

Five years of pension gains wiped out in 2008



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Record losses in pension funded status during 2008. The ongoing financial crisis drove the 100 largest corporate pension plans to a record \$300 billion loss of funded status in 2008. Asset losses fueled a decrease in funded status from about 106% at the end of 2007 to under 80% at the end of 2008. Losses continued into 2009 with a \$30 billion decrease in funded status in the first two months. At the end of February, the funded status of these 100 pension plans stood at 74%, the lowest level since May 2003.

2008 asset losses erase five years of gains. Actual asset returns (negative 18.9% for 2008 fiscal years) were below the expected returns (8.1%), after five straight years of asset gains. Asset values dropped to \$833 billion by the end of February 2009 to levels not seen since July 2003. Expected returns have remained fairly level (8.1% in 2008, 8.3% in 2007 and 2006) but may decline in 2009 because of reductions in asset allocation to equities.

Pension expense declines again in 2008 but will increase significantly in 2009. Reflecting the gains in funded status over the five prior years, pension expense decreased in 2008 to \$10.4 billion (from \$18.9 billion in 2007), the lowest level since 2002. There were 25 companies with pension income (i.e., negative expense) in 2008, up from 21 in 2007. However, the loss in funded status in 2008 is projected to produce an increase in pension expense for 2009 (and a charge to corporate earnings) in excess of \$70 billion.

Contributions are projected to increase significantly in 2009 and later. Contributions to the 100 pension plans studied increased only slightly in 2008 (\$29.7 billion versus \$27.2 billion in 2007). The losses in funded status during 2008, coupled with the new funding requirements under the Pension Protection Act, are projected to increase required contributions to more than \$50 billion for 2009. Many companies are expected to defer some of the increased contribution requirement to 2010, increasing contributions in that year to what may be record levels.

Major decrease in asset allocation to equities. The percentage of pension plan assets invested in equities declined from 55% to 44% during 2008. The decrease in equity allocations is primarily because of market declines and, to a much lesser extent, a change

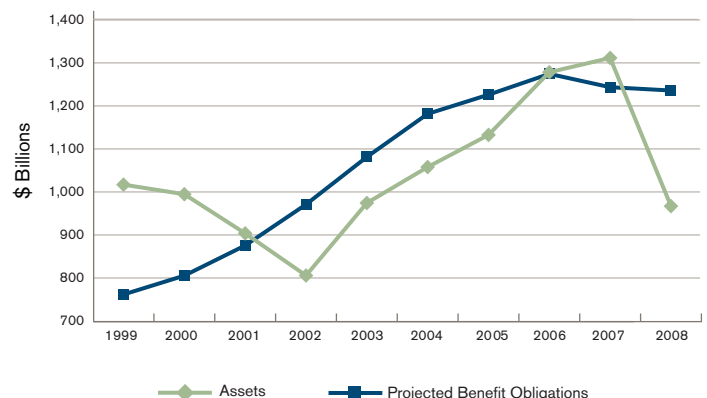
in investment policies. A return to a 55% equity allocation by the end of 2009 (through new investments or portfolio rebalancing) would require a \$100 billion investment in the equity markets.

WHO ARE THE MILLIMAN 100 COMPANIES?
Our study covers 100 U.S. public companies with the largest defined benefit pension assets whose 2008 annual reports were released by March 12, 2009.

This is Milliman's ninth annual study of the financial reports of the 100 U.S. public corporations that sponsor the largest defined benefit pension plans. As a group, these companies had pension plan assets of more than \$900 billion at the end of 2008.

The funded status of these 100 pension plans decreased significantly during 2008, falling below 80%. The aggregate pension deficit (i.e., unfunded projected benefit obligation (PBO)) increased by \$320 billion during the 2008 fiscal years, reversing a \$65 billion surplus at the end of 2007 and producing an aggregate pension shortfall of \$255 billion as of the end of the companies' 2008 fiscal years.

