S&P 500 companies post record level of pension underfunding

By Editor Test *Thu, Aug 1, 2013*

Data shows that S&P 500 defined pensions reached an underfunding status of $451.7 billion in fiscal 2012, up $97 billion over the $354.7 billion posted in 2011. Other post-employment benefits saw underfunded levels increase to $234.9 billion in 2012 from $223.4 billion in 2011.

A report published today by S&P Dow Jones Indices reveals that, despite strong double-digit gains in the equity markets last year, S&P 500 issues posted record pension and OPEB (Other Post Employment Benefits) underfunding for fiscal 2012.

The culprit: low interest rates. The report, "S&P 500 2012 Pensions and Other Post Employment Benefits (OPEB): The Final Frontier," can be accessed in full by going to www.spdji.com/sp500.

Data shows that S&P 500 defined pensions reached an underfunding status of $451.7 billion in fiscal 2012, up $97 billion over the $354.7 billion posted in 2011 and up $200+ billion over the $245 billion posted in 2010. OPEB underfunded levels increased to $234.9 billion in 2012 from $223.4 billion in 2011 and $210.1 billion at the end of 2010. Combined, the amount of assets that S&P 500 companies set aside to fund pensions and OPEB amounted to $1.60 trillion in 2012, covering $2.29 trillion in obligations with the resulting underfunding equating to $687 billion, or a 70.0% overall funding rate.

"The double-digit equity gains of 2012 were no match for the artificially low interest rates which vaulted pension liabilities into record underfunding territory," says Howard Silverblatt, Senior Index Analyst at S&P Dow Jones Indices and author of the annual report.

"The result is that companies have only 77 cents for each dollar they owe in pensions and only 22 cents for each dollar of OPEB obligations. The good news for current retirees is that most S&P 500 big-cap issues have enough cash and resources available to cover the expense. The bad news is for our future retirees, whose benefits have been reduced or cut and will need to find a way to supplement, or postpone, their retirement."

The S&P Dow Jones Indices report also shows that estimated pension return rates declined for the 12th consecutive year, dropping to an estimated 7.31% in 2012 versus 7.60% in 2011 and 7.73% in 2010. Discount rates declined for the fourth year in a row, falling 78 basis points to 3.93% from 4.71% in 2011 and from 5.31% in 2010, significantly increasing projected obligations.

The report also reviewed the status of Other Post Employment Benefits (OPEB). Within the S&P 500, 286 companies offered OPEBs in 2012. With $302.3 billion in OPEB obligations, only $67.4 billion was funded, leaving OPEB funding at 22.3%. OPEB's funding status continues to pale in comparison to that of pensions (77.3%).

"The American dream of a golden retirement for baby boomers has dissipated for most," adds Silverblatt. "Plans have been reduced and the burden shifted with future retirees needing to save more for their retirement. For baby-boomers it may already be too late to safely build-up assets, outside of working longer or living more frugally in retirement. For younger workers, they need to start to save early, permitting time to compound their returns for their retirement. Corporations have shifted the responsibility to them, and if they don't step up now, they won't have anything for retirement."