
Corporate pension funded status improved by \$12.4 billion in 2011: Milliman

By Editor Test *Wed, Mar 30, 2011*

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Milliman, Inc., has released the results of its annual [Pension Funding Study](#), which consists of 100 of the nation's largest defined benefit pension plans. In 2011, these plans experienced asset returns of 12.8% (a \$115 billion improvement) that were offset by a liability increase of 7.7% (a \$103 billion increase) based on a decrease in the discount rate.

The decline in discount rates fueled record levels of pension expense for these plan sponsors. Collectively, these pensions went into the year expecting a \$30 billion charge to earnings, with the final number almost doubling that estimate, at \$59.4 billion.

"This was a record year for pension contributions, though the number could have exceeded \$60 billion if a few things had gone differently," said John Ehrhardt, co-author of the Milliman Pension Funding Study.

"Pension funding relief enacted last summer helped reduce the funding burden, along with positive investment performance. If interest rates remain at current levels (or decline), contributions will be even higher in 2011."

While the funded status for the year changed only modestly, the year was marked by several significant events. In August, falling interest rates drove up the projected benefit obligation and resulted in a record deficit for the 11 year history of this study.

Over the course of the year, several companies adopted new accounting approaches, which involved full or substantive recognition of accumulated losses and a larger charge to 2010 balance sheets.

Had similar accounting changes been instituted across all of the companies in this study, the resultant charge would have totaled \$342 billion.

Despite the eventful (and sometimes volatile) year, pension investment strategies remained relatively consistent.

"For the year, the asset allocation of these 100 pension plans did not change significantly, as investment in equities only decreased from 45% to 44%," said Paul Morgan, co-author of the Milliman Pension Funding Study. "Fixed income allocations were unchanged at 36%, but allocations to other (alternative) investments increased from 19% to 20%. On average, there were not many changes, though we did see eight of the 100 companies decrease their equity allocations by more than 10%."