PLAN ASSETS AND LIABILITIES

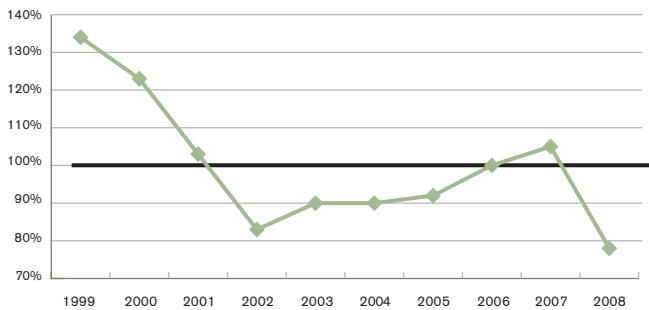


The results of the Milliman 2009 Pension Funding Study were based on the pension plan accounting information disclosed in the footnotes to the companies' annual reports for the 2008 fiscal year and for previous fiscal years. These figures represent the GAAP accounting information that public companies are required to report under Statements of Financial Accounting Standards 87, 88, 106, 132, and 158. In addition to providing the financial information on the funded status of their 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. These figures do not represent the funded status of the companies' U.S. qualified pension plans under ERISA.

The balance sheets of the companies deteriorated by about \$300 billion during the companies' 2008 fiscal years, when the \$22 billion gain in funded status for other post-employment benefit plans (OPEBs) was offset against the pension losses.

For their 2008 fiscal years, the companies' PBO-funded ratios ranged from a low of 46% to a high of 156%. For the group, funded status decreased to an average of 79.3% from the prior year's 105.2% and was significantly below the 134% high-water mark reached at the end of 1999.

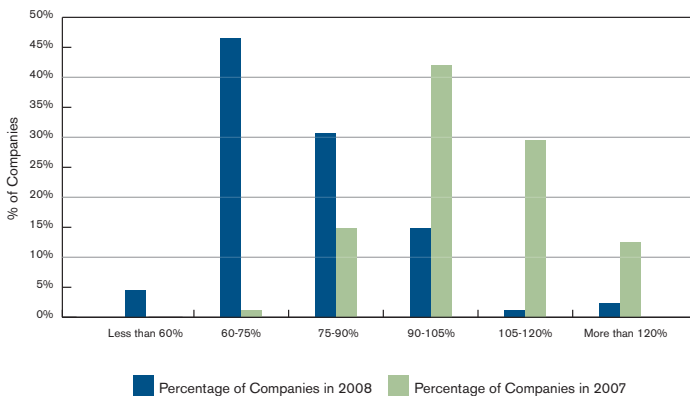
FUNDED RATIO - ASSETS / PROJECTED BENEFIT OBLIGATION



Because most of the market decline in 2008 occurred in the fourth quarter, the companies with calendar-year fiscal years reported the greatest impact on pension funded status. Only four out of the 88 companies with calendar-year fiscal years reported their PBO-funded status in a surplus position at the end of 2008, while 51 reported a surplus in 2007. These numbers are similar to those six years ago when eight companies reported a surplus at the end of 2002. None of these companies reported an increase in their PBO-funded ratio during 2008, as compared with 83 that saw their funded ratio increase the previous year.

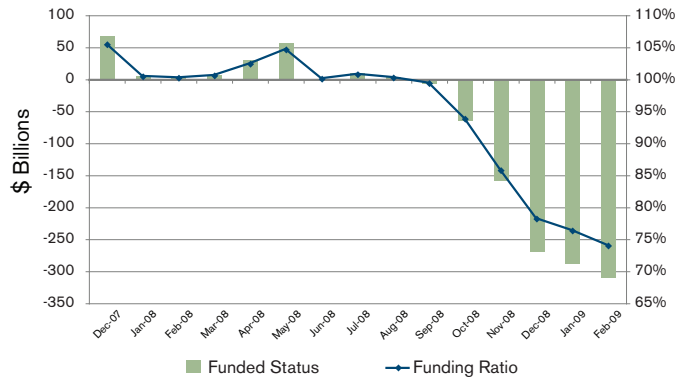
DISTRIBUTION BY FUNDED STATUS - 2008 VERSUS 2007

Calendar year fiscal years only



Virtually all of the loss in funded status in 2008 occurred in the last three months of the year and has continued into the first two months of 2009.

