Contact: John Ehrhardt
Milliman, Inc.
Tel: 646.473.3300
john.ehrhardt@milliman.com

FOR IMMEDIATE RELEASE

Press Release

Milliman analysis: Falling interest rates define 2011 for corporate pensions

Plunging discount rates drive record deficit, record pension expense, and an unprecedented move toward risk management—but not record contributions

Seattle – March 29, 2012 – Milliman, Inc., a premier global consulting and actuarial firm, today released the results of its 2012 Pension Funding Study, which analyzes the 100 largest US corporate pensions. In 2011, these pensions were defined by record-low discount rates, which led to record-high pension liabilities and a $326.8 billion pension funding deficit—a $94.7 billion increase over year-end 2010 and a new record for the 12-year history of this study. The pension funding ratio stood at 79.2% at year's end.

"Interest rates drove the pension funding deficit to record levels, and the record deficit drove everything else," says John Ehrhardt, consulting actuary and co-author of the Pension Funding Study. "We saw record pension expense and, for the first time in the history of this study, these pensions invested more heavily in fixed income than in equities. But it's what we didn't see that is perhaps most intriguing: Despite our prediction of record pension contributions, we instead saw contributions decline, setting up 2012 as a major contribution year for some of these companies. We're already seeing evidence of this, with several companies making high-profile announcements about pension contributions in excess of a billion dollars."

Major pension stories for 2011 include:

Contributions deferred to 2012 and beyond despite expectations for record contributions in 2011. While the $55.1 billion in contributions during 2011 was significantly greater than most prior years, the contribution total was $5.2 billion lower than the record level of $60.3 billion set during 2010. According to footnote disclosures and press releases, many companies have chosen to defer their pension contributions to 2012, and at least 10 companies have already disclosed to investors contributions in excess of a billion dollars.

Assets underperform expectations. The record growth in liabilities (9.3% over 2011) drowned out the 5.9% investment return for the year. These 100 companies had set an expectation that 2011 investment returns would be 7.8% on average.

Record pension expense. The decline in discount rates drove record levels of pension expense. These 100 companies faced a $38.3 billion charge to earnings, $7.8 billion higher than the $30.5 billion in 2010. The prospects for 2012 are even more severe: Given the record-low discount rates, we estimate that 2012 pension expense will increase $16 billion, resulting in a record $54 billion charge to corporate earnings.

Reduced reliance on equities and increased reliance on fixed income. Between 2010 and 2011, the percentage of pension plan assets invested in equities decreased from approximately 43.8% to 38.1%, while fixed-income allocations increased from 36.4% to 41.4%. For the first time in the history of the Milliman study, the allocation to fixed income exceeded the allocation to equities. This shift reflects the strong outperformance of fixed income over equities in 2011. It also reveals an emphasis on derisking by these 100 companies. Plans pursuing liability-driven investment strategies typically reduce their exposures to equities, increasing their allocation to fixed income, and lengthening the duration of fixed-income assets to more closely match their liabilities.

Expectations for 2012 tempered by record pension funding deficit. With the Federal Reserve indicating its intention to keep interest rates low through 2014, pension liabilities will remain high, as will the deficit. Companies that deferred contributions may increase contributions significantly in 2012.

To view the complete study, go to http://ow.ly/9WyKJ. 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 12 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 2012 Pension Funding Study are based on the pension plan accounting information disclosed in the footnotes to the companies' annual reports for the 2011 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 (formerly known as Statements of Financial Accounting Standards Number 87, 88, 106, 132, and 158). 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.

####