

Milliman analysis: Pension deficit increases by modest \$6 billion in February as discount rate drops five basis points



The 2013 funded status improvement is still \$101 billion ahead of year-end 2012

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The funded status of the 100 largest corporate defined benefit pension plans dropped by \$6 billion during February as measured by the Milliman 100 Pension Funding Index (PFI). This comes after last month's large funded status improvement of \$107 billion, the second best in the 12-year history of this study. The deficit increased to \$311 billion from \$305 billion at the end of January, primarily due to the drop in the benchmark corporate bond interest rates used to value pension liabilities. February's strong investment gains were not enough to offset the pension liability increases. As of February 28, the funded ratio fell to 81.5%, down from 81.7% at the end of January.

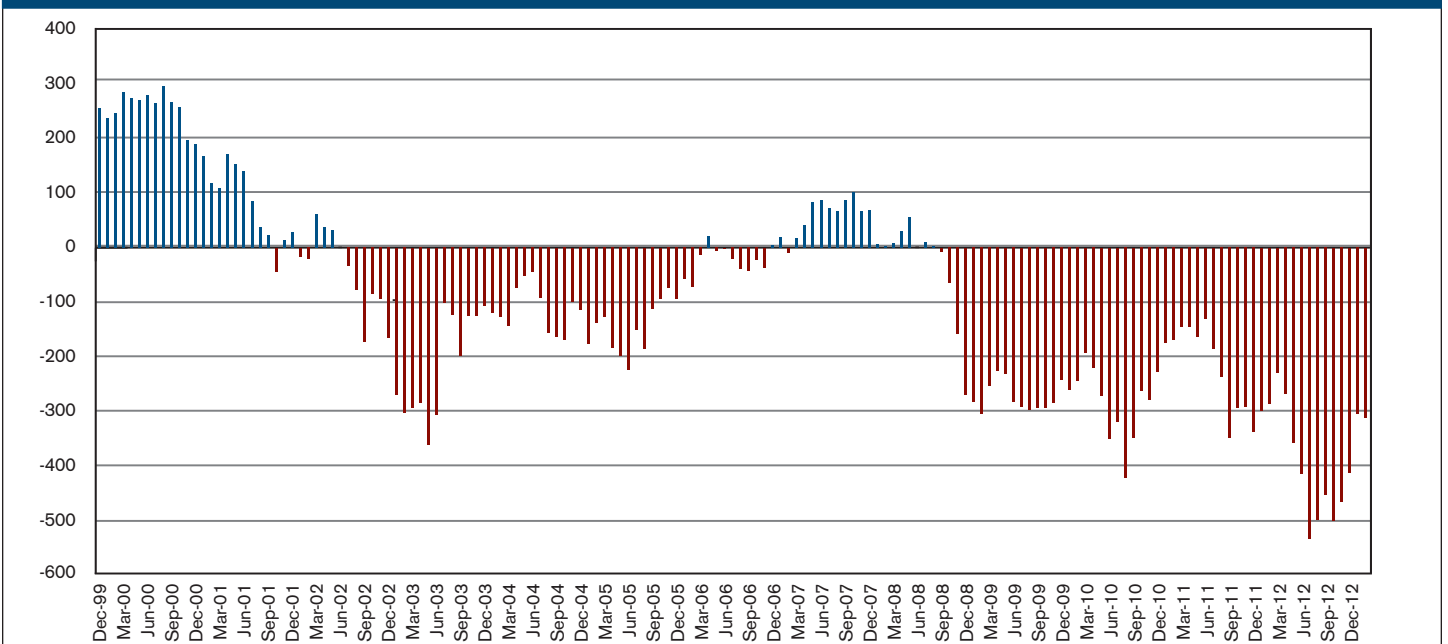
HIGHLIGHTS

	\$ BILLION			FUNDED PERCENTAGE
	MV	PBO	FUNDED STATUS	
JANUARY 2013	1,361	1,666	(305)	81.7%
FEBRUARY 2013	1,372	1,683	(311)	81.5%
MONTHLY CHANGE	+11	+17	(6)	-0.2%
YTD CHANGE	+35	(66)	+101	+5.0%

NOTE: NUMBERS MAY NOT ADD UP PRECISELY DUE TO ROUNDING

The projected benefit obligation (PBO), or pension liabilities, increased by \$17 billion during February, raising the Milliman 100 PFI value to \$1.683 trillion from \$1.666 trillion at the end of January. The change resulted from a modest decrease of five basis points in the monthly discount rate to 4.40% for February, from 4.45% for January.

