

# Milliman analysis: Funded status shows small improvement in June

The Milliman 100 PFI funded ratio increased to 88.0% in spite of discount rate lows not seen in the past three years

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The funded status of the 100 largest corporate defined benefit pension plans increased by \$1 billion during June as measured by the Milliman 100 Pension Funding Index (PFI). The deficit changed to \$212 billion from \$213 billion at the end of May primarily due to robust asset gains in June. Offsetting the asset gains were rising pension liabilities, the result of a decrease in the benchmark corporate bond interest rates used to value those liabilities. As of June 30, the funded ratio inched upward to 88.0%, from 87.7% at the end of May. The current funded ratio at mid-year trails the funded ratio of 89.4% seen at the start of 2019.

June's solid 2.82% investment gain raised the Milliman 100 PFI asset value by \$38 billion to \$1.556 trillion, up from \$1.518 trillion at the end of May. By comparison, the 2019 Milliman Pension Funding Study reported that the monthly median expected investment return during 2018 was 0.53% (6.6% annualized). June's asset returns more than made up for investment losses experienced in May and continues the upward march of asset gains seen during most of 2019.

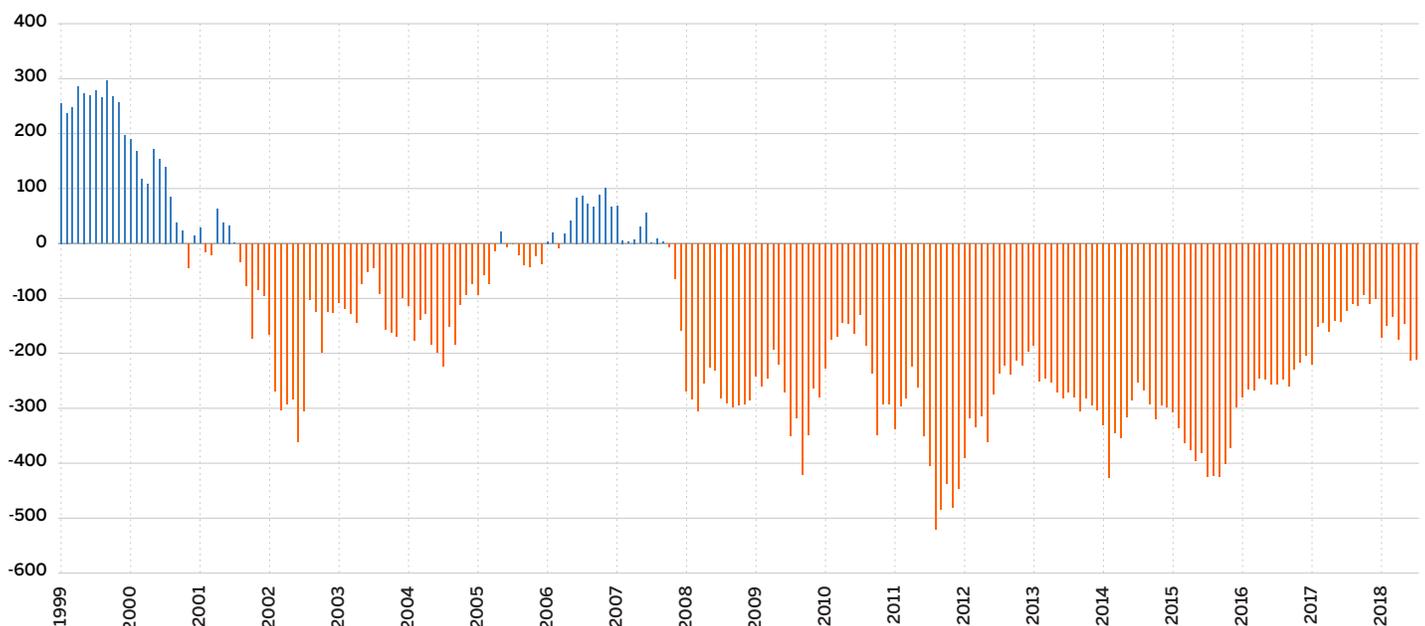
## HIGHLIGHTS

	\$ BILLION			
	MV	PBO	FUNDED STATUS	FUNDED PERCENTAGE
MAY	1,518	1,731	(213)	87.7%
JUNE	1,556	1,768	(212)	88.0%
MONTHLY CHANGE	+38	+37	+1	0.3%
YTD CHANGE	+111	+153	(42)	-1.4%

