

Milliman analysis: Corporate pension funded status improves in June by \$14 billion



Discount rates rise for the first time this year—but only by two basis points

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The funded status of the 100 largest corporate defined benefit pension plans increased by \$14 billion during June as measured by the Milliman 100 Pension Funding Index (PFI). The deficit fell to \$252 billion from \$266 billion at the end of May, due to investment gains. As of June 30, the funded ratio rose to 85.3%, up from 84.5% at the end of May. However, the funded ratio has still declined from 88.3% as of December 31, 2013. June was the first month in 2014 when discount rates increased, but only by 0.02%. Fortunately, the strong year-to-date asset performance has mitigated deeper funded status erosion.

The projected benefit obligation (PBO), or pension liabilities, decreased by \$3 billion during June, lowering the Milliman 100 PFI value to \$1.711 trillion. The PBO change resulted from an increase of two basis points in the monthly discount rate to 4.08% for June, from 4.06% for May. Prior to June 2014, the last time the discount rate had increased was during November 2013 when it stood at 4.78%.

HIGHLIGHTS

	\$ BILLION			FUNDED PERCENTAGE
	MV	PBO	FUNDED STATUS	
MAY 2014	1,448	1,715	(266)	84.5%
JUN 2014	1,459	1,711	(252)	85.3%
MONTHLY CHANGE	+11	(3)	+14	+0.8%
YTD CHANGE	+56	+122	(66)	-3.0%

NOTE: NUMBERS MAY NOT ADD UP PRECISELY DUE TO ROUNDING

The market value of assets increased by \$11 billion as a result of June's investment gain of 1.06%. The Milliman 100 PFI asset value increased to \$1.459 trillion, up from \$1.448 trillion at the end of May. By comparison, the 2014 Milliman Pension Funding Study reported that the monthly median expected investment return during 2013 was 0.60% (7.4% annualized).

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

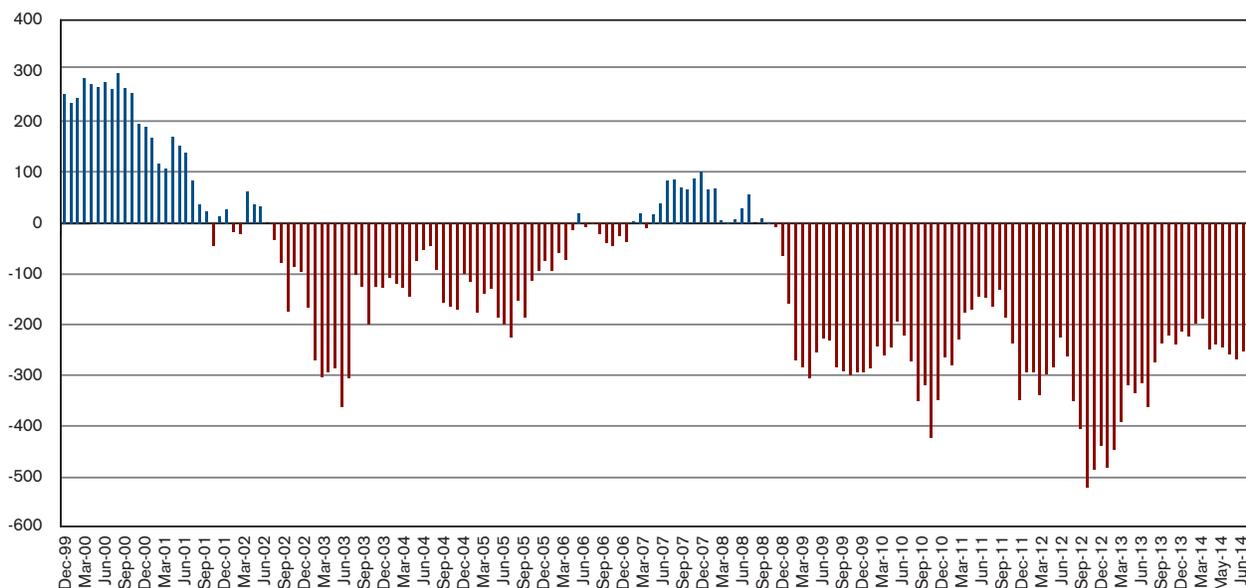
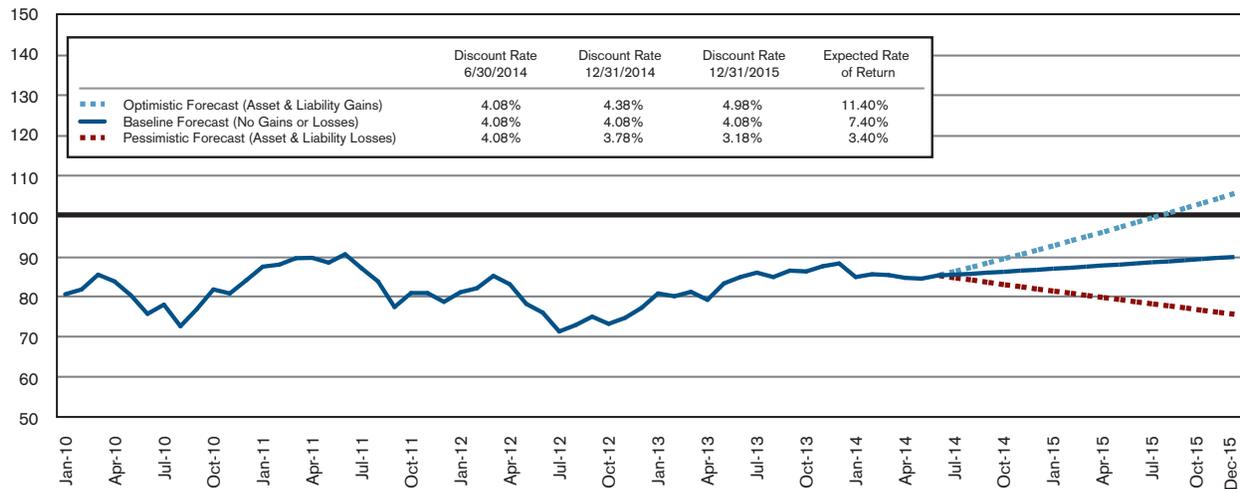


