

Milliman analysis: Corporate pension funded ratio nears 94% as funded status improves for the third straight month



The pension deficit is below \$100 billion for the first time in five years as the funded status increases by \$34 billion during November

All eyes on Fed policy:

Where will discount rates and the financial markets be at year-end?

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The funded status of the 100 largest corporate defined benefit pension plans improved by \$34 billion during November as measured by the Milliman 100 Pension Funding Index (PFI). The deficit declined to \$93 billion from \$126 billion at the end of October, due to a rise in the benchmark corporate bond interest rates used to value pension liabilities. Asset returns exceeded expectations and contributed to the funding improvement during November as well. The PFI funded ratio increased to 93.9% from 91.9% at the end of October.

HIGHLIGHTS

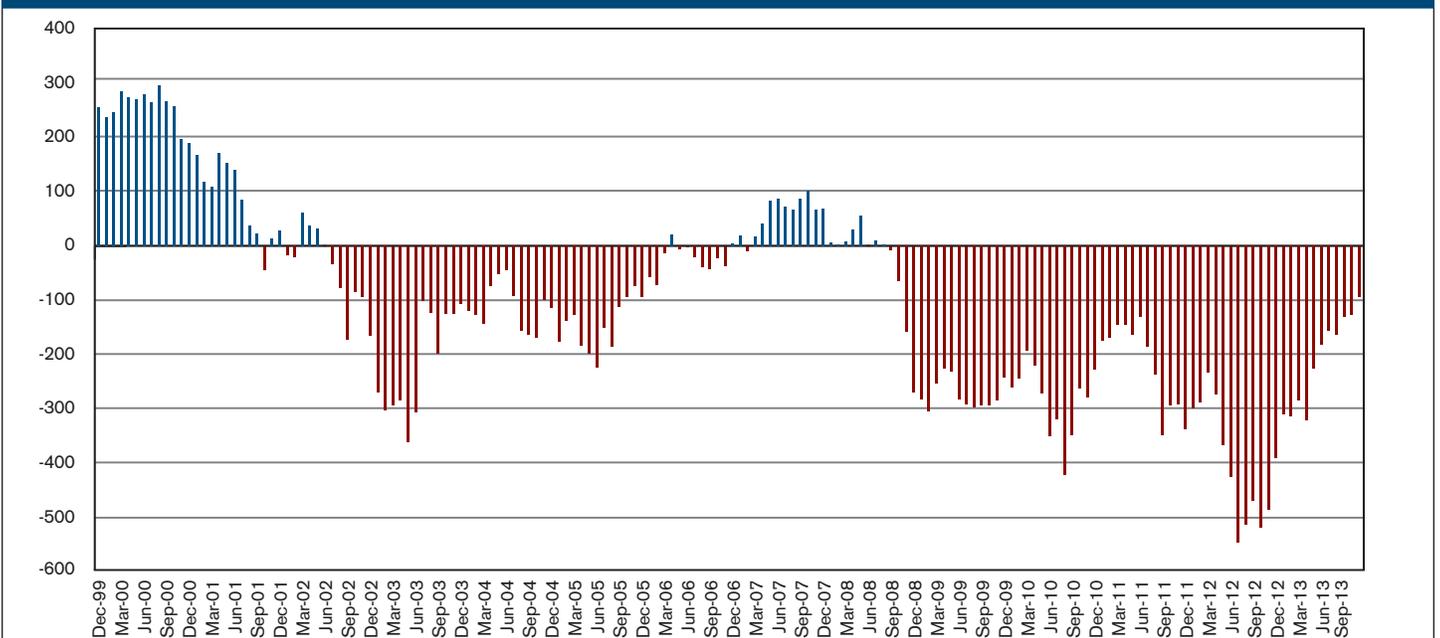
	\$ BILLION			FUNDED PERCENTAGE
	MV	PBO	FUNDED STATUS	
OCTOBER 2013	1,429	1,556	(126)	91.9%
NOVEMBER 2013	1,440	1,533	(93)	93.9%
MONTHLY CHANGE	+11	(23)	+34	+2.0%
YTD CHANGE	+118	(180)	+298	+16.7%

NOTE: NUMBERS MAY NOT ADD UP PRECISELY DUE TO ROUNDING

The projected benefit obligation (PBO), or pension liabilities, decreased to \$1.533 trillion from \$1.556 trillion at the end of October. This change was based on an 11-basis-point increase in the monthly discount rate to 4.78% for November, from 4.67% for October.

