

Modest increase in 2009 funded status despite strong investment returns



John W. Ehrhardt
FSA, EA

Paul C. Morgan
CIMA

2009 asset gains led to small improvement in funded status

Actual asset returns (14.1% for 2009 fiscal years) were above the expected returns (8.1%), partially recovering some of the historic investment losses realized during the 2008 financial crisis. Expected returns have remained fairly level in recent years (8.1% in 2009, 8.1% in 2008, 8.2% in 2007, and 8.3% in 2006).

Pension expense reverses trend and increases in 2009

Reflecting the historic level of losses incurred during the 2008 financial crisis, pension expense increased in 2009 to \$25.7 billion (up from \$10.7 billion in 2008), the highest level since 2006. There were 17 companies with pension income (i.e., negative expense) in 2009, down from 26 in 2007. Even with the gain in funded status in 2009, pension expense is projected to continue to increase for 2010, as companies using asset smoothing are still reflecting the impact of the asset losses in 2008.

Contributions projected to increase in 2010 despite funding relief

Contributions to these 100 pension plans increased significantly in 2009 (\$54.5 billion vs. \$29.5 billion in 2008). The losses in funded status during 2008, coupled with the new funding requirements under the Pension Protection Act (PPA), are projected to significantly increase required contributions in future years. Quarterly contribution requirements and a significant decrease in interest rates for funding valuations should increase the contributions to these 100 pension plans to record levels in 2010. The contributions for 2009 would have been even higher for these plans in the absence of funding relief enacted by Congress and regulations from Treasury.

Minor increase in asset allocation to equities during 2009

The percentage of pension plan assets invested in equities increased from 44% to 46% during 2009. The minor increase in equity allocations reflects the strong investment returns in 2009 offset by the rebalancing of portfolios to preserve funded status gains and control pension risk. We believe that many companies will adopt dynamic investment policy programs for de-risking their

plans as they move from underfunded levels to fully funded levels, reducing their equity allocations.

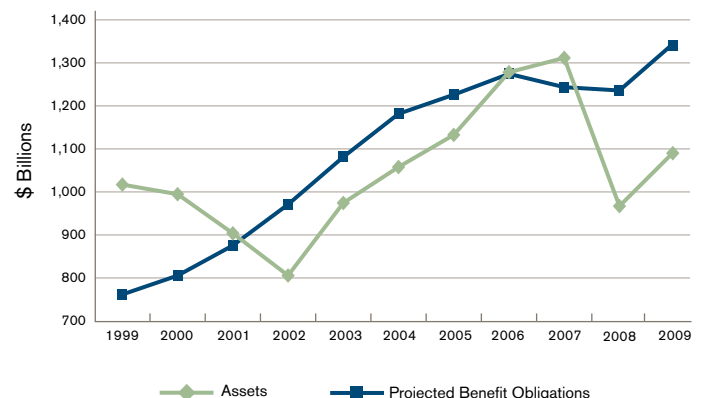
WHO ARE THE MILLIMAN 100 COMPANIES?

Our study covers 100 U.S. public companies with the largest defined benefit pension plan assets whose 2009 annual reports were released by April 7, 2010.

This is Milliman's tenth annual study of the financial reports of the 100 largest U.S. public corporations that sponsor defined benefit pension plans. As a group, these companies had pension plan assets of more than \$1 trillion at the end of 2009.

The funded status of the Milliman 100 pension plans increased slightly during 2009, reaching 81.7%. The aggregate pension deficit (i.e., unfunded projected benefit obligation (PBO)) decreased by \$10.6 billion during their 2009 fiscal years, partially reducing a \$254 billion deficit at the end of 2008 and producing an aggregate pension shortfall of \$243 billion for the 100 companies as of the end of their 2009 fiscal years.

PLAN ASSETS AND LIABILITIES

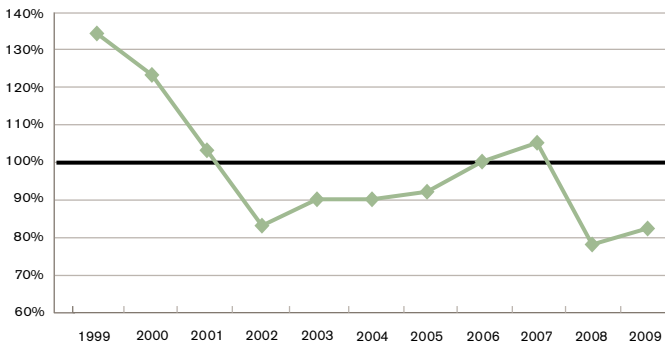


The results of the Milliman 2010 Pension Funding Study were based on the pension plan accounting information disclosed in the footnotes to the companies' annual reports for the 2009 fiscal year and for previous fiscal years. These figures represent the GAAP accounting information that public companies are required to report under Statements of Financial Accounting Standards 87, 88, 106, 132, 157, 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. They do not represent the funded status of the companies' U.S. qualified pension plans under ERISA.

