to an estimated \$4.908 trillion at the end of Q3. Just as pension assets grow over time with investment income and shrink over time as benefits are paid, so too does the TPL grow over time with interest and shrink as benefits are paid. The TPL also grows as active members accrue pension benefits.

QUARTERLY FUNDED STATUS (\$ TRILLIONS)



Funded ratios improved across the board, with two more plans crossing the 90% funded mark by the end of Q3; there are now 16 plans above this mark, compared to 14 at the end of 2017 Q2. However, there are still 25 plans whose funded ratios fall below 60%, and 10 plans remain below 40% funded. Marked improvement in funded ratios continues to be hampered by the significant headwinds generated as plan sponsors reduce their interest rate assumptions to reflect updated market expectations about future investment returns.

FUNDED RATIO



About the Milliman 100 Public Pension Funding Index

For the past six years, Milliman has conducted an annual study of the 100 largest defined benefit plans sponsored by U.S. governments. The Milliman 100 Public Pension Funding Index projects the funded status for pension plans included in our study, reflecting the impact of actual market returns, utilizing the actual reported asset values, liabilities, and asset allocations of the pension plans.

The results of the Milliman 100 Public Pension Funding Index are based on the pension plan financial reporting information disclosed in the plan sponsors' Comprehensive Annual Financial Reports, which reflect measurement dates ranging from June 30, 2015 to December 31, 2016. This information was summarized as part of the Milliman 2017 Public Pension Funding Study, which was published on October 5, 2017.

This quarterly update reflects adjustments made as of the end of June 2017 as part of Milliman's annual Public Pension Funding Study, published in October, found here milliman.com/ppfs. The adjustments reflect updated publicly available asset and liability information gathered for the annual study.



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