

Milliman analysis: Corporate pension funded status falls as interest rates drop in April



A \$31 billion increase in liabilities coupled with a \$19 billion increase in assets erodes the Milliman 100 PFI funded status to \$184 billion

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The funded status of the 100 largest corporate defined benefit pension plans dropped by \$12 billion during April 2011, as measured by the Milliman 100 Pension Funding Index (PFI). The funded status deficit increased to \$184 billion from \$172 billion at the end of March. This was primarily due to a \$31 billion liability increase that resulted from a reduction in the discount rate. There were offsetting investment gains on plan assets of \$19 billion.

April's \$19 billion increase in market value raises the Milliman 100 PFI asset value to \$1.252 trillion, up from \$1.233 trillion at the end of March 2011. 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.

The projected benefit obligation (PBO), or pension liabilities, increased by \$31 billion during April, raising the Milliman 100 PFI

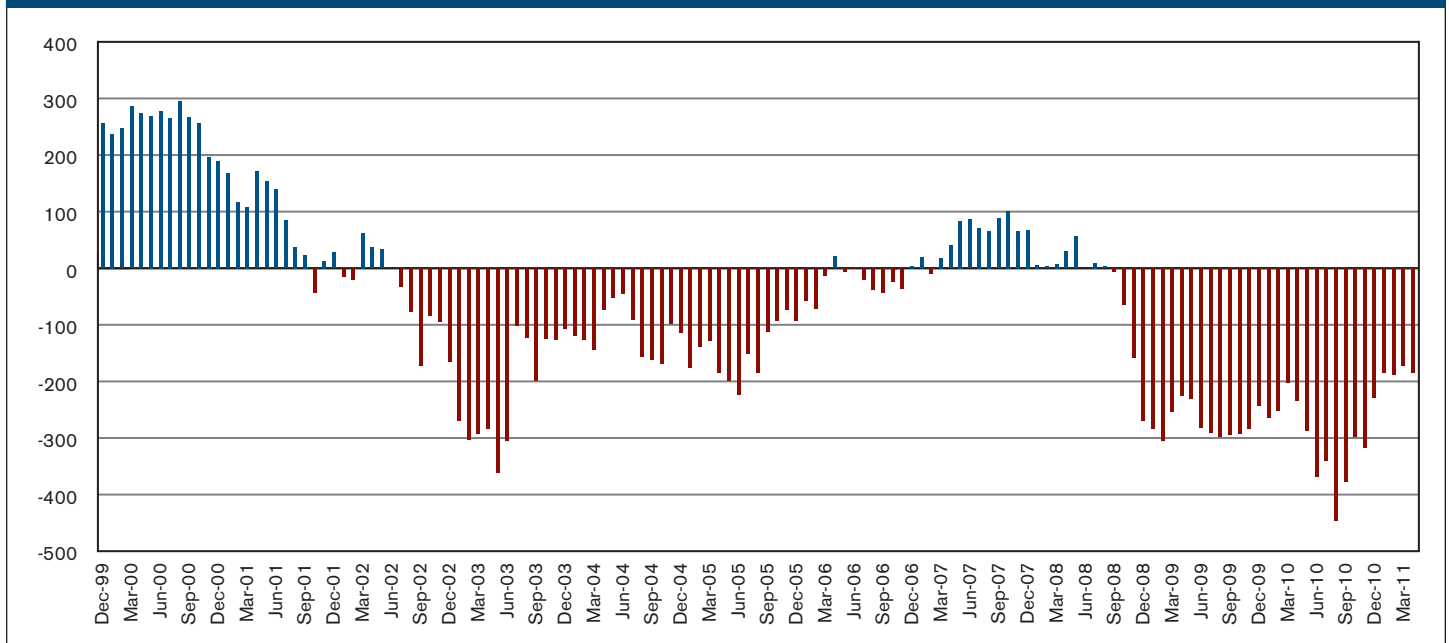
value to \$1.436 trillion from \$1.405 trillion. The higher PBO resulted from a decrease of 16 basis points in the monthly discount rate to 5.37% for April, from 5.53% for March 2011.

Over the last 12 months (May 2010 – April 2011), the cumulative asset return has been 10.5% and the Milliman 100 PFI funded status has increased by \$50 billion. For these 12 months, the funded ratio of the Milliman 100 companies improved to 87.2% from 82.7%.