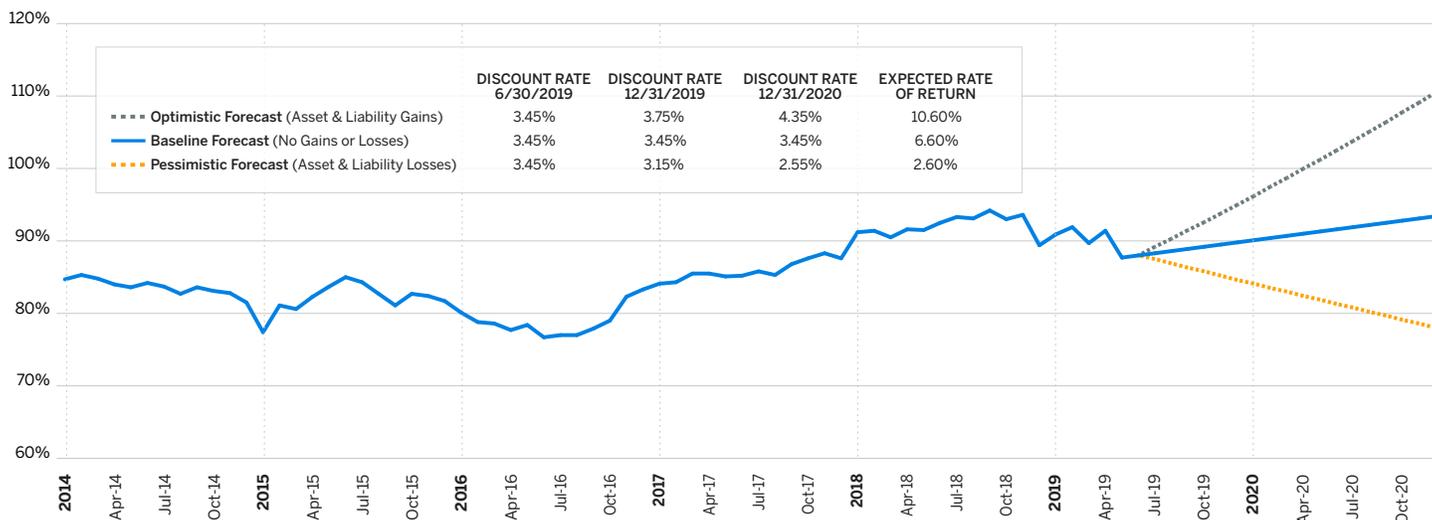
Note: Numbers may not add up precisely due to rounding

On the liability side of the equation, the PFI projected benefit obligation (PBO) increased by nearly the same dollar amount as the asset gain in June. Plan liabilities rose by \$37 billion for the month, increasing the Milliman 100 PFI value to \$1.768 trillion. The change resulted from a decrease of 16 basis points in the monthly discount rate, to 3.45% in June from 3.61% in May. June's discount rate is the lowest observed since the end of September 2016, when the rate was 3.42% and the funded status deficit was over \$400 billion.

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



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



## Second Quarter 2019 Summary

For the quarter ending June 30, 2019, assets increased by \$33 billion and plan liabilities increased by \$70 billion. While investment returns exceeded expectations during the second quarter, discount rates – which fell by 33 basis points – had a stronger impact on funded status. The net result was a funded status loss of \$37 billion. The funded status deficit grew to \$212 billion by the end of the second quarter. The funded ratio of the Milliman 100 companies decreased to 88.0% at the end of June from 89.7% at the end of March.

Over the last 12 months (July 2018 – June 2019), the cumulative asset return for these pensions has been 6.67%, but the Milliman 100 PFI funded status deficit has worsened by \$89 billion. The primary reason for the deterioration in the funded status deficit is discount rate declines over the past 12 months. Discount rates have fallen precipitously from 4.12% as of June 30, 2018 to 3.45% a year later. The funded ratio of the Milliman 100 companies has decreased over the past 12 months to 88.0% from 92.5%.

## 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 3.45% 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 \$180 billion (funded ratio of 89.8%) by the end of 2019 and a projected pension deficit of \$115 billion (funded ratio of 93.4%) 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 3.75% by the end of 2019 and 4.35% by the end of 2020) and asset gains (10.6% annual returns), the funded ratio would

climb to 95% by the end of 2019 and 111% by the end of 2020. Under a pessimistic forecast with similar interest rate and asset movements (3.15% discount rate at the end of 2019 and 2.55% 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 — JUNE 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
JUNE	2018	1,516,130	1,638,647	(122,517)	N/A	92.5%
JULY	2018	1,528,868	1,638,479	(109,611)	12,906	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	1,536,113	1,681,005	(144,892)	29,518	91.4%
MAY	2019	1,517,519	1,730,603	(213,084)	(68,192)	87.7%
JUNE	2019	1,556,172	1,767,860	(211,688)	1,396	88.0%

**PENSION ASSET AND LIABILITY RETURNS**

END OF MONTH	YEAR	ASSET RETURNS			LIABILITY RETURNS	
		MONTHLY	YEAR-TO-DATE	DISCOUNT RATE	MONTHLY	YEAR-TO-DATE
JUNE	2018	-0.22%	-0.37%	4.12%	-1.30%	-5.34%
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	2.82%	9.50%	3.45%	2.50%	11.89%