The companies' balance sheets improved by about \$46.9 billion during their 2009 fiscal years, when the \$36.3 billion gain in funded status for other postemployment benefit plans (OPEBs) was added to the pension gains. The gain in OPEB funded status was almost entirely due to the transfer of liabilities by General Motors to the VEBA being administered by the UAW as part of GM's reorganization.

For their 2009 fiscal years, PBO funded ratios ranged from a low of 45% to a high of 162%. For the group, funded status increased to an average of 81.7% from the prior year's 79.4% and was significantly below the 130% high-water mark reached at the end of 1999.

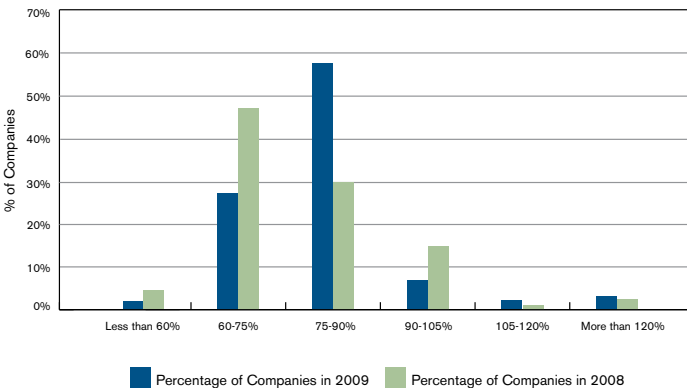
FUNDED RATIO - ASSETS / PROJECTED BENEFIT OBLIGATION



The favorable investment returns during 2009 were almost entirely offset by the increase in liabilities generated by the decrease in discount rates used to measure pension plan liability. This resulted in a small improvement in funded status during 2009. Only six out of the 89 companies with calendar-year fiscal years reported their PBO funded status in a surplus position at the end of 2009. This is compared to four in a surplus position at the end of 2008, while 51 reported a surplus in 2007. These numbers are similar to those seven years ago when eight companies reported a surplus at the end of

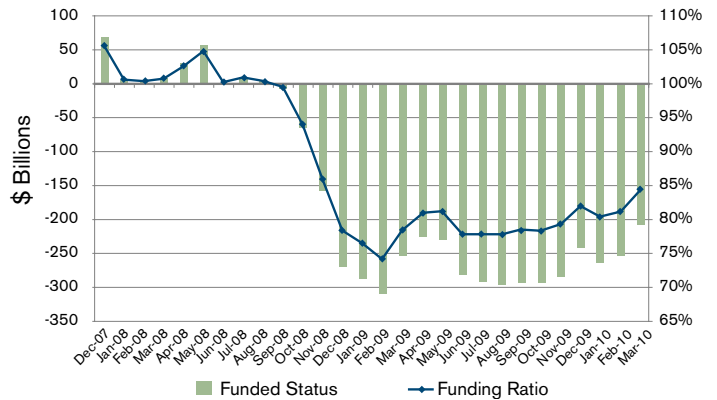
DISTRIBUTION BY FUNDED STATUS - 2009 VERSUS 2008

Calendar year fiscal years only



2002. Sixty-seven of these companies reported an increase in their PBO funded ratio during 2009, compared with none that increased their funded ratio during 2008.

MONTHLY FUNDED STATUS AND SURPLUS/DEFICIT

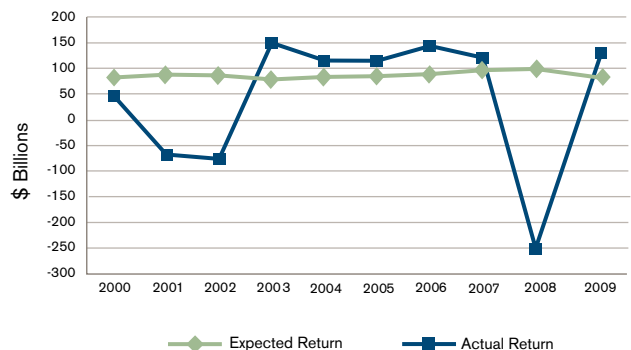


The average actual investment return on pension assets for the companies' 2009 fiscal years was 14.1% (17.2% for calendar-year fiscal years), which was above the expected rate of return of 8.1%, partially reversing the historic 2008 losses.