MONTHLY FUNDED STATUS AND SURPLUS/DEFICIT



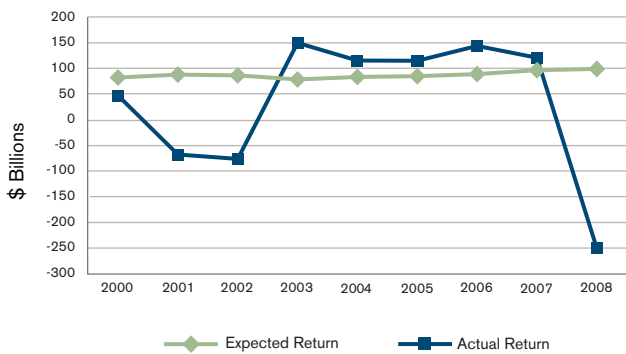
The average actual investment return on pension assets for the companies' 2008 fiscal years was a negative 18.9% (negative 22% for calendar-year fiscal years), which was below the expected rate of return of 8.1%, reversing five straight years of assets gains.

During 2008, the plans lost \$250 billion in market value, \$350 billion less than their average 8.1% expected rate of return. Over the past five years, the pension funds have averaged a 4.7% actual annual rate of return. Since the end of 1999, the plans have earned, on average, an annual investment return of only 3.3%.

Fiscal Year	2000	2001	2002	2003	2004	2005	2006	2007	2008
Expected Return	9.4%	9.4%	9.2%	8.5%	8.4%	8.3%	8.3%	8.3%	8.1%
Actual Return	4.3%	(6.3%)	(8.6%)	19.2%	12.4%	11.3%	12.9%	9.9%	(18.9%)

By the end of February 2009, asset levels had dropped to \$883 billion, 35% below the peak of \$1.352 trillion at the end of October 2007. This represents the lowest asset value for these plans since July 2003.

INVESTMENT RETURN ON PLAN ASSETS



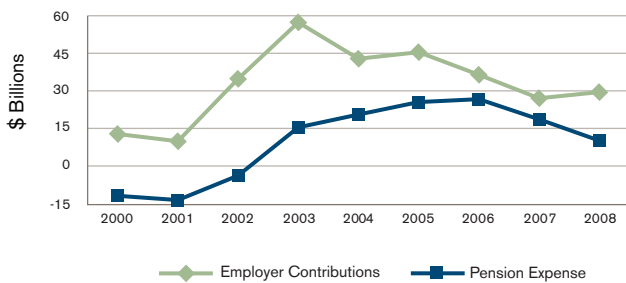
Pension expense decreased by \$8.4 billion during 2008, producing an aggregate pension expense of \$10.4 billion. Both pension expense and employer contributions are expected to increase significantly in 2009.

Twenty-five companies reported pension income during 2008, an increase from the 21 that did so during 2007. However, this is still well below the 64 companies with pension income in 2001. Pension expense for 2009 is expected to increase by more than \$70 billion because of the drop in funded status during 2008.

Employer contributions increased to \$29.7 billion for 2008, up from \$27.2 billion in 2007. By comparison, contributions averaged \$43 billion for the five prior years. Contribution requirements for 2009 are projected to increase to more than \$50 billion. However, many companies are expected to defer some of the 2009 contribution requirement to 2010. Contributions in 2010 may exceed \$75 billion.

These companies reported expected contributions of \$35 billion for 2009. At current discount rates and an expected return of 8.1% for the rest of 2009, that contribution level will only serve to maintain the plans' funded status at 75%. Contributions of at least \$100 billion would be required to increase funded status to 80% by the end of 2009.

