Milliman analysis: Funded status leaps closer to "full funding" as interest rates rise for the third consecutive month in March

Milliman 100 PFI funded ratio improves to 98.4%

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The funded status of the 100 largest corporate defined benefit pension plans rose by $62 billion during March as measured by the Milliman 100 Pension Funding Index (PFI). The funded status deficit improved to $29 billion from $91 billion at the end of February 2021, due to liability gains incurred during March. The liability improvement was the result of an increase in the benchmark corporate bond interest rates used to value pension liabilities. As of March 31, 2021, the funded ratio rose to 98.4%, up from 95.1% at the end of February. March's increase caps an impressive first quarter of 2021, which saw a $161 billion improvement in funded status. The Milliman 100 PFI funded status is now less than two percentage points away from full funding (at 100%), as the deficit has declined by almost a quarter of a trillion dollars since September 30, 2020.

The Milliman 100 PFI asset value remained at $1.760 trillion during March due to a relatively low monthly return of 0.37%. By comparison, the 2021 Milliman Pension Funding Study reported that the monthly median expected investment return during 2020 was 0.50% (6.2% annualized).

HIGHLIGHTS

	$ BILLION			
	MV	PBO	FUNDED STATUS	FUNDED PERCENTAGE
FEBRUARY	1,760	1,851	(91)	95.1%
MARCH	1,760	1,789	(29)	98.4%
MONTHLY CHANGE	(0)	(62)	+62	3.3%
YTD CHANGE	(19)	(179)	+161	8.1%

Note: Numbers may not add up precisely due to rounding

The projected benefit obligation (PBO), or pension liabilities, decreased to $1.789 trillion at the end of March. The change resulted from an increase of 24 basis points in the monthly discount rate to 3.12% for March from 2.88% for February 2021. This was the first time discount rates have exceeded 3% at month-end in the last 12 months.

