

Milliman analysis: Funded status drops by \$68 billion in July

New all-time low discount rate causes Milliman 100 PFI funded ratio to plummet to 81.1% despite asset gains

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The funded status of the 100 largest corporate defined benefit pension plans decreased by \$68 billion during July as measured by the Milliman 100 Pension Funding Index (PFI). The deficit ballooned to \$388 billion, with liability losses outweighing asset gains during July. Pension liabilities rose due to a decrease in the benchmark corporate bond interest rates used to value those liabilities. As of July 31, the funded ratio dropped to 81.1%, down from 83.5% at the end of June. This is the lowest funded ratio observed since the end of October 2016, when it was 79.0%. The current PFI funded ratio is down 8.7% relative to the start of 2020, when it measured 89.8%.

July's robust 2.85% investment return raised the Milliman 100 PFI asset value by \$41 billion to \$1.659 trillion from \$1.618 trillion at the end of June. By comparison, the 2020 Milliman Pension Funding Study reported that the monthly median expected investment return during 2019 was 0.53% (6.5% annualized).

HIGHLIGHTS

	\$ BILLION			FUNDED PERCENTAGE
	MV	PBO	FUNDED STATUS	
JUNE	1,618	1,938	(320)	83.5%
JULY	1,659	2,047	(388)	81.1%
MONTHLY CHANGE	+41	+109	(68)	-2.4%
YTD CHANGE	+36	+241	(204)	-8.7%

Note: Numbers may not add up precisely due to rounding

The full results of the annual 2020 study can be found at milliman.com/pfs. July's above-average asset return builds on a strong second quarter of returns, which offset losses experienced during the first quarter of 2020.

