

Milliman analysis: Large funded status gain from rising interest rates in February

Milliman 100 PFI funded ratio rises to 92.9%

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The funded status of the 100 largest corporate defined benefit pension plans improved by \$67 billion during February as measured by the Milliman 100 Pension Funding Index (PFI). The funded status deficit has fallen to \$133 billion from \$200 billion at the end of January 2021, due to liability gains incurred during February. The liability improvement was due to an increase in the benchmark corporate bond interest rates used to value pension liabilities. As of February 28, the funded ratio rose to 92.9%, up from 89.7% at the end of January. February’s impressive funded status improvement piggybacks off the \$105 billion funded status amelioration seen over the last four consecutive months. This also marks five consecutive months of funded ratio improvements.

The market value of assets fell by \$2 billion as a result of February’s meager investment gain of 0.13%. The Milliman 100 PFI asset value decreased to \$1.733 trillion as of February 28, 2021. By comparison, the 2020 Milliman Pension Funding Study reported that the monthly median expected

HIGHLIGHTS

	\$ BILLION			
	MV	PBO	FUNDED STATUS	FUNDED PERCENTAGE
JANUARY	1,734	1,935	(200)	89.7%
FEBRUARY	1,733	1,866	(133)	92.9%
MONTHLY CHANGE	(2)	(69)	+67	3.2%
YTD CHANGE	(13)	(116)	+103	4.8%

Note: Numbers may not add up precisely due to rounding

investment return during 2019 was 0.53% (6.5% annualized). The expected rate of return for 2020 will be updated in the 2021 Milliman Pension Funding Study, due out later during April of this year.

The projected benefit obligation (PBO), or pension liabilities, decreased to \$1.866 trillion at the end of February. The change resulted from an increase of 26 basis points in the monthly discount rate to 2.88% for February from 2.62% for January 2021.