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

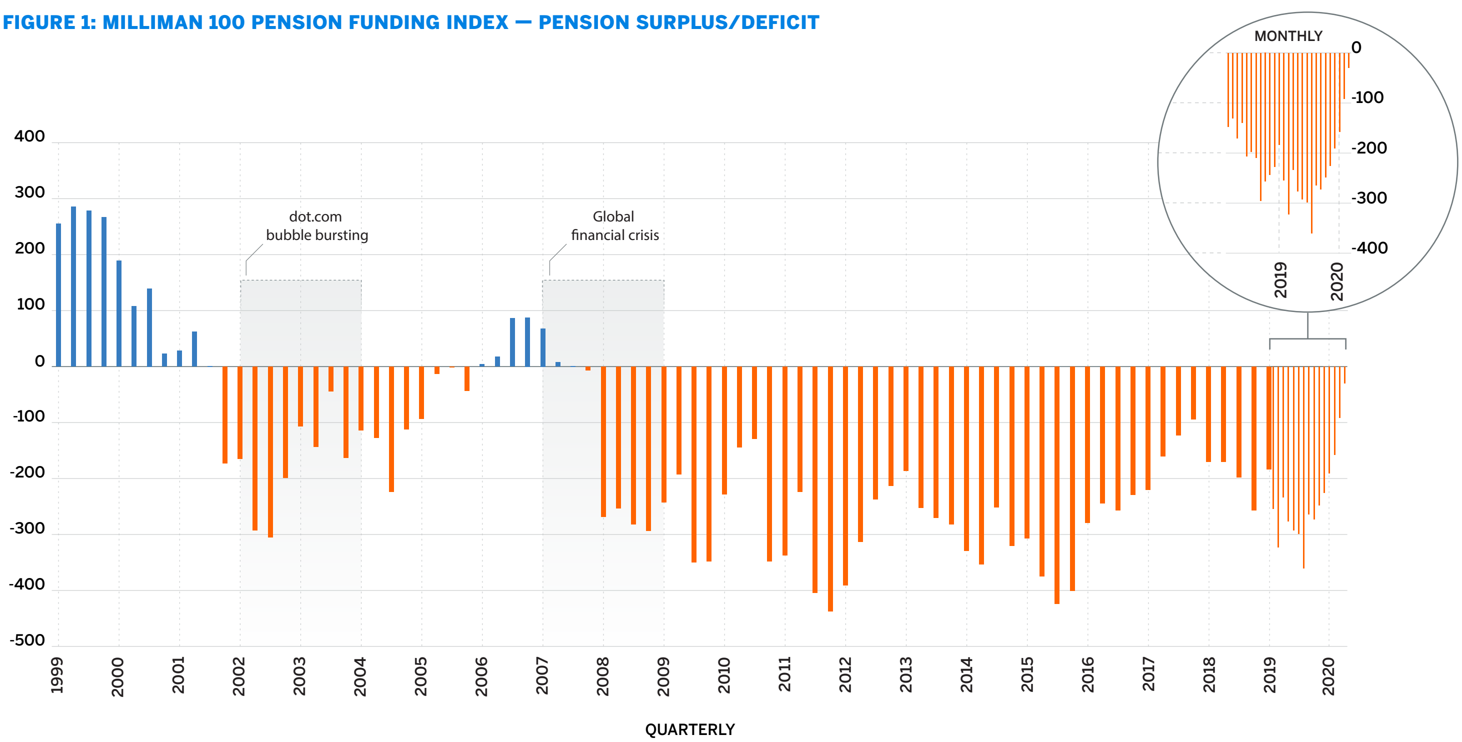
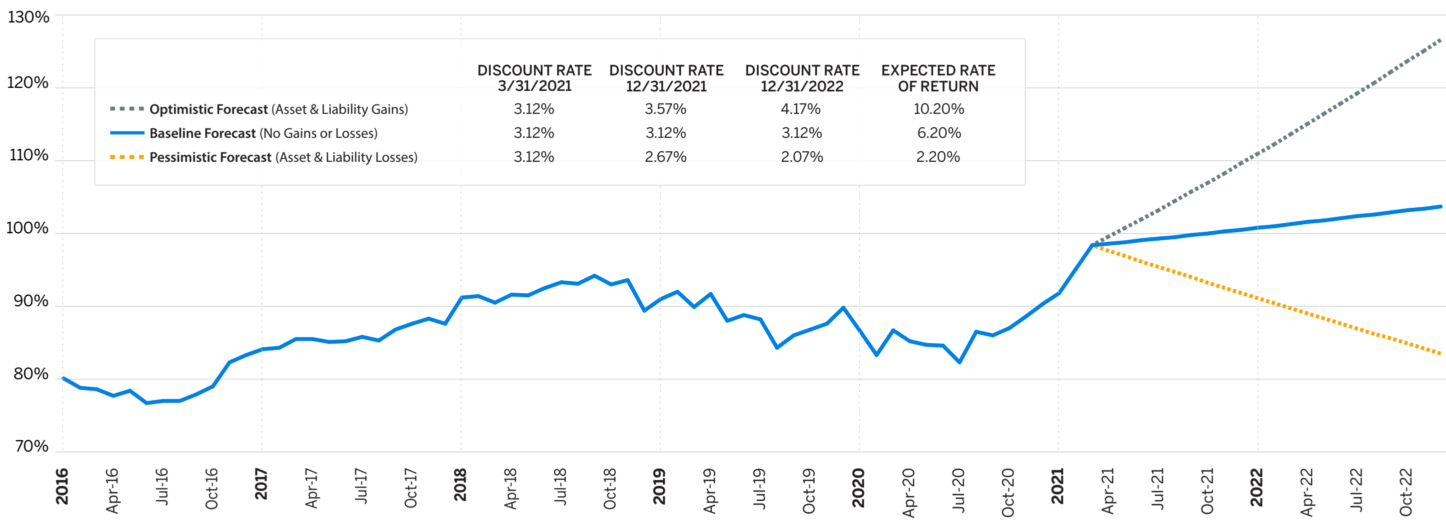


FIGURE 2: MILLIMAN 100 PENSION FUNDING INDEX — PENSION FUNDED RATIO



First quarter of 2021: Summary

For the quarter ending March 31, 2021, assets fell by $19 billion compared to plan liabilities, which decreased by $179 billion. While investment returns were a paltry 0.09% during the first quarter of 2021, discount rates rose 66 basis points and helped to propel the funded status improvement. The funded status deficit fell to $29 billion by the end of the first quarter. The funded ratio of the Milliman 100 companies improved to 98.4% at the end of March from 90.3% at the beginning of 2021.

