

Milliman analysis: Funding ratio exceeds 100% despite significant financial market declines in January

Milliman 100 PFI funded ratio rises to 101.4%

Zorast Wadia, CFA, FSA, MAAA, EA
Charles Clark, ASA, MAAA, EA



The funded status of the 100 largest corporate defined benefit pension plans improved by \$27 billion during January as measured by the Milliman 100 Pension Funding Index (PFI). An increase in the benchmark corporate bond interest rates used to value pension liabilities led to a decrease in these liabilities, representing a gain of \$82 billion for the month.

As of January 31, the funded ratio rose to 101.4%, up from 99.8% at the end of December 2021. The Milliman 100 plans achieved a funded status surplus of \$24 billion. January's funded status improvement is impressive considering the heavy financial markets declines. The last time the Milliman 100 corporate funded ratio exceeded 100% was over 13 years ago, in August 2008.

The market value of assets fell by \$54 billion as a result of January's 2.62% investment loss, the largest in over a year. The Milliman 100 PFI asset value decreased to \$1.792 trillion as of January 31, 2022 from \$1.846 trillion as of December 31, 2021. By comparison, the 2021 Milliman Pension Funding Study

HIGHLIGHTS

	\$ BILLION			
	MV	PBO	FUNDED STATUS	FUNDED PERCENTAGE
DECEMBER	1,846	1,849	(3)	99.8%
JANUARY	1,792	1,767	24	101.4%
MONTHLY CHANGE	(54)	(82)	+27	1.6%
YTD CHANGE	(54)	(82)	+27	1.6%

Note: Numbers may not add up precisely due to rounding

reported that the monthly median expected investment return during 2020 was 0.50% (6.2% annualized).

The projected benefit obligation (PBO), or pension liabilities, decreased to \$1.767 trillion at the end of January 2022. The change resulted from an increase of 32 basis points in the monthly discount rate, to 3.12% for January from 2.80% for December 2021. Looking back over the past year, the last – and only – time discount rates were above 3.00% was at the end of March 2021.

