

Milliman analysis: Corporate pension funded status improves by \$25 billion as June interest rates rise



Despite a \$10 billion investment loss, deficit shrinks to \$186 billion

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

The funded status of the 100 largest corporate defined benefit pension plans improved by \$25 billion during June 2011, as measured by the Milliman 100 Pension Funding Index (PFI). June's funded status amelioration was due primarily to an increase in corporate bond interest rates that are the benchmarks used to value pension liabilities. As of June 30, 2011, the funded ratio advanced to 87.0%, up from 85.5% at the end of May 2011. The funded status deficit decreased to \$186 billion from \$211 billion at the end of May 2011.

The projected benefit obligation (PBO), or pension liabilities, decreased by \$35 billion during June, moving the Milliman 100 PFI value to \$1.427 trillion from \$1.462 trillion at the end of May 2011. The change resulted from an increase of 19 basis points in the monthly discount rate to 5.43% for June, from 5.24% for May 2011.

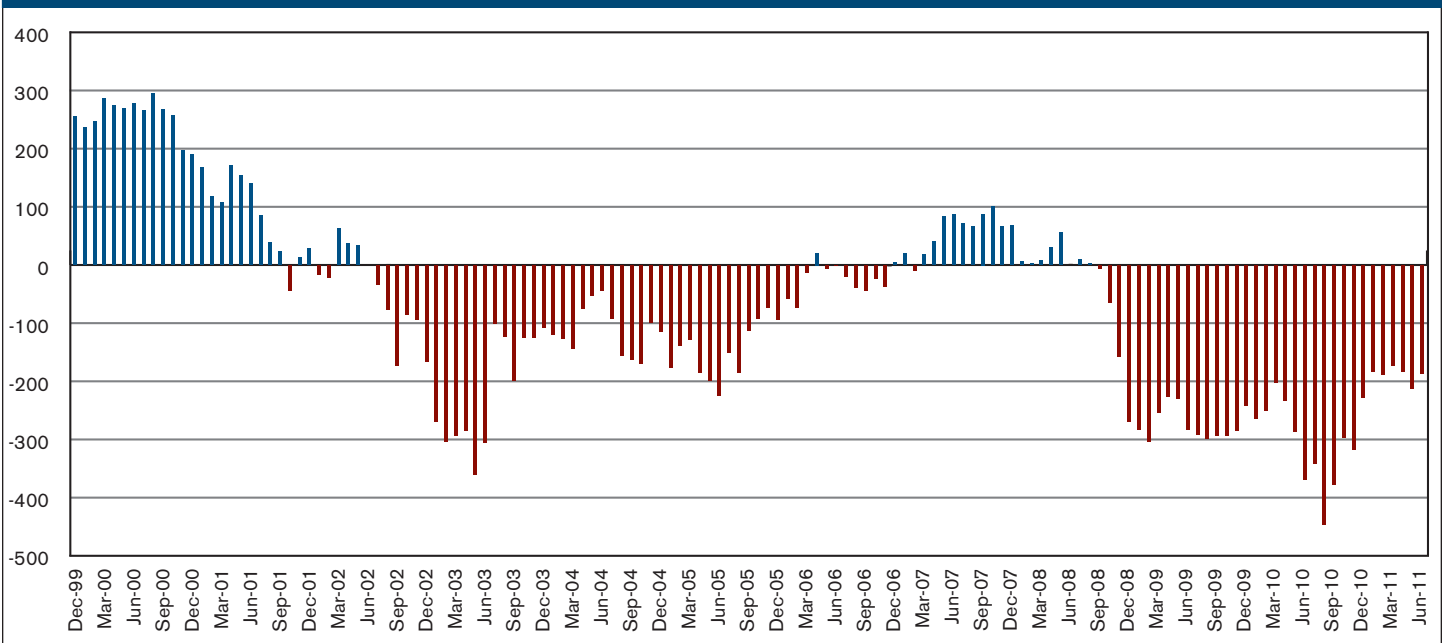
There was an offsetting decrease to the Milliman 100 PFI asset value of \$10 billion during June, moving the Milliman 100 PFI asset

value to \$1.241 trillion, down from \$1.251 trillion as of the end of June 2011. The decrease was driven by an investment loss of -0.63% for the month. By comparison, the Milliman 2011 Pension Funding Study, published in March 2011, reported a 0.64% (8.00% annualized) median expected monthly investment return during 2010.