The market value of assets increased by \$11 billion as a result of November's investment gain of 0.88%. The Milliman 100 PFI asset value climbed to \$1.440 trillion, up from \$1.429 trillion at the end of October. By comparison, the 2013 Milliman Pension Funding Study reported that the monthly median expected investment return during 2012 was 0.60% (7.5% annualized).

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



As the pension assets have already achieved an investment gain of 10.38% through November 30, it is likely that the FY 2013 investment return will exceed the annual expected return of 7.5% for the fourth time in the last five years. The portfolio of assets would have to deteriorate by more than \$39 billion in December to reduce the actual return for FY 2013 to 7.5%. There has not been a monthly loss of at least \$39 billion since February 2009.

Over the last 12 months (December 2012 to November 2013), the cumulative asset return for these pensions has been 10.05% and the Milliman 100 PFI funded status deficit has improved by \$393 billion, primarily due to rising interest rates. The discount rate as of November 30, 2012, was 4.05%. The funded ratio of the Milliman 100 companies has improved over the past 12 months to 93.9% from 73.4%.

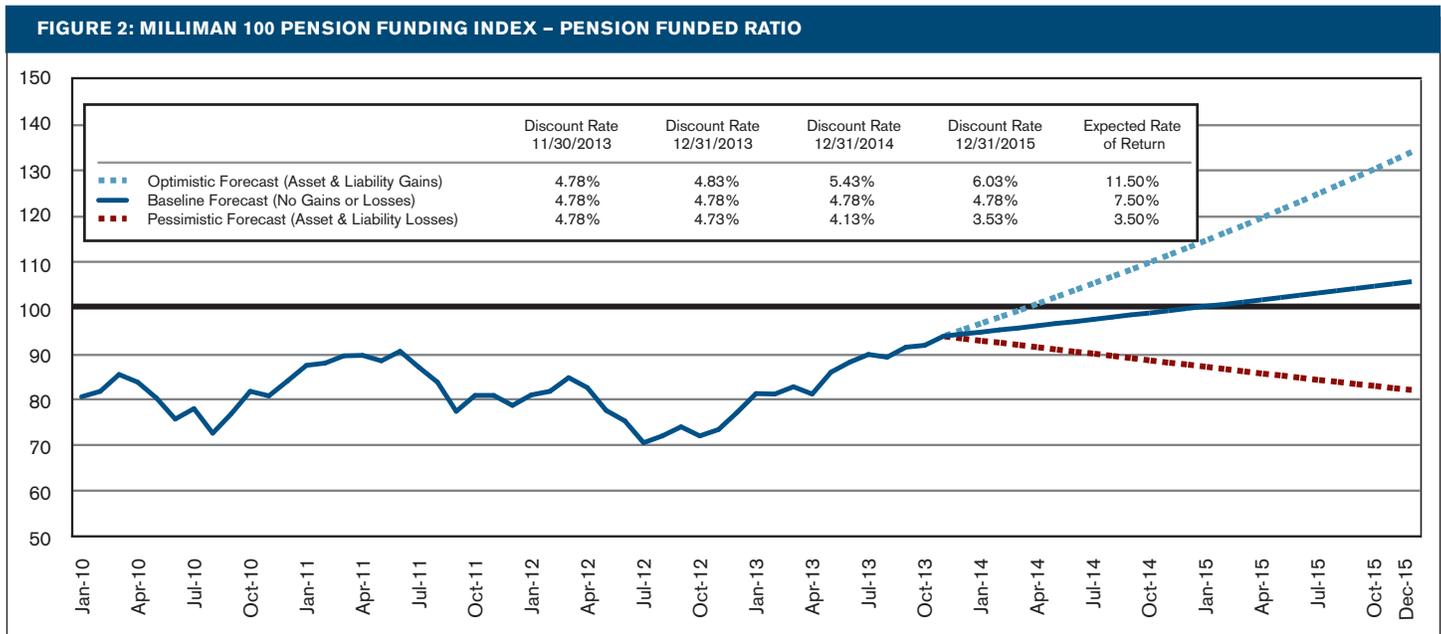
2013-2015 PROJECTIONS

If the Milliman 100 PFI companies were to achieve the expected 7.5% (as per the 2013 pension funding study) median asset return for their pension plan portfolios for the remainder of the projection period and the current discount rate of 4.78% were