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

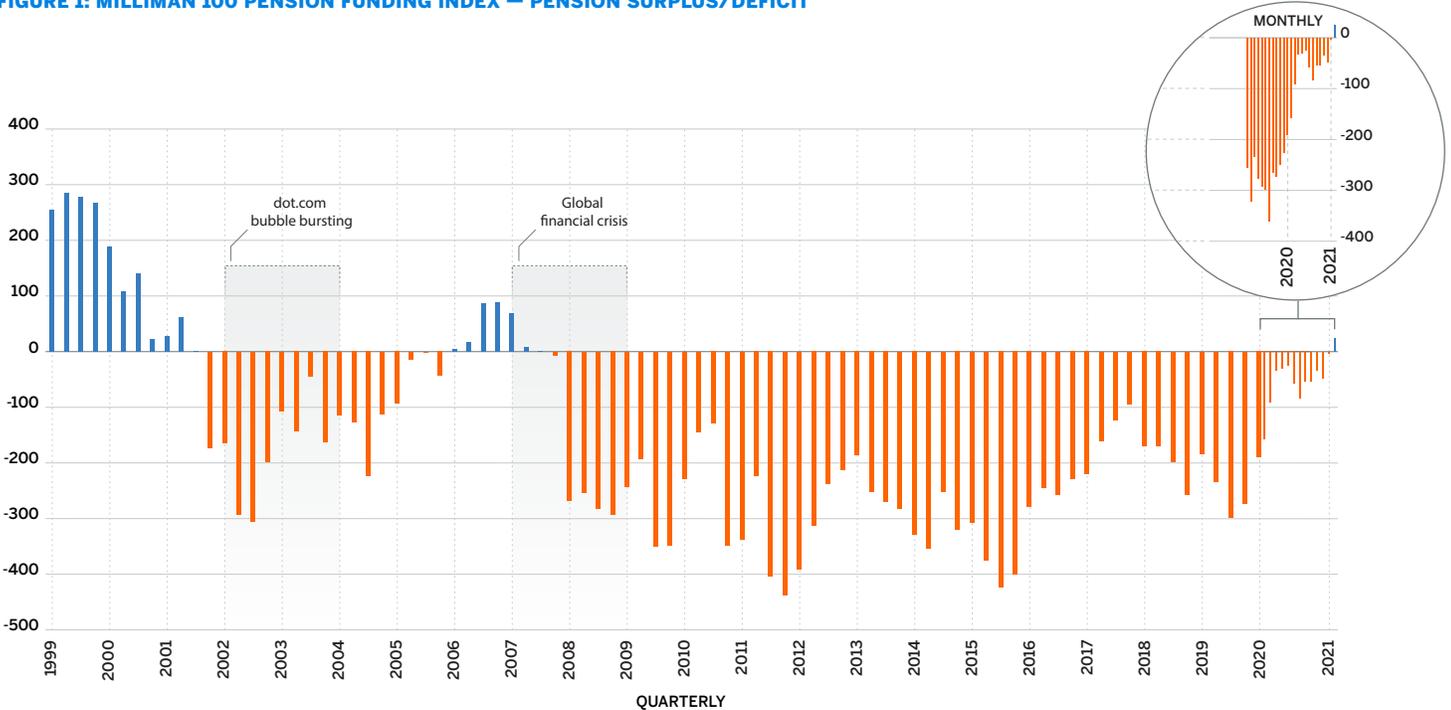
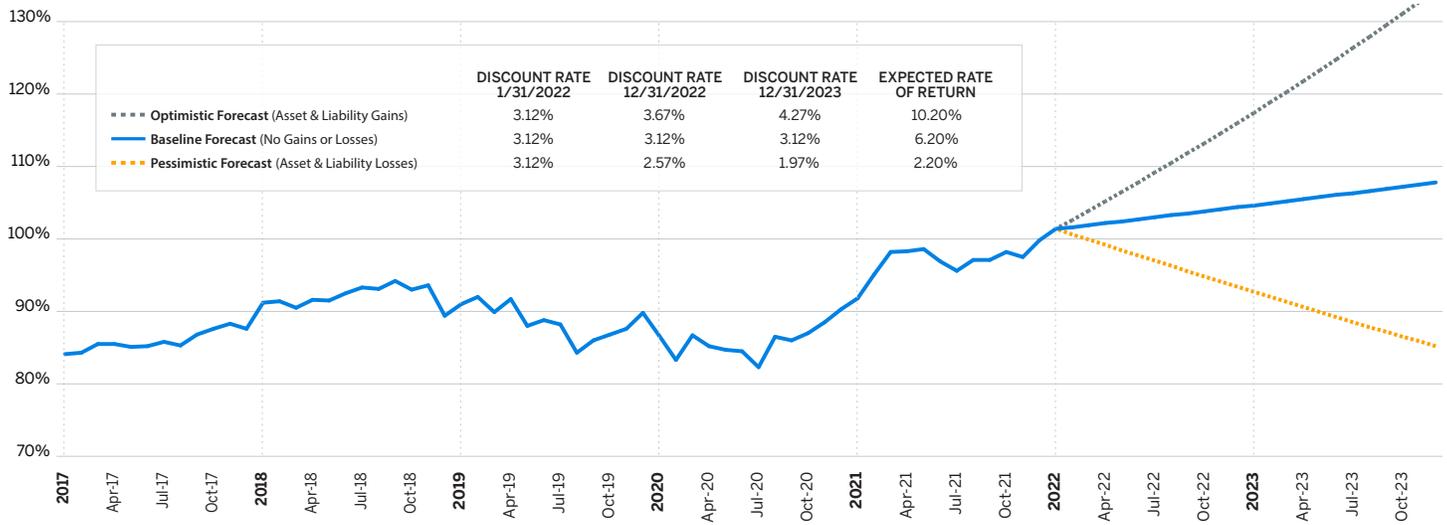


FIGURE 2: MILLIMAN 100 PENSION FUNDING INDEX – PENSION FUNDED RATIO



Over the last 12 months (February 2021 to January 2022), the cumulative asset return for these pensions has been 6.22% and the Milliman 100 PFI funded status deficit has improved by \$181 billion. Investment gains and discount rate increases drove the funded status improvement during 2021. The funded ratio of the Milliman 100 companies has increased to 101.4% from 91.8% over the past 12 months.