For the quarter that ended June 30, 2011, the assets had an investment gain of 1.1%. However, the funded status has fallen by \$14 billion primarily due to a net interest rate decline over the past quarter. For these 3 months, the funded ratio of the Milliman 100 companies has fallen to 87.0% from 87.7%.

Over the last 12 months (July 2010 – June 2011), the cumulative asset gain has been 15.0% and the Milliman 100 PFI funded status has increased by \$182 billion. For these 12 months, the funded ratio of the Milliman 100 companies improved to 87.0% from 74.2%.

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



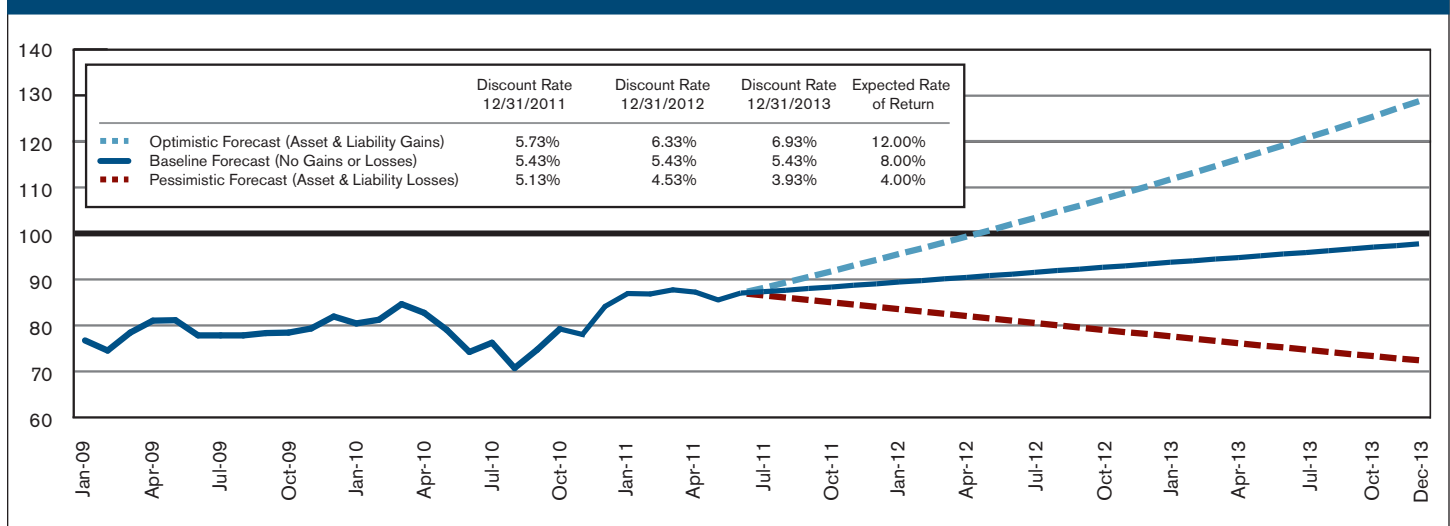
2011-2013 PROJECTIONS

If the Milliman 100 PFI companies were to achieve the expected 8.0% median asset return (as per the 2011 pension funding study) for their pension plan portfolios and the current discount rate of 5.43% were to be maintained during years 2011 through 2013, we forecast the funded status of the surveyed plans would increase. This would result in a projected pension deficit of \$157 billion (funded ratio of 89.0%) by the end of 2011, a projected pension deficit of \$97 billion (funded ratio of 93.3%) by the end of 2012, and a projected pension deficit of \$34 billion (funded ratio of 97.7%) by the end of 2013. For purposes of this forecast, we have assumed 2011-2013 aggregate contributions to remain level with 2010 contribution amounts, which were a record \$60 billion.

