Milliman

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FOR IMMEDIATE RELEASE

Press Release

Milliman year-end analysis: Investment losses and stagnant discount rates in Q4 derail stellar year for corporate pensions, but overall funding still improves for 2018

Discount rate increase of 66 basis points helps combat 2.77% aggregate investment losses in 2018, though December marks largest funding decline of the year

SEATTLE – JANUARY 11, 2019 – Milliman, Inc., a premier global consulting and actuarial firm, today released the year-end results of its latest Pension Funding Index (PFI), which analyzes the 100 largest U.S. corporate pension plans. In 2018, corporate pension funding ended higher for the year, with the funding ratio climbing from 87.6% at the end of 2017 to 89.9% as of December 31, 2018. While plan assets declined by $93 billion for the year due to poor asset performance, plan liabilities also fell thanks to a discount rate increase of 66 basis points. In aggregate, these plans experienced a $56 billion improvement in funded status for the year.

Assets underperformed expectations in 2018 with a cumulative investment loss of 2.77% (by comparison, the 2018 Pension Funding Study reported that the monthly median expected investment return was 0.55%, or 6.8% annualized). In December, the Milliman 100 PFI experienced its worst funding month of the year, with a $68 billion drop in funded status that resulted from 1.49% investment losses and a decline in the corporate bond interest rates that are used to value pension liabilities. As such, December 2018 ended with a funded ratio just under 90% despite the PFI posting funded ratios above 90% for each of the 11 preceding months of the year.

“The fourth quarter’s asset losses and stagnant discount rates derailed what had started out as an optimistic year for corporate pensions,” said Zorast Wadia, co-author of the Milliman 100 PFI. “Looking ahead to 2019, with those asset losses and in spite of the discount rate improvement, we’re likely to see pension expense increase in the coming year. Milliman’s upcoming 2019 Pension Funding Study will provide more specific details around what’s expected.”

Looking forward, under an optimistic forecast with rising interest rates (reaching 4.79% by the end of 2019 and 5.39% by the end of 2020) and asset gains (10.8% annual returns), the funded ratio would climb to 104% by the end of 2019 and 120% by the end of 2020. Under a pessimistic forecast (3.59% discount rate at the end of 2019 and 2.99% by the end of 2020 and 2.8% annual returns), the funded ratio would decline to 83% by the end of 2019 and 77% by the end of 2020.

To view the complete Pension Funding Index, go to http://us.milliman.com/PFI. To see the 2018 Milliman Pension Funding 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 18 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 2018 Pension Funding Study are based on the pension plan accounting information disclosed in the footnotes to the companies' annual reports for the 2017 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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