PENSION EXPENSE (INCOME) AND CONTRIBUTIONS



The discount rates used to measure plan liabilities increased at the end of 2008. This continues the trend started in 2006, after declines in each of the prior six years. The higher discount rates reduced pension liabilities, only slightly offsetting the significant asset losses in 2008.

Discount rates increased to a median of 6.3% at the end of 2008 from 6.2% in 2007 and the low of 5.5% in 2005, after declining incrementally each year from 7.5% since the end of 1999. Discount rates were actually 100 basis points higher as recently as mid-November 2008. The dramatic drop in rates over the last six weeks of the year exacerbated the drop in funded status.

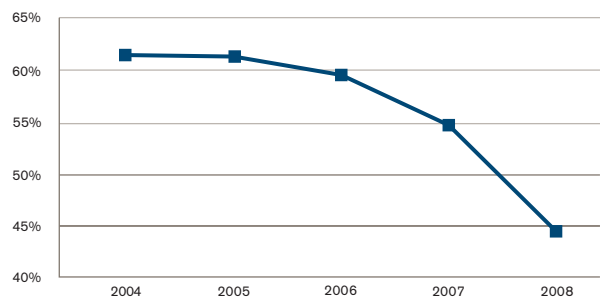
Aided largely by measurement at higher discount rates, pension liabilities actually decreased 2.2% in 2008 after decreasing by 0.3% in 2007. The 2007 figure represented the first decrease since 1999, compared with an increase of 2.5% in 2006 and the peak increase of 11.8% registered during 2003.

Overall, companies maintained their expected rate of return (8.1% for 2008 as compared with 8.3% for 2007 and 2006), after steady declines from the expected rate of return of 9.5% for 2001.

Only seven companies in the group continued to use an expected rate of return for 2008 that was at least 9%, down from 10 companies in 2007 and a high of 79 in 2001. Decreases in equity allocations may result in lower expected returns for 2009. Current levels of equity allocations (44%) would imply a 50-basis-point reduction in expected returns.

There were major changes in asset allocation during 2008. Overall, the companies studied invested 44% of their pension fund assets in equities (down from 55% at the end of 2007), and 41% in fixed-income assets (up from 33% at the end of 2007). The remaining 15% of pension assets were invested in other asset classes (up from 12% at the end of 2007), including real estate, private equity, hedge funds, and cash equivalents.

ASSET ALLOCATION - EQUITIES

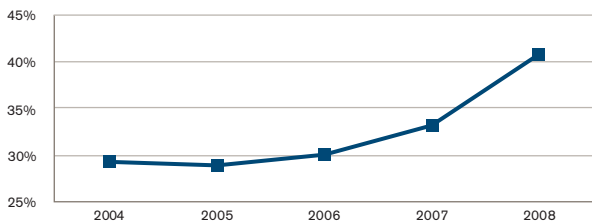


Fifty-two of the 100 companies had notable decreases (i.e., in excess of 10%) in their equity allocations (the primary source of short-term funded status volatility), compared with only 11 companies that had decreases of more than 10% in equity allocations in 2007. Of these 52 companies, 12 had decreases in their equity allocations of more than 20%. These decreases were driven primarily by market declines rather than by changes in investment policies.

Allocations to fixed-income and other investments increased significantly in 2008. Thirty-one companies had increases of more than 10% in their fixed-income allocations. Of these 31 companies, five had increases of more than 20%. These increases were primarily a result of the decreases in equity allocations rather than changes in investment policies.

Twenty-seven companies saw increases in their allocations of at least 5% to other asset classes. These increases were primarily a result of the decreases in equity allocations rather than a change in investment policies.

