

Milliman Analysis: Pension Funded Status Reaches 10-year Low at 70.1%

Funded status decreased by \$108 billion during August 2010



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The funded status of the 100 largest corporate defined benefit pension plans dropped by \$108 billion during August 2010 as measured by the Milliman 100 Pension Funding Index (PFI). The funded status decrease was primarily due to a significant decrease in corporate bond interest rates that are the benchmarks used to value pension liabilities. Though not as significant, the financial markets performed poorly in August 2010 as well. As of August 31, 2010, the funded ratio plummeted to 70.1%, down from 75.6% at the end of July 2010. This marks the lowest funded ratio recorded within the last 10 years for the Milliman 100 PFI. The last time the funded ratio was nearly this low was on May 31, 2003, when it was 70.5%.

August's \$17 billion decrease in market value brings the Milliman 100 PFI asset value to \$1.076 trillion, down from \$1.093 trillion at the end of July 2010. The monthly asset performance was a loss of 1.12%. By comparison, the Milliman 2010 Pension Funding Study published in April 2010 reported that the median expected monthly investment return during 2010 on pension assets for the Milliman 100 PFI companies would be 0.65% (8.10% annualized).

The projected benefit obligation (PBO), or pension liabilities, increased by \$91 billion during August, moving the Milliman 100 PFI value to \$1.536 trillion from \$1.445 trillion at the end of July 2010. The change was the result of a 45-basis-point decrease in the monthly discount rate to 4.78% for August (from 5.23% for July).

Over the last 12 months (September 2009-August 2010), the cumulative asset return has been 6.99% and the Milliman 100 PFI funded status has decreased by \$162 billion, due primarily to lower trending discount rates. For these 12 months, the funded ratio of the Milliman 100 companies decreased to 70.1% from 77.8%.

WHAT TO EXPECT FOR THE REST OF 2010

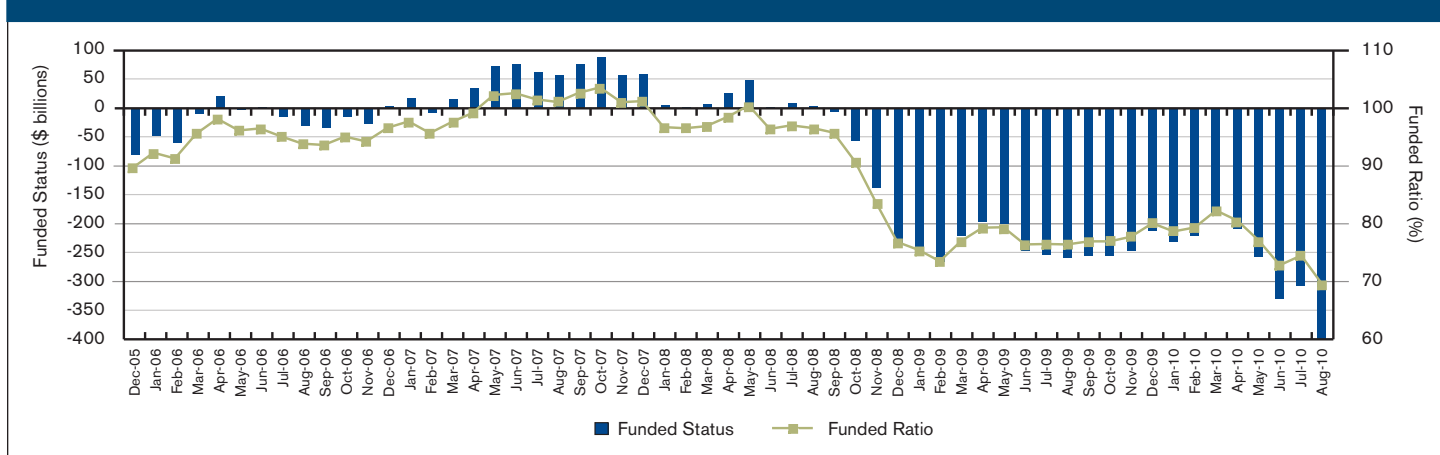
If, for the remainder of 2010, the Milliman PFI 100 companies were to achieve the expected 8.1% median asset return and if the current discount rate of 4.78% were maintained for the duration of the year, we forecast the funded status of the surveyed plans would increase, with a projected pension deficit of \$457 billion and a funded ratio of 70.3%.

If asset returns were to increase/decrease by 200 basis points for the remainder of the year compared with the median asset return expectation of 8.1%, the projected year-end funded status would increase/decrease by approximately \$7 billion.