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

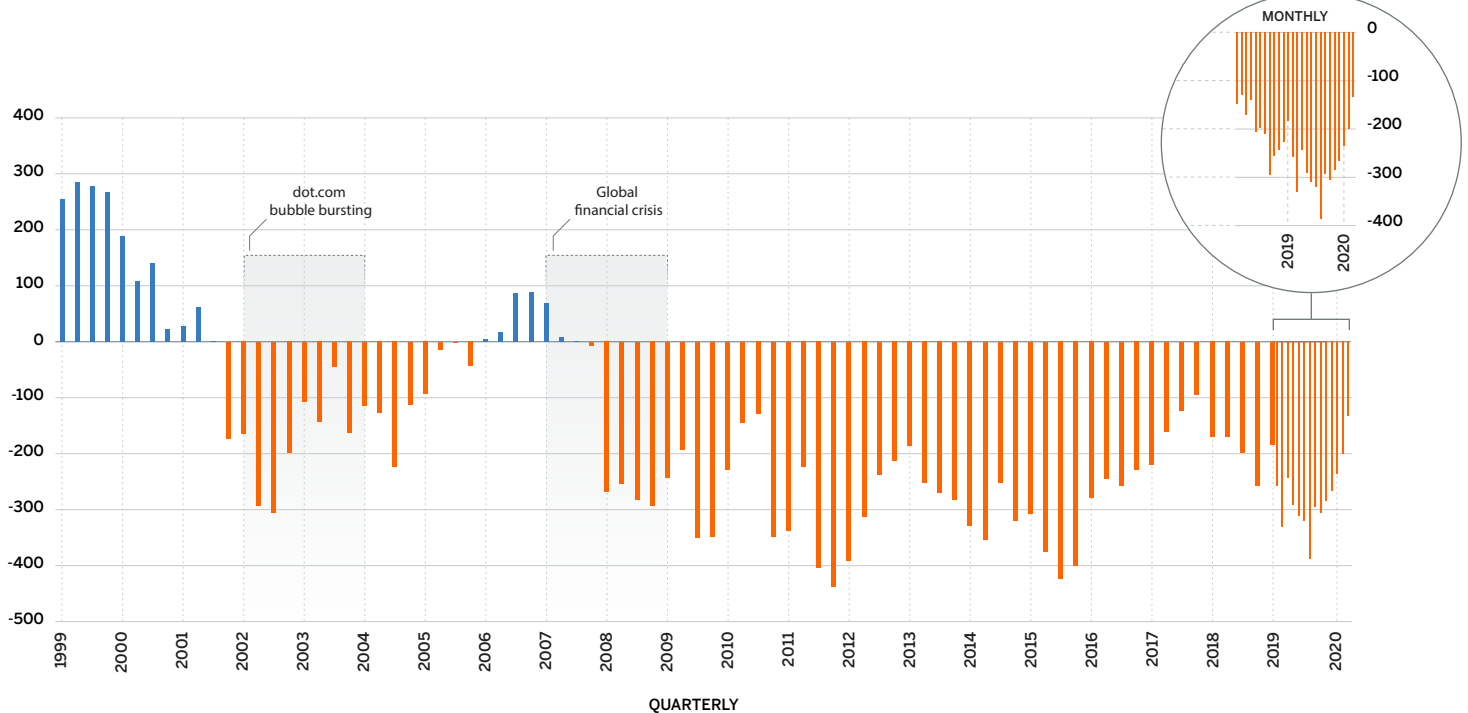
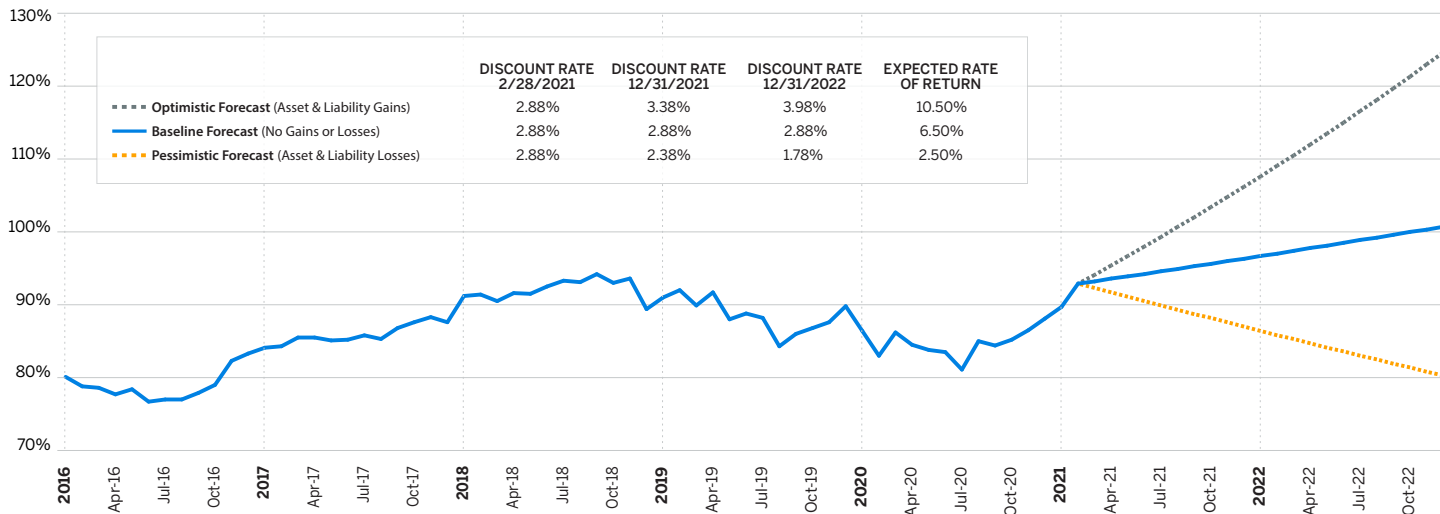


FIGURE 2: MILLIMAN 100 PENSION FUNDING INDEX — PENSION FUNDED RATIO

Over the last 12 months (March 2020 to February 2021), the cumulative asset return for these pensions has been 11.82% and the Milliman 100 PFI funded status deficit has improved by \$197 billion. The funded ratio of the Milliman 100 companies has increased nearly 10 percentage points over the past 12 months to 92.9% from 83.0%.

The projected asset and liability figures presented in this analysis will be adjusted as part of our annual 2021 Pension Funding Study where pension settlement and annuity purchase activities that occurred during 2020 will be reflected. Pension plan accounting information disclosed in the footnotes of the Milliman 100 companies' annual reports for the 2020 fiscal year is expected to be available during the first quarter of 2021 as part of the 2021 Milliman Pension Funding Study. We expect to publish our comprehensive recap during April as part of the 2021 Milliman Pension Funding Study.