2011-2013 PROJECTIONS

If the Milliman 100 PFI companies were to achieve an 8.0% median asset return (as per the 2011 Pension Funding Study) expected for their pension plan portfolios and if the current discount rate of 5.37% were to be maintained during 2011 through 2013, we forecast a deficit of \$145 billion (funded ratio of 90.0%) by the end of 2011, a deficit of \$83 billion (funded ratio of 94.3%) by the

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



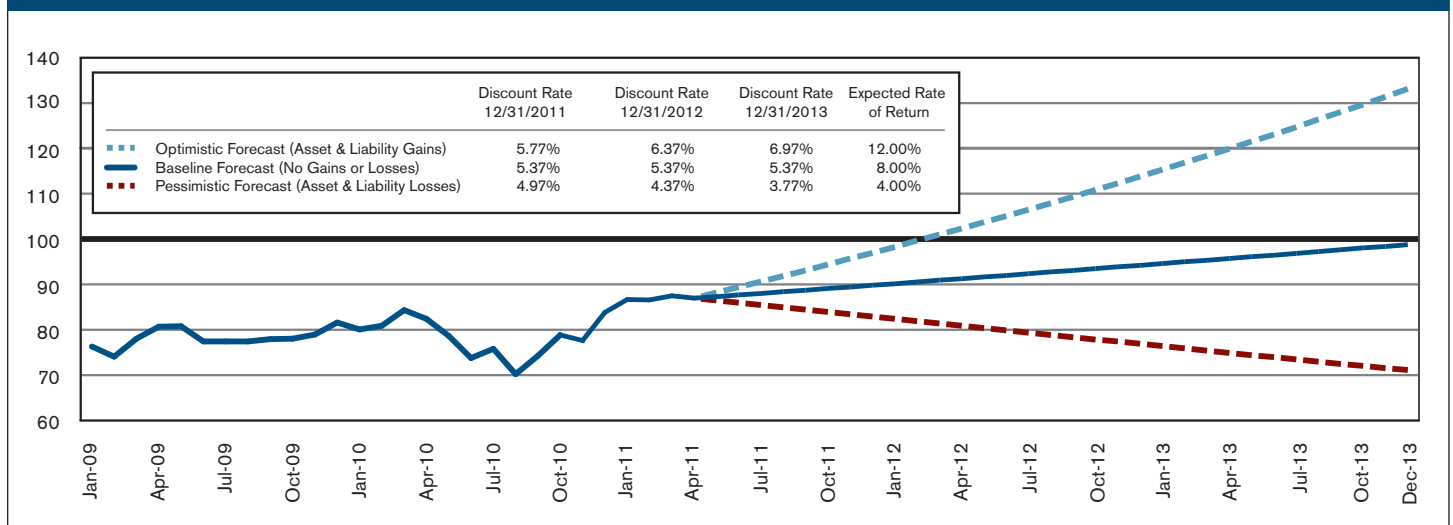
end of 2012, and a deficit of \$18 billion (funded ratio of 98.8%) by the end of 2013. For purposes of this forecast, we have assumed 2011-2013 aggregate contributions to remain level with 2010 contribution amounts, which were a record \$60 billion.

Under an optimistic forecast with rising interest rates (reaching 6.37% by the end of 2012 and 6.97% by the end of 2013) and asset gains (12.0% annual returns), the funded ratio would climb to 114% by the end of 2012 and 133% by the end of 2013. Under a

pessimistic forecast with similar interest rate and asset movements (4.37% discount rate at the end of 2012 and 3.77% by the end of 2013 and 4.0% annual returns), the funded ratio would decline to 77% by the end of 2012 and 72% by the end of 2013.

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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 – APRIL 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
APRIL	2010	1,120,626	1,354,294	(233,668)	N/A	82.7%
MAY	2010	1,079,861	1,366,668	(286,807)	(53,139)	79.0%
JUNE	2010	1,060,466	1,428,546	(368,080)	(81,272)	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	1,208,163	1,436,204	(228,041)	88,657	84.1%
JANUARY	2011	1,215,876	1,399,652	(183,776)	44,265	86.9%
FEBRUARY	2011	1,233,312	1,421,372	(188,060)	(4,284)	86.8%
MARCH	2011	1,232,777	1,404,940	(172,163)	15,897	87.7%
APRIL	2011	1,251,991	1,436,117	(184,126)	(11,963)	87.2%

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
APRIL	2010	0.95%	4.22%	5.69%	3.31%	3.35%
MAY	2010	-3.21%	0.87%	5.61%	1.40%	4.80%
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	1.60%	2.42%	5.43%	1.92%	-0.30%
MARCH	2011	0.12%	2.54%	5.53%	-0.79%	-1.08%
APRIL	2011	1.72%	4.30%	5.37%	2.58%	1.48%

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