If discount rates were to increase/decrease by 25 basis points by the end of the year relative to the current discount rate of 4.78%, the projected year-end funded status would decrease/increase by approximately \$52 billion.

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FIGURE 1: MILLIMAN 100 PENSION FUNDING INDEX PENSION SURPLUS/DEFICIT AND PENSION FUNDED RATIO



ABOUT THE MILLIMAN 100 MONTHLY PENSION FUNDING INDEX

For the past 10 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 2009 fiscal year and for previous fiscal years. The 2010 Milliman 100 Pension Funding Study was published on April 20, 2010. 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 from 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 – AUGUST 2010 (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
AUGUST	2009	1,041,268	1,338,854	(297,586)	(6,616)	77.8%
SEPTEMBER	2009	1,061,820	1,355,330	(293,510)	4,076	78.3%
OCTOBER	2009	1,059,167	1,351,750	(292,583)	927	78.4%
NOVEMBER	2009	1,085,193	1,369,289	(284,096)	8,487	79.3%
DECEMBER	2009	1,094,517	1,336,858	(242,341)	41,755	81.9%
JANUARY	2010	1,077,253	1,342,076	(264,823)	(22,482)	80.3%
FEBRUARY	2010	1,086,106	1,340,106	(254,000)	10,823	81.0%
MARCH	2010	1,114,949	1,321,830	(206,881)	47,119	84.3%
APRIL	2010	1,120,626	1,360,444	(239,818)	(32,937)	82.4%
MAY	2010	1,079,880	1,374,430	(294,550)	(54,732)	78.6%
JUNE	2010	1,060,504	1,438,287	(377,783)	(83,233)	73.7%
JULY	2010	1,092,866	1,445,070	(352,204)	25,579	75.6%
AUGUST	2010	1,075,832	1,535,658	(459,826)	(107,622)	70.1%

PENSION ASSETS (ALL DOLLAR AMOUNTS IN MILLIONS)

END OF MONTH	YEAR	CHANGE IN MARKET VALUE OF ASSETS		ASSET RETURNS	
		MONTHLY	YEAR-TO-DATE	MONTHLY	YEAR-TO-DATE
AUGUST	2009	18,606	74,253	1.81%	7.79%
SEPTEMBER	2009	20,552	94,805	1.96%	9.90%
OCTOBER	2009	(2,653)	92,152	-0.27%	9.60%
NOVEMBER	2009	26,026	118,178	2.44%	12.27%
DECEMBER	2009	9,324	127,502	0.84%	13.21%
JANUARY	2010	(17,264)	(17,264)	-1.14%	-1.14%
FEBRUARY	2010	8,853	(8,411)	1.28%	0.13%
MARCH	2010	28,843	20,432	3.11%	3.24%
APRIL	2010	5,677	26,109	0.95%	4.22%
MAY	2010	(40,746)	(14,637)	-3.21%	0.87%
JUNE	2010	(19,376)	(34,013)	-1.35%	-0.49%
JULY	2010	32,362	(1,651)	3.52%	3.02%
AUGUST	2010	(17,034)	(18,685)	-1.12%	1.87%

PENSION LIABILITIES (PBO) (ALL DOLLAR AMOUNTS IN MILLIONS)

END OF MONTH	YEAR	DISCOUNT RATE	LIABILITY RETURNS		CHANGE IN PBO	
			MONTHLY	YEAR-TO-DATE	MONTHLY	YEAR-TO-DATE
AUGUST	2009	5.34%	2.29%	12.06%	25,222	103,056
SEPTEMBER	2009	5.20%	1.59%	13.84%	16,476	119,532
OCTOBER	2009	5.24%	0.09%	13.94%	(3,580)	115,952
NOVEMBER	2009	5.09%	1.64%	15.81%	17,539	133,491
DECEMBER	2009	5.40%	-2.02%	13.46%	(32,431)	101,060
JANUARY	2010	5.78%	0.78%	0.78%	5,218	5,218
FEBRUARY	2010	5.79%	0.24%	1.02%	(1,970)	3,248
MARCH	2010	5.92%	-0.97%	0.04%	(18,276)	(15,028)
APRIL	2010	5.69%	3.31%	3.35%	38,614	23,586
MAY	2010	5.61%	1.40%	4.80%	13,986	37,572
JUNE	2010	5.26%	5.00%	10.04%	63,857	101,429
JULY	2010	5.23%	0.81%	10.93%	6,783	108,212
AUGUST	2010	4.78%	6.59%	18.24%	90,588	198,800

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