During 2009, the plans recovered \$112 billion in market value, \$41 billion more than the expected return on the assets of the plans, which had an average expected rate of return of 8.1%. Over the past five years, the pension funds have averaged a 5.0% annual rate of return. Since the end of 1999, the plans have earned, on average, an annual investment return of only 4.3%.

Fiscal Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Expected Return	9.4%	9.4%	9.2%	8.5%	8.4%	8.3%	8.3%	8.2%	8.1%	8.1%
Actual Return	4.3%	(6.3%)	(8.7%)	19.3%	12.4%	11.3%	12.9%	9.9%	(18.9%)	14.1%

INVESTMENT RETURN ON PLAN ASSETS



Pension expense increased by \$15 billion during 2009, producing an aggregate pension expense of \$25.7 billion. Both pension expense and employer contributions are expected to remain high during 2010.

Seventeen companies reported pension income during 2009, a decrease from the 26 that did so during 2008 and well below the high point of 64 companies in 2001.

Employer contributions increased to \$54.5 billion for 2009, up from \$29.5 billion in 2008. By comparison, contributions averaged \$38.7 billion for the five prior years. Contribution requirements for 2009 were actually depressed because companies were allowed to use a higher rate of interest in valuing liabilities for funding purposes (due to an interest rate spike in October 2008). More companies will be subject to quarterly contribution requirements in 2010 and many companies made extraordinary contributions in the first quarter of 2010 to avoid benefit restrictions under the PPA. For these reasons, even though the Milliman 100 companies have reported a lower level of expected contributions (\$30 billion) for 2010, we expect contributions for 2010 to increase to record levels.

PENSION EXPENSE (INCOME) AND CONTRIBUTIONS



Discount rates used to measure plan liabilities decreased at the end of 2009. This reverses the trend started in 2006. The lower discount rates increased pension liabilities, offsetting the asset gains in 2009.

Discount rates decreased to a median of 5.8% at the end of 2009 from 6.4% in 2008 and the low of 5.5% in 2005, after declining incrementally each year from 7.5% starting at the end of 1999. Discount rates were actually 100 basis points higher as recently as mid-November 2008. The drop in rates over the past year exacerbated the drop in funded status. Based on the movement of corporate bond rates during 2009, discount rates were expected to drop even further, perhaps by another 40 basis points. However, companies have maintained higher discount rates through the use of various bond selection methods in setting their rates.

The decrease in discount rates drove pension liabilities up 8.2% in 2009, after falling by 1.9% in 2008 and by 0.2% in 2007. The 2007 figure represented the first decrease since 1999, compared with an

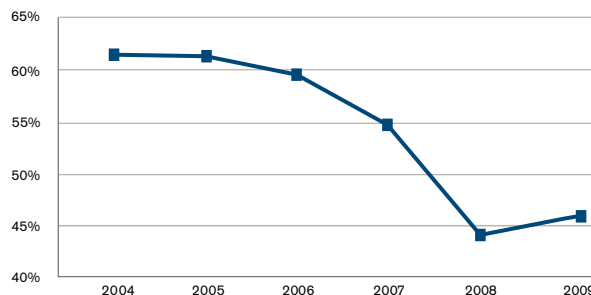
increase of 2.5% in 2006 and the peak increase of 11.8% registered during 2003.

Overall, companies maintained their expected rate of return (8.1% for 2009, as compared with 8.1% for 2008 and 8.2% for 2007), after steady declines from the expected rate of return of 9.4% for 2001.

Only six companies in the group continued to use an expected rate of return for 2009 that is at least 9%, down from seven companies in 2008 and a high of 80 in 2000. Decreases in equity allocations may result in lower expected returns for 2010. Current levels of equity allocations (around 46%) would imply a 50-basis-point reduction in expected returns.

There were minor changes in asset allocation during 2009. Overall, the companies studied invested 46% of their pension fund assets in equities (up from 44% at the end of 2008, but down from 54% at the end of 2007), and 37% in fixed-income assets (down from 41% at the end of 2008, but up from 33% at the end of 2007). The remaining 17% of pension fund assets were invested in other asset classes (up from 15% at the end of 2008 and 12% at the end of 2007), including real estate, private equity, hedge funds, and cash equivalents.