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



A solid investment gain of 0.89% for February provided an \$11 billion increase in market value, bringing the Milliman 100 PFI asset value to \$1.372 trillion, up from \$1.361 trillion at the end of January. By comparison, the 2012 Milliman Pension Funding Study (published in March 2012) reported that the median expected investment return during 2011 was 0.63% (7.80% annualized). The expected rate of return for 2012 will be updated in the 2013 Milliman Pension Funding Study, due out by the end of this month.

Over the last 12 months (March 2012 to February 2013), the cumulative asset return for these pensions has been 7.74% and the Milliman 100 PFI funded status deficit has ballooned by \$26 billion. The primary reason for the increase in the funded status deficit was the lower-trending discount rates that were prevalent during most of 2012. The discount rate at this time last year was 4.69%. The funded ratio of the Milliman 100 companies has slightly decreased over the past 12 months, to 81.5% from 82.0%.

2013-2014 PROJECTIONS

If the Milliman 100 PFI companies were to achieve the expected 7.8% median asset return for their pension plan portfolios (as per the 2012 Pension Funding Study) and the current discount rate of 4.40% were maintained during years 2013 and 2014, we forecast the funded status of the surveyed plans would increase. This would result in a projected pension deficit of \$245 billion (funded ratio of 85.6%) by the end of 2013 and a projected pension deficit of \$161 billion (funded ratio of 90.6%) by the end of 2014. For

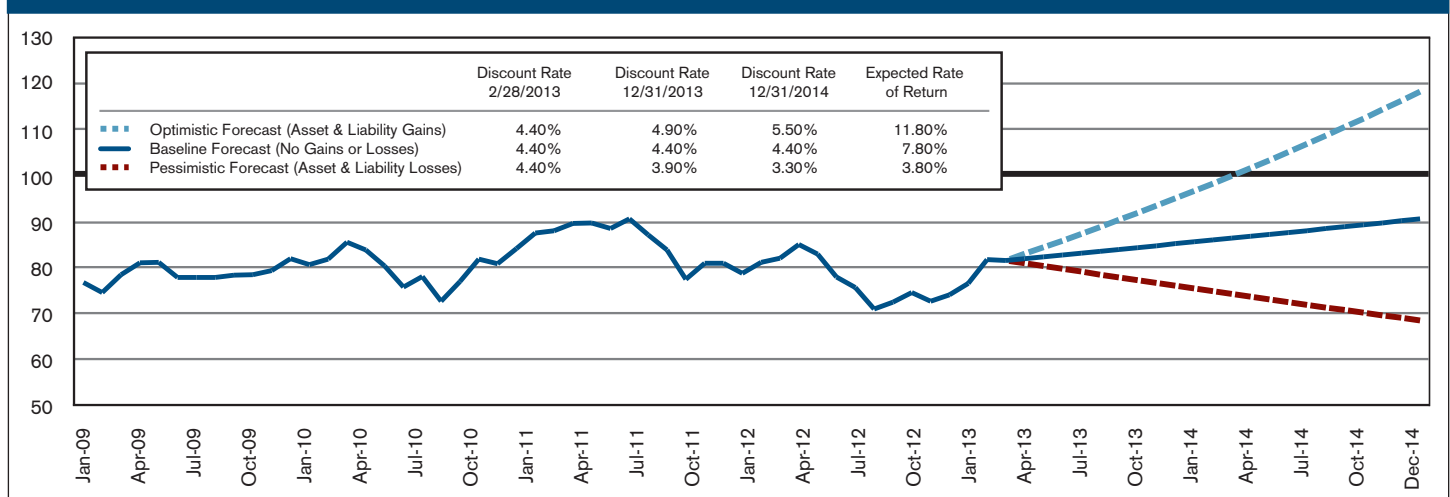
purposes of this forecast, we have assumed 2012 aggregate contributions of \$67 billion and 2013 and 2014 aggregate contributions of \$81 billion.