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

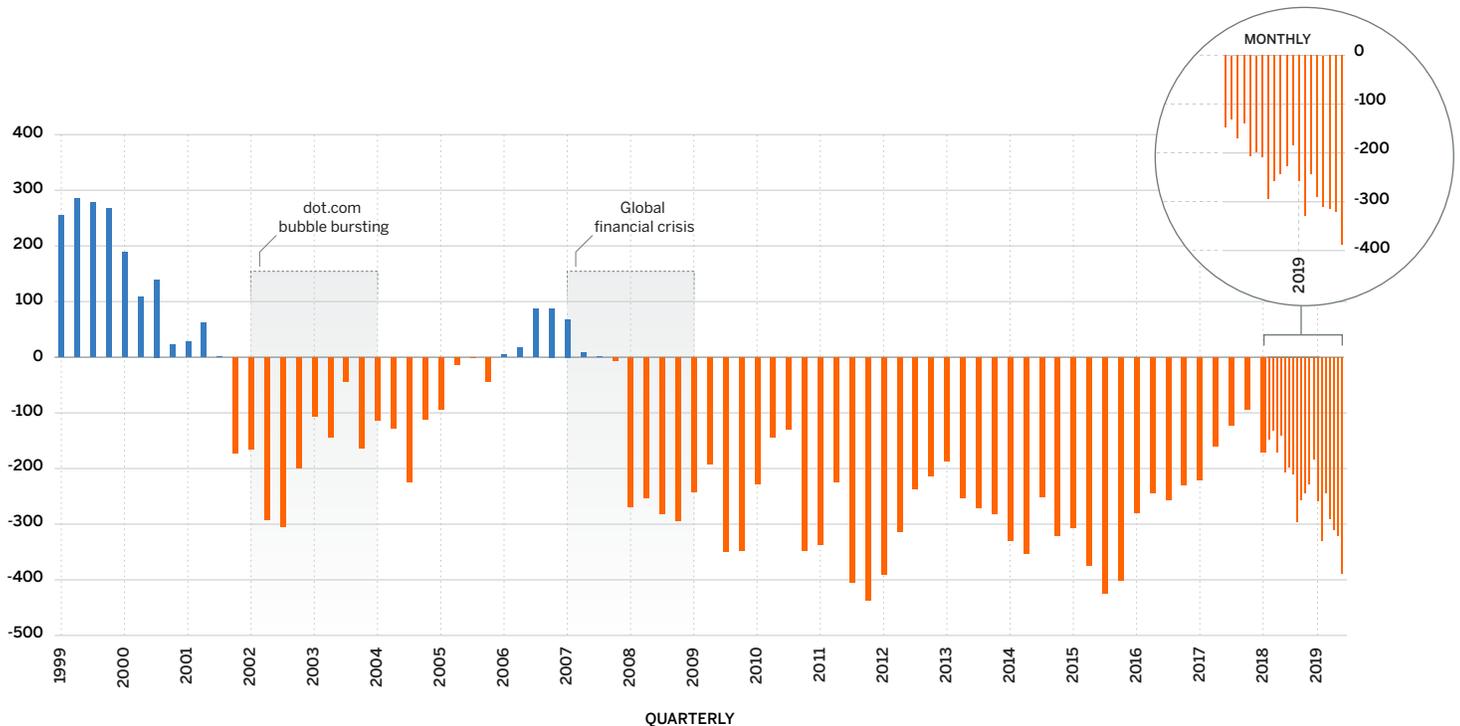
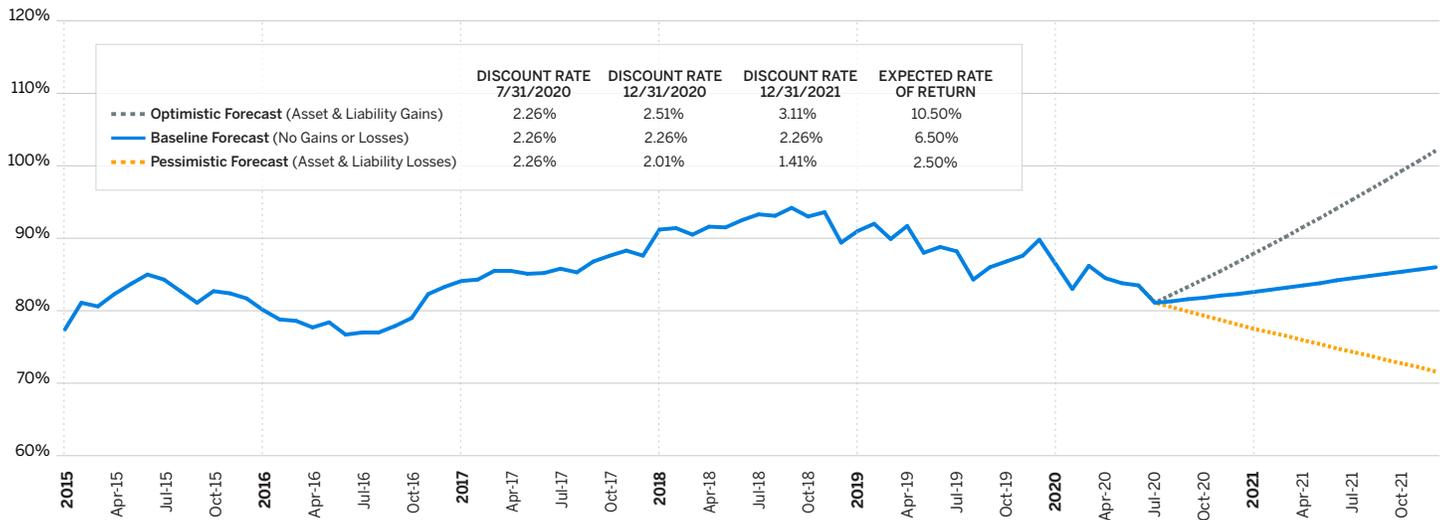


FIGURE 2: MILLIMAN 100 PENSION FUNDING INDEX — PENSION FUNDED RATIO



The projected benefit obligation (PBO) also rose during July, increasing the Milliman 100 PFI value to \$2.047 trillion. This marks the first time the PBO of the Milliman 100 PFI has crossed the \$2 trillion threshold. The increase in liabilities resulted from a decrease of 39 basis points in the monthly discount rate to 2.26% for July, from 2.65% in June. July’s discount rate eclipses the previous discount rate low observed in June and once again sets a new record for lowest discount rate observed in the 20 year history of the Milliman 100 PFI.

Over the last 12 months (August 2019–July 2020), the cumulative asset return for these pensions has been 9.53% but the Milliman 100 PFI funded status deficit has worsened by \$178 billion. The primary reason for the deterioration in the funded status deficit has been discount rate declines over the past 12 months. Discount rates have precipitously fallen from 3.37% as of July 31, 2019 to 2.26% a year later. The funded ratio of the Milliman 100 companies has decreased over the past 12 months to 81.1% from 88.2%.