FIGURE 2: MILLIMAN 100 PENSION FUNDING INDEX – PENSION FUNDED RATIO



SECOND QUARTER 2014 SUMMARY

The year has been characterized by decreasing discount rates along with asset performance ahead of expectations. Discount rates have fallen by 60 basis points during the first half of 2014 and that has driven a year-to-date liability increase of \$122 billion. Plan assets earned above-expected returns for four out of the first six months of the year and have a 5.87% investment gain, totaling \$56 billion. The quarter ended June 30, 2014, saw the funded status deficit increasing to \$252 billion from \$244 billion. The funded ratio of the Milliman 100 companies only slightly decreased to 85.3% at the end of June from 85.4% at the end of March as most of the discount rate erosion had occurred during the first quarter of 2014.

Over the last 12 months (July 2013 to June 2014), the cumulative asset return for these pensions has been 14% and the Milliman 100 PFI funded status deficit has improved by \$15 billion. The strong asset performance experienced over the last 12 months has fueled the funded status improvement, mitigating the effects of interest rate decreases. Since June 30, 2013, the discount rate has dropped 66 basis points to 4.08% from 4.74%. The funded ratio of the Milliman 100 companies has marginally increased over the past 12 months to 84.9% from 85.3%.

2014-2015 PROJECTIONS

If the Milliman 100 PFI companies were to achieve the expected 7.4% (as per the 2014 Milliman Pension Funding Study) median asset return for their pension plan portfolios and the current discount rate of 4.08% was maintained during years 2014 and 2015, we forecast the funded status of the surveyed plans would increase.

This would result in a projected pension deficit of \$228 billion (funded ratio of 86.7%) by the end of 2014 and a projected pension deficit of \$173 billion (funded ratio of 89.9%) by the end of 2015. For purposes of this forecast, we have assumed 2014 aggregate contributions of \$44 billion and 2015 aggregate contributions of \$48 billion.

Under an optimistic forecast with rising interest rates (reaching 4.38% by the end of 2014 and 4.98% by the end of 2015) and asset gains (11.4% annual returns), the funded ratio would climb to 92% by the end of 2014 and 106% by the end of 2015. Under a pessimistic forecast with similar interest rate and asset movements (3.78% discount rate at the end of 2014 and 3.18% by the end of 2015 and 3.4% annual returns), the funded ratio would decline to 82% by the end of 2014 and 76% by the end of 2015.

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MILLIMAN 100 PENSION FUNDING INDEX – JUNE 2014 (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
JUNE	2013	1,334,209	1,571,037	(236,828)	N/A	84.9%
JULY	2013	1,358,447	1,579,207	(220,760)	16,068	86.0%
AUGUST	2013	1,338,996	1,576,631	(237,635)	(16,875)	84.9%
SEPTEMBER	2013	1,363,801	1,577,060	(213,259)	24,376	86.5%
OCTOBER	2013	1,390,238	1,611,781	(221,543)	(8,284)	86.3%
NOVEMBER	2013	1,396,687	1,593,818	(197,131)	24,412	87.6%
DECEMBER	2013	1,403,016	1,589,236	(186,220)	10,911	88.3%
JANUARY	2014	1,393,680	1,641,543	(247,863)	(61,643)	84.9%
FEBRUARY	2014	1,421,399	1,660,091	(238,692)	9,171	85.6%
MARCH	2014	1,420,827	1,664,589	(243,762)	(5,070)	85.4%
APRIL	2014	1,427,387	1,685,496	(258,109)	(14,347)	84.7%
MAY	2014	1,448,133	1,714,506	(266,373)	(8,264)	84.5%
JUNE	2014	1,459,190	1,711,208	(252,018)	14,355	85.3%

PENSION ASSET AND LIABILITY RETURNS

END OF MONTH	YEAR	ASSET RETURNS			LIABILITY RETURNS	
		MONTHLY	YEAR-TO-DATE	DISCOUNT RATE	MONTHLY	YEAR-TO-DATE
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	0.86%	10.36%	4.78%	-1.12%	-7.16%
DECEMBER	2013	0.85%	11.29%	4.68%	-0.29%	-7.43%
JANUARY	2014	-0.36%	-0.36%	4.41%	3.64%	3.64%
FEBRUARY	2014	2.30%	1.92%	4.32%	1.46%	5.15%
MARCH	2014	0.26%	2.18%	4.30%	0.60%	5.78%
APRIL	2014	0.76%	2.96%	4.20%	1.58%	7.46%
MAY	2014	1.75%	4.77%	4.06%	2.04%	9.64%
JUNE	2014	1.06%	5.87%	4.08%	0.12%	9.77%

ABOUT THE MILLIMAN 100 MONTHLY PENSION FUNDING INDEX

For the past 14 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 2013 fiscal year and for previous fiscal years. This pension plan accounting disclosure information was summarized as part of the Milliman 2014 Pension Funding Study, which was published on April 2, 2014. 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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