maintained during years 2013 through 2015, we forecast that the funded status of the surveyed plans would increase. This would result in a projected pension surplus (funded ratio of 100.0%) by the end of 2014 and a projected pension surplus of \$92 billion (funded ratio of 105.9%) by the end of 2015. For purposes of this forecast, we have assumed 2013 aggregate contributions of \$74 billion and 2014 and 2015 aggregate contributions of \$81 billion.

Under an optimistic forecast with rising interest rates (reaching 5.43% by the end of 2014 and 6.03% by the end of 2015) and asset gains (11.5% annual returns), the funded ratio would climb to 113% by the end of 2014 and 134% by the end of 2015. Under a pessimistic forecast with similar interest rate and asset movements (4.13% discount rate at the end of 2014 and 3.53% by the end of 2015 and 3.5% annual returns), the funded ratio would decline to 88% by the end of 2014 and 82% by the end of 2015.

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MILLIMAN 100 PENSION FUNDING INDEX – NOVEMBER 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
NOVEMBER	2012	1,341,551	1,827,021	(485,470)	N/A	73.4%
DECEMBER	2012	1,322,002	1,712,697	(390,695)	94,775	77.2%
JANUARY	2013	1,342,030	1,651,004	(308,974)	81,721	81.3%
FEBRUARY	2013	1,351,607	1,665,403	(313,796)	(4,822)	81.2%
MARCH	2013	1,366,947	1,651,385	(284,438)	29,358	82.8%
APRIL	2013	1,389,460	1,710,739	(321,279)	(36,841)	81.2%
MAY	2013	1,383,901	1,609,793	(225,892)	95,387	86.0%
JUNE	2013	1,356,420	1,537,932	(181,512)	44,380	88.2%
JULY	2013	1,384,867	1,540,452	(155,585)	25,927	89.9%
AUGUST	2013	1,368,799	1,532,490	(163,691)	(8,106)	89.3%
SEPTEMBER	2013	1,397,997	1,527,475	(129,478)	34,213	91.5%
OCTOBER	2013	1,429,081	1,555,573	(126,492)	2,986	91.9%
NOVEMBER	2013	1,439,924	1,532,786	(92,862)	33,630	93.9%

PENSION ASSET AND LIABILITY RETURNS

END OF MONTH	YEAR	ASSET RETURNS		DISCOUNT RATE	LIABILITY RETURNS	
		MONTHLY	YEAR-TO-DATE		MONTHLY	YEAR-TO-DATE
NOVEMBER	2012	0.62%	8.39%	4.05%	-1.25%	16.92%
DECEMBER	2012	-0.30%	8.07%	3.96%	-4.20%	12.01%
JANUARY	2013	1.64%	1.64%	4.22%	-3.30%	-3.30%
FEBRUARY	2013	0.84%	2.49%	4.16%	1.18%	-2.15%
MARCH	2013	1.26%	3.78%	4.22%	-0.53%	-2.67%
APRIL	2013	1.77%	5.62%	3.98%	3.90%	1.12%
MAY	2013	-0.28%	5.33%	4.41%	-5.59%	-4.53%
JUNE	2013	-1.87%	3.36%	4.74%	-4.12%	-8.46%
JULY	2013	2.22%	5.66%	4.73%	0.51%	-7.99%
AUGUST	2013	-1.04%	4.56%	4.77%	-0.17%	-8.14%
SEPTEMBER	2013	2.26%	6.92%	4.80%	0.03%	-8.12%
OCTOBER	2013	2.34%	9.42%	4.67%	2.19%	-6.11%
NOVEMBER	2013	0.88%	10.38%	4.78%	-1.12%	-7.16%

ABOUT THE MILLIMAN 100 MONTHLY PENSION FUNDING INDEX

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 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 2012 fiscal year and for previous fiscal years. This pension plan accounting disclosure information was summarized as part of the Milliman 2013 Pension Funding Study, which was published on March 25, 2013. 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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Milliman 100 Pension Funding Index

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