

Milliman analysis: Funded status declines by \$11 billion in July as discount rates drop to their lowest point year-to-date

The Milliman 100 PFI funded ratio decreased to 87.9%, deficit reaches largest amount year-to-date at \$216 billion

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The funded status of the 100 largest corporate defined benefit pension plans decreased by \$11 billion during July as measured by the Milliman 100 Pension Funding Index (PFI). The funded status deficit swelled to \$216 billion from \$205 billion at the end of June due to a decrease in the benchmark corporate bond interest rates used to value pension liabilities. The funded status decline was partially offset by moderate investment returns. As of July 31, the funded ratio fell to 87.9%, down from 88.4% at the end of June.

Between June 30 and July 31, the projected benefit obligation (PBO) increased by \$15 billion, raising the Milliman 100 PFI liability value to \$1.783 trillion from \$1.768 trillion. The change was the result of an eight basis point decrease in the monthly discount rate, which declined to 3.37% for July from 3.45% in June. July’s discount rate is the third lowest discount in the 19-year history of the PFI. Only July 2016 and August 2016 experienced lower discount rates, at 3.33% and 3.32%, respectively.

HIGHLIGHTS

| | \$ BILLION | | | |
|----------------|------------|-------|---------------|-------------------|
| | MV | PBO | FUNDED STATUS | FUNDED PERCENTAGE |
| JUNE | 1,563 | 1,768 | (205) | 88.4% |
| JULY | 1,567 | 1,783 | (216) | 87.9% |
| MONTHLY CHANGE | +4 | +15 | (11) | -0.5% |
| YTD CHANGE | +122 | +168 | (46) | -1.5% |

Note: Numbers may not add up precisely due to rounding

July’s 0.56% investment return raised the Milliman 100 PFI asset value by \$4 billion to \$1,567 trillion. By comparison, the 2019 Milliman Pension Funding Study reported that the monthly median expected investment return during 2018 was 0.53% (6.6% annualized).