Please note that the contribution assumptions have not been adjusted to reflect the potential impact of the Moving Ahead for Progress in the 21st Century Act (MAP-21), which included pension funding stabilization provisions. While several plan sponsors have announced reduced contributions, we feel that a majority of the Milliman 100 companies will continue to prudently fund the pension deficits in their respective plans and presumably continue with their existing pension de-risking funding strategies rather than lower their contribution level to satisfy minimum standards.

Under an optimistic forecast with rising interest rates (reaching 4.90% by the end of 2013 and 5.50% by the end of 2014) and asset gains (11.8% annual returns), the funded ratio would climb to 97% by the end of 2013 and 118% by the end of 2014. Under a pessimistic forecast with similar interest rate and asset movements (3.90% discount rate at the end of 2013 and 3.30% by the end of 2014 and 3.8% annual returns), the funded ratio would decline to 75% by the end of 2013 and 68% by the end of 2014.

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



MILLIMAN 100 PENSION FUNDING INDEX – FEBRUARY 2013 (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
FEBRUARY	2012	1,294,521	1,579,548	(285,027)	N/A	82.0%
MARCH	2012	1,297,681	1,526,122	(228,441)	56,586	85.0%
APRIL	2012	1,293,677	1,561,169	(267,492)	(39,051)	82.9%
MAY	2012	1,263,136	1,620,957	(357,821)	(90,329)	77.9%
JUNE	2012	1,283,703	1,697,711	(414,008)	(56,187)	75.6%
JULY	2012	1,298,087	1,830,942	(532,855)	(118,847)	70.9%
AUGUST	2012	1,309,312	1,807,731	(498,419)	34,436	72.4%
SEPTEMBER	2012	1,324,634	1,777,759	(453,125)	45,294	74.5%
OCTOBER	2012	1,321,745	1,820,929	(499,184)	(46,059)	72.6%
NOVEMBER	2012	1,327,945	1,793,501	(465,556)	33,628	74.0%
DECEMBER	2012	1,336,952	1,748,374	(411,422)	54,134	76.5%
JANUARY	2013	1,360,698	1,665,512	(304,814)	106,608	81.7%
FEBRUARY	2013	1,371,981	1,682,568	(310,587)	(5,773)	81.5%

PENSION ASSET AND LIABILITY RETURNS

END OF MONTH	YEAR	ASSET RETURNS		DISCOUNT RATE	LIABILITY RETURNS	
		MONTHLY	YEAR-TO-DATE		MONTHLY	YEAR-TO-DATE
FEBRUARY	2012	1.70%	4.20%	4.69%	0.76%	0.39%
MARCH	2012	0.40%	4.62%	4.88%	-3.05%	-2.67%
APRIL	2012	-0.15%	4.46%	4.76%	2.63%	-0.11%
MAY	2012	-2.21%	2.15%	4.56%	4.14%	4.03%
JUNE	2012	1.79%	3.98%	4.32%	5.03%	9.26%
JULY	2012	1.28%	5.31%	3.92%	8.11%	18.12%
AUGUST	2012	1.02%	6.38%	3.99%	-1.01%	16.93%
SEPTEMBER	2012	1.32%	7.79%	4.08%	-1.39%	15.30%
OCTOBER	2012	-0.07%	7.72%	3.96%	2.69%	18.40%
NOVEMBER	2012	0.62%	8.39%	4.05%	-1.25%	16.92%
DECEMBER	2012	0.80%	9.26%	4.18%	-2.20%	14.35%
JANUARY	2013	1.84%	1.84%	4.45%	-4.45%	-4.45%
FEBRUARY	2013	0.89%	2.75%	4.40%	1.31%	-3.20%

ABOUT THE MILLIMAN 100 MONTHLY PENSION FUNDING INDEX

For the past 12 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 2011 fiscal year and for previous fiscal years. This pension plan accounting disclosure information was summarized as part of the Milliman 2012 Pension Funding Study, which was published on March 29, 2012. 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.

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