2020-2021 Projections

If the Milliman 100 PFI companies were to achieve the expected 6.5% median asset return (as per the 2020 pension funding study), and if the current discount rate of 2.26% were maintained during years 2020 through 2021, we forecast that the funded status of the surveyed plans would increase. This would result in a projected pension deficit of \$360 billion (funded ratio of 82.3%) by the end of 2020 and a projected pension deficit of \$282 billion (funded ratio of 86.0%) by the end of 2021. For purposes of this forecast, we have assumed 2020 and 2021 aggregate annual contributions of \$40 billion and \$50 billion, respectively.

Under an optimistic forecast with rising interest rates (reaching 2.51% by the end of 2020 and 3.11% by the end of 2021) and asset gains (10.5% annual returns), the funded ratio would climb to 87% by the end of 2020 and 102% by the end of 2021. Under a pessimistic forecast with similar interest rate and asset movements (2.01% discount rate at the end of 2020 and 1.41% by the end of 2021 and 2.5% annual returns), the funded ratio would decline to 78% by the end of 2020 and 72% by the end of 2021.

ABOUT THE MILLIMAN 100 MONTHLY PENSION FUNDING INDEX

For the past 20 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 2019 fiscal year and for previous fiscal years. This pension plan accounting disclosure information was summarized as part of the Milliman 2020 Pension Funding Study, which was published on April 28, 2020. 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.

MILLIMAN 100 PENSION FUNDING INDEX — JULY 2020 (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
JULY	2019	1,566,982	1,776,274	(209,292)	N/A	88.2%
AUGUST	2019	1,582,941	1,878,014	(295,073)	(85,781)	84.3%
SEPTEMBER	2019	1,583,143	1,839,978	(256,835)	38,238	86.0%
OCTOBER	2019	1,596,825	1,840,012	(243,187)	13,648	86.8%
NOVEMBER	2019	1,608,203	1,835,329	(227,126)	16,061	87.6%
DECEMBER	2019	1,622,903	1,806,420	(183,517)	43,609	89.8%
JANUARY	2020	1,634,276	1,892,068	(257,792)	(74,275)	86.4%
FEBRUARY	2020	1,605,039	1,934,508	(329,469)	(71,677)	83.0%
MARCH	2020	1,514,032	1,757,304	(243,272)	86,197	86.2%
APRIL	2020	1,579,838	1,869,878	(290,040)	(46,768)	84.5%
MAY	2020	1,601,526	1,911,178	(309,652)	(19,612)	83.8%
JUNE	2020	1,618,277	1,938,415	(320,138)	(10,486)	83.5%
JULY	2020	1,659,337	2,047,070	(387,733)	(67,595)	81.1%

PENSION ASSET AND LIABILITY RETURNS

END OF MONTH	YEAR	ASSET RETURNS		DISCOUNT RATE	LIABILITY RETURNS	
		MONTHLY	YEAR-TO-DATE		MONTHLY	YEAR-TO-DATE
JULY	2019	0.42%	10.37%	3.37%	1.22%	13.26%
AUGUST	2019	1.26%	11.76%	2.95%	6.11%	20.18%
SEPTEMBER	2019	0.25%	12.04%	3.09%	-1.66%	18.19%
OCTOBER	2019	1.10%	13.27%	3.08%	0.38%	18.63%
NOVEMBER	2019	0.95%	14.35%	3.09%	0.12%	18.77%
DECEMBER	2019	1.15%	15.66%	3.20%	-1.20%	17.35%
JANUARY	2020	1.01%	1.01%	2.85%	5.07%	5.07%
FEBRUARY	2020	-1.48%	-0.49%	2.69%	2.55%	7.75%
MARCH	2020	-5.37%	-5.83%	3.39%	-8.83%	-1.77%
APRIL	2020	4.69%	-1.42%	2.92%	6.74%	4.86%
MAY	2020	1.69%	0.25%	2.76%	2.52%	7.50%
JUNE	2020	1.36%	1.62%	2.65%	1.73%	9.36%
JULY	2020	2.85%	4.52%	2.26%	5.89%	15.80%



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