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

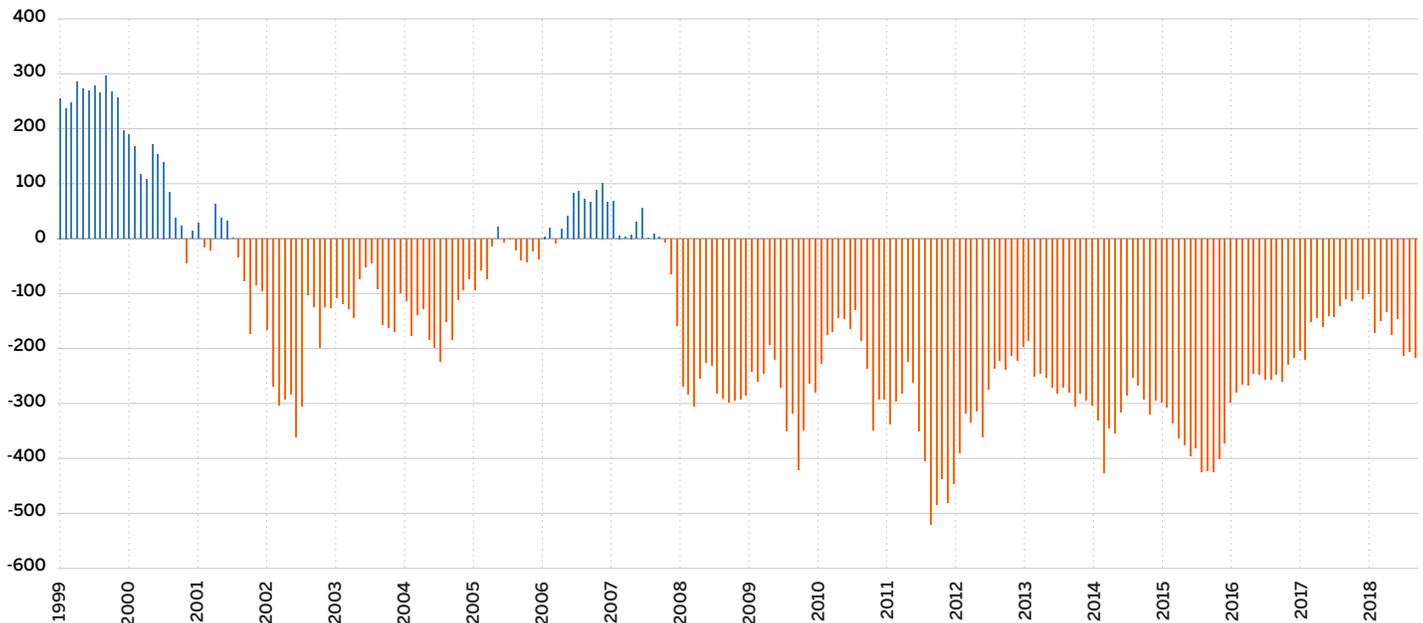
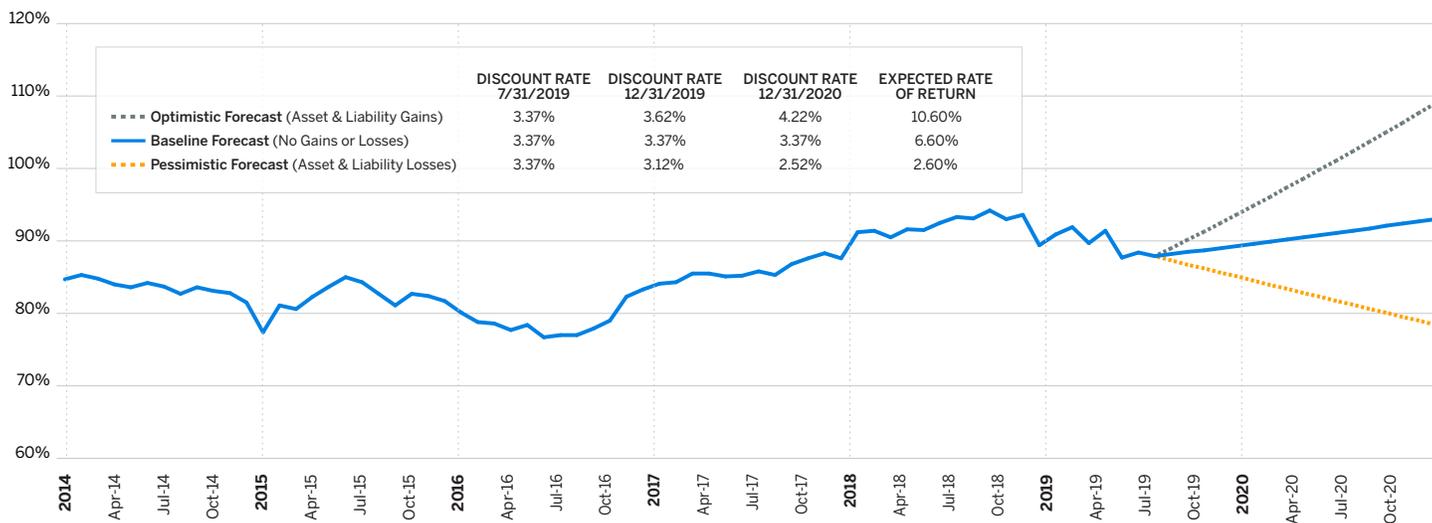


FIGURE 2: MILLIMAN 100 PENSION FUNDING INDEX — PENSION FUNDED RATIO



Over the last 12 months (August 2018–July 2019), the cumulative asset return for these pensions has been 6.42% and the Milliman 100 PFI funded status deficit has worsened by \$107 billion. Discount rates experienced a 74 basis point decrease over the last 12 months, moving from 4.11% as of July 31, 2018 to 3.37% a year later. The funded ratio of the Milliman 100 companies has decreased over the past 12 months to 87.9% from 93.3%.

2019-2020 Projections

If the Milliman 100 PFI companies were to achieve the expected 6.6% median asset return (as per the 2019 Pension Funding Study), and if the current discount rate of 3.37% were maintained during years 2019 through 2020, we forecast that the funded status of the surveyed plans would increase. This would result in a projected pension deficit of \$190 billion (funded ratio of 89.3%) by the end of 2019 and a projected pension deficit of \$124 billion (funded ratio of 93.0%) by the end of 2020. For purposes of this forecast, we have assumed 2019 and 2020 aggregate annual contributions of \$50 billion.