Over the last 12 months (April 2020-March 2021), the cumulative asset return for these pensions has been 18.6% and the Milliman 100 PFI funded status deficit has improved by $204 billion. The funded status gain is primarily the result of stellar investment returns over the last 12-month period. Discount rates declined through most of 2020 and only recently showed upward movements during the first quarter of 2021. One year ago, the discount rate was 3.39% compared to 3.12% as of March 31, 2021, signifying a net drop of 27 basis points over the last 12 months.

PFI reconciliation

This PFI publication reflects the annual update of the Milliman 100 companies and their 2020 financial figures included in the Milliman 2021 Pension Funding Study. The revised December 31, 2020 pension obligation was $12 billion lower than we previously projected after accounting for lump-sum window settlements and pension risk transfers (de-risking activities) and updated mortality assumptions as of year-end 2020. The actual PFI asset value was $33 billion higher than projected due to actual investment gains that were higher than anticipated during 2020.

The net adjustments introduced by the Milliman 2021 Pension Funding Study led to a funded status gain of $45 billion and a corresponding increase to the funded ratio, bringing it from 88.1% to 90.3% as of December 31, 2020.

2021-2022 projections

If the Milliman 100 PFI companies were to achieve the expected 6.2% median asset return (as per the 2021 pension funding study), and if the current discount rate of 3.12% 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 surplus of $9 billion (funded ratio of 100.5%) by the end of 2021 and a projected pension surplus of $65 billion (funded ratio of 103.7%) by the end of 2022. For purposes of this forecast, we have assumed 2021 and 2022 aggregate annual contributions of $25 billion and $28 billion, respectively.

Under an optimistic forecast with rising interest rates (reaching 3.57% by the end of 2021 and 4.17% by the end of 2022) and asset gains (10.2% annual returns), the funded ratio would climb to 110% by the end of 2021 and 127% by the end of 2022. Under a pessimistic forecast with similar interest rate and asset movements (2.67% discount rate at the end of 2021 and 2.07% by the end of 2022 and 2.2% annual returns), the funded ratio would decline to 92% by the end of 2021 and 84% by the end of 2022.

MILLIMAN 100 PENSION FUNDING INDEX — MARCH 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
MARCH	2020	1,521,188	1,754,545	(233,357)	N/A	86.7%
APRIL	2020	1,589,805	1,865,965	(276,160)	(42,803)	85.2%
MAY	2020	1,614,226	1,906,180	(291,954)	(15,794)	84.7%
JUNE	2020	1,633,797	1,932,334	(298,537)	(6,583)	84.6%
JULY	2020	1,679,006	2,039,579	(360,573)	(62,036)	82.3%
AUGUST	2020	1,691,960	1,956,005	(264,045)	96,528	86.5%
SEPTEMBER	2020	1,673,462	1,946,196	(272,734)	(8,689)	86.0%
OCTOBER	2020	1,656,595	1,904,612	(248,017)	24,717	87.0%
NOVEMBER	2020	1,743,353	1,968,350	(224,997)	23,020	88.6%
DECEMBER	2020	1,778,535	1,968,688	(190,153)	34,844	90.3%
JANUARY	2021	1,763,592	1,921,148	(157,556)	32,597	91.8%
FEBRUARY	2021	1,760,120	1,851,360	(91,240)	66,316	95.1%
MARCH	2021	1,759,807	1,789,278	(29,471)	61,769	98.4%

PENSION ASSET AND LIABILITY RETURNS

		ASSET RETURNS			LIABILITY RETURNS	
END OF MONTH	YEAR	MONTHLY	YEAR-TO-DATE	DISCOUNT RATE	MONTHLY	YEAR-TO-DATE
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	5.39%	9.21%	2.47%	3.70%	13.33%
DECEMBER	2020	2.15%	11.56%	2.46%	0.36%	13.73%
JANUARY	2021	-0.46%	-0.46%	2.62%	-2.08%	-2.08%
FEBRUARY	2021	0.19%	-0.28%	2.88%	-3.28%	-5.29%
MARCH	2021	0.37%	0.09%	3.12%	-2.98%	-8.11%

ABOUT THE MILLIMAN 100 MONTHLY PENSION FUNDING INDEX

For the past 21 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 2020 fiscal year and for previous fiscal years. This pension plan accounting disclosure information was summarized as part of the Milliman 2021 Pension Funding Study, which was published on April 7, 2021. 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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