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Press Release

Milliman analysis: In 2013, pension plans with the highest equity exposure were the biggest benefactors

Interest rates rebounded, lowering plan liabilities, and investment performance exceeded expectations, raising plan asset values and making 2013 a “win-win” year

Seattle – April 2, 2014 – Milliman, Inc., a premier global consulting and actuarial firm, today released the results of its 2014 Pension Funding Study, which analyzes the 100 largest US corporate pension plans. In 2013, these pension plans experienced historic improvement, with plan liabilities decreasing by 7.5% and assets improving by an average of 9.9%. This resulted in a \$198.3 billion improvement in the funded status deficit from year-end 2012. While it was a “win-win” year for most sponsors, those with higher equity allocations performed the best.

“Last year was a great year for pension funded status and helped reduce much of the underfunding that has persisted since the global financial crisis,” says John Ehrhardt, consulting actuary and co-author of the Pension Funding Study. “Plans that held off on de-risking their plans were the biggest benefactors of the strong equity performance. With eighteen of the 100 plans in our study now fully funded, and more hopefully reaching full funding this year, the timing for de-risking activities that can lock in funded status may be optimal.”

Study highlights include:

Interest rate increases evident in financial statements. The discount rates used to measure plan obligations increased from 4.04% to 4.75% in 2013. While these rates are still down from a high water mark of 7.63% in 1999, the improvement in 2013 went a long ways toward minimizing the pension funded status deficit.

Investment performance exceeded expectations. The weighted average actual investment return on pension assets for the Milliman 100 companies’ 2013 fiscal years was 9.9%, which compares favorably to the expected return of 7.4%.

Contributions decline significantly during 2013. The \$44.1 billion in contributions during 2013 (down \$18.1 billion from \$62.2 billion in 2012) was the lowest level in five years. The lower-than expected contributions were likely due to plan sponsors changing their contribution strategy in light of the MAP-21 interest rate stabilization legislation, passed in July of 2012.

Pension expense decreased. Favorable investment returns in 2012 offset the impact of declining discount rates in that year, leading to a reduced level of pension expense: a \$32.1 billion charge to earnings. This is \$23.7 billion lower than the record high pension expense in 2012.



Market capitalization of these plans up more than 20%. The favorable equity market performance during 2013 increased the total market capitalization for the Milliman 100 companies by 21.2%. When combined with the decrease in pension obligations, this resulted in a decrease in the unfunded pension liability as a percentage of market capitalization, from 7.3% at the end of 2012 to 3.0% at the end of 2013.

Asset allocations remain relatively stable. The trend toward implementing liability-driven investing continued in 2013, but at a slower pace. Overall allocations to equities remained largely unchanged in 2013. With strong 2013 returns across most equity markets and losses in many fixed-income sectors, it is evident that many plans rebalanced during the year by moving money from equities, and possibly other asset classes, to fixed income.

What to expect in 2014. Given the funded status gains in 2013, 2014 contributions are expected to decrease compared to those made in 2013. Plans already at surplus at the end of 2013 will have reduced incentive to further fund their plans in 2014. For some plans that had already engaged in LDI or other funded status lock-in strategies, higher contribution levels can be expected.

Given the compound effect of favorable investment returns in 2013 and higher discount rates at year-end, we estimate that 2014 pension expense will decrease to \$19 billion, a \$13 billion decrease compared with 2013. We may see more than 30 of the Milliman 100 companies with pension income in 2014, a level not seen since 2002.

To view the complete study, go to <http://us.milliman.com/PFS/>. To receive regular updates of Milliman's pension funding analysis, contact us at pensionfunding@milliman.com.

About Milliman

Milliman is among the world's largest providers of actuarial and related products and services. The firm has consulting practices in healthcare, property & casualty insurance, life insurance and financial services, and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe. For further information, visit milliman.com.

About the Milliman Pension Funding Study

For the past 14 years, Milliman has conducted an annual study of the 100 largest defined benefit pension plans sponsored by U.S. public companies. The results of the Milliman 2014 Pension Funding Study are based on the pension plan accounting information disclosed in the footnotes to the companies' annual reports for the 2013 fiscal year and for previous fiscal years. These figures represent the GAAP accounting information that public companies are required to report under Financial Accounting Standards Board Accounting Standards Codification Subtopics 715-20, 715-30, and 715-60. In addition to providing the financial information on the funded status of their 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. The information, data, and footnotes do not represent the funded status of the companies' U.S. qualified pension plans under ERISA.

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