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Press Release

Milliman analysis: Despite de-risking by some plan sponsors, declining interest rates produce record pension deficit in 2012

Year-end discount rates fell to a record low of 4.02%, increasing pension funding deficits for the Milliman 100 companies by $61.1 billion and resulting in a record year-end deficit of $388.8 billion

Seattle – March 25, 2013 – Milliman, Inc., a premier global consulting and actuarial firm, today released the results of its 2013 Pension Funding Study, which analyzes the 100 largest US corporate pension plans. In 2012, these pension plans were once again defined by record-low discount rates, which led to record-high pension obligations and a $388.8 billion pension funding deficit—a $61.1 billion deficit increase in 2012. Since the end of 2010, declining interest rates have widened the pension funding deficit by more than $150 billion, driving record deficits in each of the last two years. The pension funding ratio stood at 77.2% at year's end, down from 79.2% at the end of 2011. The deficit increase and reduced funding ratio in 2012 happened in spite of efforts by certain plan sponsors to de-risk their pension plans.

"Many plan sponsors made significant efforts to de-risk their pension plans in 2012, even as record-low interest rates made it an expensive time to pursue these kinds of risk management efforts," says John Ehrhardt, consulting actuary and co-author of the Pension Funding Study. "But there was no fighting the inevitable gravity of these low interest rates, as the 100 pension plans in our study saw a cumulative deficit increase in excess of $60 billion. All this in spite of strong asset performance that exceeded the expectations of most plan sponsors. People are probably getting tired of hearing me say this, but pension funding status will continue to be tied to interest rates. If rates stay low—and all indications are that they will through 2014—these pension plans will struggle to fill their funding gap."

Major pension stories for 2012 include:

De-risking results in shakeup at the top of the Milliman 100. Throughout the 13 years Milliman has performed this analysis, General Motors has been the largest pension plan, based on total assets. That changed in 2012 after GM pursued de-risking efforts. IBM—long a solid #2 in the study—is now the largest pension plan in the Milliman 100. Other large plan sponsors, including Ford and Verizon, also pursued de-risking. Across the entire Milliman 100, de-risking by at least 15 plan sponsors resulted in a cumulative $45 billion reduction in plan obligations.

Asset increases and $61.5 billion in contributions were not enough to close the deficit. With an 11.7% investment return in 2012, the Milliman 100 pension plans performed better than they expected—but it wasn't enough to offset the ballooning deficit. Nor were contributions in excess of $60 billion.

Record contributions in 2012—but not at the level expected. While the $61.5 billion in contributions during 2012 was significantly greater than most prior years, it exceeded the 2011 total by only $6.3 billion and the 2010 total by only $1.8 billion. The lower-than-expected contributions were likely due to plan sponsors electing to change their contribution strategy following the passage of the MAP-21 interest rate stabilization legislation.

Another record year for pension expense. Following a $38.5 billion charge to earnings in 2011, the Milliman 100 pension plans again set a new record for total pension expense, with a $55.8 billion charge to earnings. The $17.3 billion increase in pension expense is consistent with the prediction of $16 billion reported by last year's study. This year's study predicts a $7.6 billion increase in pension expense in 2013.

Asset allocations relatively stable. In 2011, plan sponsors decreased the percentage of assets invested in equities by more than 5%. In 2012, the percentage of assets allocated to equities remained relatively stable (from 38.2% to 38.0%), as the move toward liability-driven investments (LDI) slowed. Because of the strong performance of equities in 2012, plans with higher equity allocations had better investment returns than those with higher allocations to fixed-income investments.

What to expect in 2013. With the Federal Reserve Board indicating its intention to keep interest rates low through 2014, pension obligations will remain high. The year is off to a strong start from an equity perspective, and de-risking may continue in 2013. But until interest rates move favorably, the pension funding deficit is likely to endure.

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 13 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 2013 Pension Funding Study are based on the pension plan accounting information disclosed in the footnotes to the companies' annual reports for the 2012 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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