2021-2022 projections

If the Milliman 100 PFI companies were to achieve the expected 6.5% median asset return (as per the 2020 pension funding study), and if the current discount rate of 2.88% were maintained during 2021 and 2022, we forecast that the funded status of the surveyed plans would increase. This would result in a projected pension deficit of \$68 billion (funded ratio of 96.3%) by the end of 2021 and a projected pension surplus of \$13 billion (funded ratio of 100.7%) by the end of 2022. For purposes of this forecast, we have assumed 2021 and 2022 aggregate annual contributions of \$50 billion.

Under an optimistic forecast with rising interest rates (reaching 3.38% by the end of 2021 and 3.98% by the end of 2022) and asset gains (10.5% annual returns), the funded ratio would climb to 106% by the end of 2021 and 125% by the end of 2022. Under a pessimistic forecast with similar interest rate and asset movements (2.38% discount rate at the end of 2021 and 1.78% by the end of 2022 and 2.5% annual returns), the funded ratio would decline to 87% by the end of 2021 and 80% by the end of 2022.

ABOUT THE MILLIMAN 100 MONTHLY PENSION FUNDING INDEX

For the past 20 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 2019 fiscal year and for previous fiscal years. This pension plan accounting disclosure information was summarized as part of the Milliman 2020 Pension Funding Study, which was published on April 28, 2020. 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 — FEBRUARY 2021 (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	2020	1,605,039	1,934,508	(329,469)	N/A	83.0%
MARCH	2020	1,513,944	1,757,304	(243,360)	86,109	86.2%
APRIL	2020	1,579,719	1,869,878	(290,159)	(46,799)	84.5%
MAY	2020	1,601,435	1,911,178	(309,743)	(19,584)	83.8%
JUNE	2020	1,618,274	1,938,415	(320,141)	(10,398)	83.5%
JULY	2020	1,660,410	2,047,070	(386,660)	(66,519)	81.1%
AUGUST	2020	1,670,560	1,964,217	(293,657)	93,003	85.0%
SEPTEMBER	2020	1,649,670	1,955,391	(305,721)	(12,064)	84.4%
OCTOBER	2020	1,630,418	1,914,613	(284,195)	21,526	85.2%
NOVEMBER	2020	1,713,020	1,979,722	(266,702)	17,493	86.5%
DECEMBER	2020	1,745,468	1,981,099	(235,631)	31,071	88.1%
JANUARY	2021	1,734,313	1,934,535	(200,222)	35,409	89.7%
FEBRUARY	2021	1,732,636	1,865,537	(132,901)	67,321	92.9%

PENSION ASSET AND LIABILITY RETURNS

END OF MONTH	YEAR	ASSET RETURNS			LIABILITY RETURNS	
		MONTHLY	YEAR-TO-DATE	DISCOUNT RATE	MONTHLY	YEAR-TO-DATE
FEBRUARY	2020	-1.48%	-0.49%	2.69%	2.55%	7.75%
MARCH	2020	-5.37%	-5.83%	3.39%	-8.83%	-1.77%
APRIL	2020	4.68%	-1.42%	2.92%	6.74%	4.86%
MAY	2020	1.69%	0.25%	2.76%	2.52%	7.50%
JUNE	2020	1.37%	1.62%	2.65%	1.73%	9.36%
JULY	2020	2.92%	4.58%	2.26%	5.89%	15.80%
AUGUST	2020	0.91%	5.54%	2.54%	-3.76%	11.45%
SEPTEMBER	2020	-0.95%	4.53%	2.57%	-0.15%	11.27%
OCTOBER	2020	-0.86%	3.63%	2.71%	-1.78%	9.29%
NOVEMBER	2020	5.38%	9.21%	2.47%	3.70%	13.33%
DECEMBER	2020	2.19%	11.60%	2.46%	0.36%	13.73%
JANUARY	2021	-0.42%	-0.42%	2.62%	-2.07%	-2.07%
FEBRUARY	2021	0.13%	-0.29%	2.88%	-3.28%	-5.28%



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