Under an optimistic forecast with rising interest rates (reaching 3.62% by the end of 2019 and 4.22% by the end of 2020) and asset gains (10.6% annual returns), the funded ratio would climb to 94% by the end of 2019 and 109% by the end of 2020. Under a pessimistic forecast with similar interest rate and asset movements (3.12% discount rate at the end of 2019 and 2.52% by the end of 2020 and 2.6% annual returns), the funded ratio would decline to 85% by the end of 2019 and 78% by the end of 2020.

About the Milliman 100 Monthly Pension Funding Index

For the past 19 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 2018 fiscal year and for previous fiscal years. This pension plan accounting disclosure information was summarized as part of the Milliman 2019 Pension Funding Study, which was published on April 16, 2019. 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.

CONTACT

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MILLIMAN 100 PENSION FUNDING INDEX — JULY 2019 (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 | 2018 | 1,528,868 | 1,638,479 | (109,611) | N/A | 93.3% |
| AUGUST | 2018 | 1,536,024 | 1,649,661 | (113,637) | (4,026) | 93.1% |
| SEPTEMBER | 2018 | 1,527,545 | 1,621,478 | (93,933) | 19,704 | 94.2% |
| OCTOBER | 2018 | 1,466,721 | 1,577,044 | (110,323) | (16,390) | 93.0% |
| NOVEMBER | 2018 | 1,474,576 | 1,574,756 | (100,180) | 10,143 | 93.6% |
| DECEMBER | 2018 | 1,444,672 | 1,615,128 | (170,456) | (70,276) | 89.4% |
| JANUARY | 2019 | 1,491,598 | 1,640,656 | (149,058) | 21,398 | 90.9% |
| FEBRUARY | 2019 | 1,502,098 | 1,635,088 | (132,990) | 16,068 | 91.9% |
| MARCH | 2019 | 1,523,066 | 1,697,476 | (174,410) | (41,420) | 89.7% |
| APRIL | 2019 | 1,536,084 | 1,681,005 | (144,921) | 29,489 | 91.4% |
| MAY | 2019 | 1,517,490 | 1,730,603 | (213,113) | (68,192) | 87.7% |
| JUNE | 2019 | 1,562,519 | 1,767,860 | (205,341) | 7,772 | 88.4% |
| JULY | 2019 | 1,567,192 | 1,783,382 | (216,190) | (10,849) | 87.9% |

PENSION ASSET AND LIABILITY RETURNS

| END OF MONTH | YEAR | ASSET RETURNS | | DISCOUNT RATE | LIABILITY RETURNS | |
|--------------|------|---------------|--------------|---------------|-------------------|--------------|
| | | MONTHLY | YEAR-TO-DATE | | MONTHLY | YEAR-TO-DATE |
| JULY | 2018 | 1.21% | 0.84% | 4.11% | 0.42% | -4.94% |
| AUGUST | 2018 | 0.83% | 1.68% | 4.05% | 1.11% | -3.88% |
| SEPTEMBER | 2018 | -0.19% | 1.48% | 4.18% | -1.28% | -5.10% |
| OCTOBER | 2018 | -3.63% | -2.20% | 4.40% | -2.30% | -7.28% |
| NOVEMBER | 2018 | 0.91% | -1.30% | 4.41% | 0.31% | -6.99% |
| DECEMBER | 2018 | -1.66% | -2.94% | 4.19% | 3.01% | -4.19% |
| JANUARY | 2019 | 3.54% | 3.54% | 4.06% | 1.97% | 1.97% |
| FEBRUARY | 2019 | 0.98% | 4.56% | 4.08% | 0.05% | 2.02% |
| MARCH | 2019 | 1.67% | 6.30% | 3.78% | 4.19% | 6.30% |
| APRIL | 2019 | 1.13% | 7.50% | 3.85% | -0.60% | 5.66% |
| MAY | 2019 | -0.94% | 6.49% | 3.61% | 3.31% | 9.16% |
| JUNE | 2019 | 3.24% | 9.94% | 3.45% | 2.50% | 11.89% |
| JULY | 2019 | 0.56% | 10.56% | 3.37% | 1.22% | 13.26% |