Under an optimistic forecast with rising interest rates (reaching 6.33% by the end of 2012 and 6.93% by the end of 2013) and asset gains (12.0% annual returns), the funded ratio would climb to 110% by the end of 2012 and 129% by the end of 2013. Under a pessimistic forecast with similar interest rate and asset movements (4.53% discount rate at the end of 2012 and 3.93% by the end of 2013 and 4.0% annual returns), the funded ratio would decline to 78% by the end of 2012 and 72% by the end of 2013.

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.

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



ABOUT THE MILLIMAN 100 MONTHLY PENSION FUNDING INDEX

For the past 11 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 2010 fiscal year and for previous fiscal years. The 2011 Milliman 100 Pension Funding Study was published on March 29, 2011. 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.

MILLIMAN 100 PENSION FUNDING INDEX – JUNE 2011 (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
JUNE	2010	1,060,466	1,428,546	(368,080)	N/A	74.2%
JULY	2010	1,092,791	1,433,658	(340,867)	27,213	76.2%
AUGUST	2010	1,075,832	1,521,806	(445,974)	(105,107)	70.7%
SEPTEMBER	2010	1,113,943	1,491,257	(377,314)	68,659	74.7%
OCTOBER	2010	1,129,348	1,426,392	(297,044)	80,270	79.2%
NOVEMBER	2010	1,121,194	1,437,892	(316,698)	(19,654)	78.0%
DECEMBER	2010	1,208,155	1,436,204	(228,049)	88,649	84.1%
JANUARY	2011	1,215,845	1,399,652	(183,807)	44,242	86.9%
FEBRUARY	2011	1,233,162	1,421,372	(188,210)	(4,403)	86.8%
MARCH	2011	1,232,505	1,404,940	(172,435)	15,775	87.7%
APRIL	2011	1,252,395	1,436,117	(183,722)	(11,287)	87.2%
MAY	2011	1,250,465	1,462,019	(211,554)	(27,832)	85.5%
JUNE	2011	1,240,578	1,426,542	(185,964)	25,590	87.0%

PENSION ASSET AND LIABILITY RETURNS (ALL DOLLAR AMOUNTS IN MILLIONS)

END OF MONTH	YEAR	ASSET RETURNS		DISCOUNT RATE	LIABILITY RETURNS	
		MONTHLY	YEAR-TO-DATE		MONTHLY	YEAR-TO-DATE
JUNE	2010	-1.35%	-0.49%	5.26%	5.00%	10.04%
JULY	2010	3.51%	3.01%	5.23%	0.81%	10.93%
AUGUST	2010	-1.11%	1.87%	4.78%	6.59%	18.24%
SEPTEMBER	2010	4.00%	5.94%	4.93%	-1.59%	16.36%
OCTOBER	2010	1.82%	7.88%	5.27%	-3.91%	11.81%
NOVEMBER	2010	-0.29%	7.56%	5.20%	1.26%	13.21%
DECEMBER	2010	2.63%	10.39%	5.34%	-1.04%	12.04%
JANUARY	2011	0.80%	0.80%	5.55%	-2.18%	-2.18%
FEBRUARY	2011	1.59%	2.40%	5.43%	1.92%	-0.30%
MARCH	2011	0.11%	2.52%	5.53%	-0.79%	-1.08%
APRIL	2011	1.78%	4.34%	5.37%	2.58%	1.48%
MAY	2011	0.01%	4.34%	5.24%	2.16%	3.66%
JUNE	2011	-0.63%	3.68%	5.43%	-2.07%	1.52%

The materials in this document represent the opinion of the authors and are not representative of the views of Milliman, Inc. Milliman does not certify the information, nor does it guarantee the accuracy and completeness of such information. Use of such information is voluntary and should not be relied upon unless an independent review of its accuracy and completeness has been performed. Materials may not be reproduced without the express consent of Milliman.

Copyright © 2011 Milliman, Inc.