ASSET ALLOCATION - FIXED INCOME



WHAT TO EXPECT IN 2009 AND BEYOND

Plan sponsors are still responding to 2008's historic asset losses and funded-status volatility. With the drop in funded status, combined with the requirements under the Pension Protection Act, most plan sponsors will be facing significant increases in contribution requirements, possible restrictions on benefits, and even required plan freezes. Projections of funded status, pension expense, and

contribution requirements will be required to manage these plans in the future. Plan sponsors can identify appropriate investment and funding policies (specific to their circumstances, goals, and objectives) by conducting a comprehensive asset/liability and risk-budgeting study that presents a range of strategies to help mitigate short-term risks while attempting to optimize returns to reduce the plan's long-term costs.

Some plan sponsors may be required to freeze their plans. However, this will not significantly reduce their funding requirements over the next few years. To preserve cash, companies might continue the current trend of freezing matching contributions under 401(k) plans.

During the current economic crisis, plan sponsors should consider:

- Adhering to a long-term investment policy while rebalancing portfolios incrementally toward target equity allocations with new cash contributions, subject to certain fundamental and technical indicators. The best buying opportunities typically occur before economic and market recoveries are clear to investors.
- Matching the duration of the fixed-income portfolio with the duration structure of the liabilities while credit spreads are at historically high levels. This action will help to hedge potential interest-rate risks when credit spreads narrow to historical norms (which will, in turn, increase the valuation of the liabilities).

Plan sponsors also will need to balance long-term goals more closely with potential short-term risks that can adversely affect the company's cash flow, balance sheet, and earnings. Pension fund sponsors will need to better understand and adopt risk-management practices through liability-driven investing and risk-budgeting techniques.

As the funded status of pension plans improves over time, pension sponsors should consider de-risking their pension plans. Fixed-income allocations and durations should better align with the behavioral characteristics of the plan liabilities, while public equity allocations (the primary source of short-term funded status volatility) should continue to be diversified into a broad array of alternative investments, including real estate, hedge funds, private equity, commodities, and infrastructure.

HISTORIC VALUES

FUNDED STATUS

Fiscal Year	Market Value of Plan Assets	Change From Prior Year	Projected Benefit Oligation	Change From Prior Year	Funded Ratio	Change From Prior Year	Funded Status	Change From Prior Year
2008	\$976,396	(\$347,039)	\$1,231,138	(\$27,387)	79.3%	-25.8%	(\$254,741)	(\$319,652)
2007	\$1,323,435	\$81,140	\$1,258,525	(\$4,767)	105.2%	6.8%	\$64,911	\$85,906
2006	\$1,242,296	\$125,259	\$1,263,291	\$30,421	98.3%	7.7%	(\$20,995)	\$94,839
2005	\$1,117,036	\$80,935	\$1,232,870	\$70,773	90.6%	1.4%	(\$115,834)	\$10,162
2004	\$1,036,101	\$98,592	\$1,162,097	\$94,726	89.2%	1.3%	(\$125,996)	\$3,866
2003	\$937,509	\$156,196	\$1,067,371	\$113,006	87.8%	6.0%	(\$129,862)	\$43,189
2002	\$781,313	(\$83,994)	\$954,364	\$98,944	81.9%	-19.3%	(\$173,051)	(\$182,938)
2001	\$865,307	(\$98,829)	\$855,420	\$69,715	101.2%	-21.6%	\$9,886	(\$168,544)
2000	\$964,135	n/a	\$785,706	n/a	122.7%	n/a	\$178,430	n/a

RETURN ON ASSETS

Fiscal Year	Expected Rate of Return	Actual Rate of Return			Expected Return	Actual Return	Difference
		Actual Rate of Return (Estimated)	(Estimated for Plans With Calendar Fiscal Years)				
2008	8.1%	-18.9%	-22.0%	\$98,376	(\$250,244)	\$348,620	
2007	8.3%	9.9%	9.0%	\$95,923	\$120,188	(\$24,265)	
2006	8.3%	12.9%	12.7%	\$88,353	\$143,011	(\$54,658)	
2005	8.3%	11.3%	10.7%	\$84,281	\$114,234	(\$29,953)	
2004	8.4%	12.4%	11.8%	\$82,827	\$114,673	(\$31,847)	
2003	8.5%	19.2%	19.3%	\$77,909	\$148,925	(\$71,017)	
2002	9.2%	-8.6%	-8.6%	n/a	n/a	n/a	
2001	9.4%	-6.3%	-6.3%	n/a	n/a	n/a	
2000	9.4%	4.3%	4.3%	n/a	n/a	n/a	