The projected asset and liability figures presented in this analysis will be adjusted as part of our annual 2022 Pension Funding Study (PFS), where pension settlement and annuity purchase activities that occurred during 2021 will be reflected. Pension plan accounting information disclosed in the footnotes of the Milliman 100 companies’ annual reports for the 2021 fiscal year is expected to be available during the first quarter of 2022 and will also be part of the 2022 PFS. We expect to publish our comprehensive recap in April.

2022-2023 projections

If the Milliman 100 PFI companies were to achieve the expected 6.2% median asset return (as per the 2021 PFS), and if the current discount rate of 3.12% were maintained during 2022 and 2023, we forecast that the funded status of the surveyed plans would increase. This would result in a projected pension surplus of \$76 billion (funded ratio of 104.4%) by the end of 2022 and a projected pension surplus of \$135 billion (funded ratio of 107.8%) by the end of 2023. For purposes of this forecast, we have assumed 2022 and 2023 aggregate annual contributions of \$28 billion.

Under an optimistic forecast with rising interest rates (reaching 3.67% by the end of 2022 and 4.27% by the end of 2023) and asset gains (10.2% annual returns), the funded ratio would climb to 116% by the end of 2022 and 134% by the end of 2023.

Under a pessimistic forecast with similar interest rate and asset movements (2.57% discount rate at the end of 2022 and 1.97% by the end of 2023 and 2.2% annual returns), the funded ratio would decline to 93% by the end of 2022 and 85% by the end of 2023.

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.

MILLIMAN 100 PENSION FUNDING INDEX — JANUARY 2022 (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
JANUARY	2021	1,763,665	1,921,148	(157,483)	N/A	91.8%
FEBRUARY	2021	1,759,939	1,851,360	(91,421)	66,062	95.1%
MARCH	2021	1,756,294	1,789,278	(32,984)	58,437	98.2%
APRIL	2021	1,790,570	1,821,118	(30,548)	2,436	98.3%
MAY	2021	1,803,855	1,829,032	(25,177)	5,371	98.6%
JUNE	2021	1,820,981	1,878,342	(57,361)	(32,184)	96.9%
JULY	2021	1,832,534	1,916,518	(83,984)	(26,623)	95.6%
AUGUST	2021	1,844,448	1,898,593	(54,145)	29,839	97.1%
SEPTEMBER	2021	1,806,442	1,859,659	(53,217)	928	97.1%
OCTOBER	2021	1,840,611	1,874,311	(33,700)	19,517	98.2%
NOVEMBER	2021	1,824,093	1,871,696	(47,603)	(13,903)	97.5%
DECEMBER	2021	1,846,159	1,849,174	(3,015)	44,588	99.8%
JANUARY	2022	1,791,898	1,767,492	24,406	27,421	101.4%

PENSION ASSET AND LIABILITY RETURNS

END OF MONTH	YEAR	ASSET RETURNS		DISCOUNT RATE	LIABILITY RETURNS	
		MONTHLY	YEAR-TO-DATE		MONTHLY	YEAR-TO-DATE
JANUARY	2021	-0.46%	-0.46%	2.62%	-2.08%	-2.08%
FEBRUARY	2021	0.17%	-0.29%	2.88%	-3.28%	-5.29%
MARCH	2021	0.18%	-0.11%	3.12%	-2.98%	-8.11%
APRIL	2021	2.34%	2.23%	2.98%	2.15%	-6.13%
MAY	2021	1.12%	3.37%	2.94%	0.80%	-5.38%
JUNE	2021	1.33%	4.74%	2.74%	3.06%	-2.49%
JULY	2021	1.01%	5.80%	2.59%	2.38%	-0.17%
AUGUST	2021	1.02%	6.88%	2.65%	-0.59%	-0.76%
SEPTEMBER	2021	-1.70%	5.06%	2.78%	-1.70%	-2.44%
OCTOBER	2021	2.27%	7.45%	2.72%	1.14%	-1.33%
NOVEMBER	2021	-0.53%	6.88%	2.72%	0.21%	-1.12%
DECEMBER	2021	1.58%	8.57%	2.80%	-0.85%	-1.96%
JANUARY	2022	-2.62%	-2.62%	3.12%	-4.07%	-4.07%



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CONTACT

Zorast Wadia
zorast.wadia@milliman.com

milliman.com