PENSION COST

Fiscal Year	Pension Income/(Cost)	Change From Prior Year	Employer Contribution	Change From Prior Year	Discount Rate
2008	(\$10,432)	(\$8,438)	\$29,653	(\$2,431)	6.3%
2007	(\$18,870)	(\$7,990)	\$27,221	\$9,309	6.2%
2006	(\$26,860)	\$1,152	\$36,531	\$8,956	5.8%
2005	(\$25,708)	\$4,935	\$45,487	(\$2,600)	5.5%
2004	(\$20,773)	\$5,086	\$42,887	\$14,414	5.8%
2003	(\$15,688)	\$19,133	\$57,300	(\$22,383)	6.0%
2002	\$3,446	\$9,699	\$34,917	(\$24,744)	n/a
2001	\$13,144	(\$1,682)	\$10,173	\$2,881	n/a
2000	\$11,462	n/a	\$13,053	n/a	n/a

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ASSET ALLOCATIONS

	2008	2007	2006	2005
Equity Allocation	44.1%	55.0%	59.5%	61.2%
Change From Prior Year	-19.7%	-7.6%	-2.9%	n/a
Fixed Allocation	40.7%	33.0%	29.9%	28.7%
Change From Prior Year	23.3%	10.6%	4.0%	n/a
Other Allocation	15.2%	12.0%	10.7%	10.0%
Change From Prior Year	26.3%	12.8%	6.0%	n/a

OTHER POST-EMPLOYMENT BENEFITS (OPEB) FUNDED STATUS

Fiscal Year	OPEB MV of Assets	Change From Prior Year	OPEB APBO	Change From Prior Year	OPEB Funded Status	Change From Prior Year	OPEB Funded Ratio	Change From Prior Year
2008	\$57,190	(\$29,634)	\$281,872	(\$51,698)	(\$224,682)	\$22,065	20.3%	-5.7%
2007	\$86,824	\$4,452	\$333,571	(\$10,901)	(\$246,747)	\$15,354	26.0%	2.1%
2006	\$82,371	\$5,499	\$344,472	(\$18,767)	(\$262,101)	\$24,266	23.9%	2.7%
2005	\$76,872	\$6,874	\$363,239	\$14,477	(\$286,367)	(\$7,602)	21.2%	1.1%
2004	\$69,998	\$15,251	\$348,762	\$17,919	(\$278,764)	(\$2,667)	20.1%	3.5%
2003	\$54,747	n/a	\$330,844	n/a	(\$276,097)	n/a	16.5%	n/a

ABOUT THE STUDY

The results of the Milliman 2009 Pension Funding Study are based on the pension plan accounting information disclosed in the footnotes to the companies' annual reports for the 2008 fiscal year and for previous fiscal years. These figures represent the generally accepted accounting principles (GAAP) accounting information that public companies are required to report under Statements of Financial Accounting Standards 87, 88, 106, 132, and 158. In addition to providing the financial information on the funded status of their 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 funding standards that are different from those for U.S. qualified pension plans. These figures do not represent the funded status of the companies' U.S. qualified pension plans under ERISA.

This study includes the 100 U.S. public companies with the largest defined benefit pension assets whose 2008 annual reports were released by March 12, 2009. Twelve of the companies included in the 2009 study had fiscal years other than the calendar year. Private companies, mutual insurance companies, and U.S. subsidiaries of foreign parents were excluded from the study.

Projections for 2009 are based on the Milliman 100 Monthly Pension Funding Index, which has been updated to reflect the data from this study. This index reflects the effect of market returns and interest-rate changes on pension funded status, utilizing actual reported asset values, liabilities, and asset allocations.

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