ASSET ALLOCATION - EQUITIES

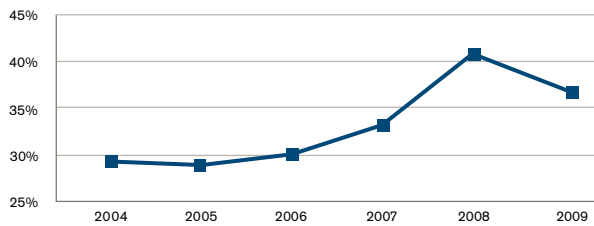


Twelve of the 100 companies had increases to their equity allocations by more than 10%; however, 10 companies decreased their equity allocations by more than 10% in 2009, compared with 52 companies that had decreases of more than 10% in equity allocations in 2008. Given the strong performance of the equity markets during 2009, equity allocations would have increased to at least 49%. However, the impact of companies rebalancing their portfolios kept the equity allocations from moving to higher levels. We expect equity allocations to remain at current levels or decrease during 2010, as companies continue to de-risk their portfolios.

Overall allocations to fixed income decreased in 2009. Fifteen companies had decreases of more than 10% to their fixed-income allocation; however, seven companies increased their fixed-income allocations by more than 10% in 2009, compared with 31 companies that had increases of over 10% to fixed-income allocations in 2008.

Overall allocations to other asset classes increased in 2009. Eighteen companies increased their allocations more than 5% to other asset classes; however, 39 companies had minor decreases in allocations to other asset classes. We believe that the allocation increase to other asset classes in 2009 was primarily attributed to changes in GAAP disclosure reporting requirements under FAS 157, which required significantly greater detail about asset allocation.

ASSET ALLOCATION - FIXED INCOME



WHAT TO EXPECT IN 2010 AND BEYOND.

Plan sponsors are still responding to 2008's historic asset losses and funded status volatility. Even with the improvement in funded status during 2009 and the beginning of 2010, most plan sponsors will be facing significant increases in pension expense and 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 should also be tracking the status of pension funding relief legislation currently being considered by Congress.

Plan sponsors should continue to balance long-term goals 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 pension risk management practices through liability-driven investing and risk budgeting (risk allocation) techniques. Toward that end, fixed-income allocations should be aligned to track the plan liabilities, while public equity allocations (a 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.

Plan sponsors should also conduct asset-liability, asset-allocation, and risk-budgeting studies on a more frequent basis than before. Also, the plan's funded status should be monitored more frequently – on a quarterly basis – to measure progress toward funded status goals. As the funded status of pension plans improves over time, pension sponsors should consider a dynamic investment policy program that provides a strategic framework (“glide path”) for de-risking their pension plans as they move from underfunded levels to fully funded levels.

The objective of a dynamic investment policy program is to preserve funded status gains and avoid taking unnecessary risks as the funded status improves (either through investment returns or cash contributions) by reallocating the return-generating component of the portfolio (i.e., equities) to the liability-hedging component of the portfolio (i.e., liability-matched bonds). Dynamic investment policy strategies adjust the plan's asset allocation according to preestablished rules (“trigger points”). As the plan is de-risked, the plan's investment policy should be formally revised to reflect changes in the risk/return objectives and contribution policy.

HISTORIC VALUES

FUNDED STATUS

Fiscal Year	Market Value of Plan Assets	Change From Prior Year	Projected Benefit Obligation	Change From Prior Year	Funded Ratio	Change From Prior Year	Funded Status	Change From Prior Year
2009	\$1,088,458	\$111,849	\$1,331,899	\$101,224	81.7%	2.3%	(\$243,441)	\$10,625
2008	\$976,610	(\$346,644)	\$1,230,675	(\$24,200)	79.4%	-26.0%	(\$254,066)	(\$322,444)
2007	\$1,323,253	\$82,961	\$1,254,876	(\$2,670)	105.4%	6.8%	\$68,378	\$85,630
2006	\$1,240,293	\$125,707	\$1,257,545	\$31,125	98.6%	7.7%	(\$17,252)	\$94,583
2005	\$1,114,585	\$80,336	\$1,226,420	\$69,307	90.9%	1.5%	(\$111,835)	\$11,029
2004	\$1,034,249	\$98,152	\$1,157,113	\$93,658	89.4%	1.4%	(\$122,864)	\$4,494
2003	\$936,097	\$155,613	\$1,063,455	\$111,975	88.0%	6.0%	(\$127,358)	\$43,637
2002	\$780,484	(\$84,438)	\$951,479	\$98,443	82.0%	-19.4%	(\$170,995)	(\$182,881)
2001	\$864,922	(\$98,416)	\$853,036	\$68,779	101.4%	-21.4%	\$11,885	(\$167,195)
2000	\$963,337	n/a	\$784,258	n/a	122.8%	n/a	\$179,080	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)				
2009	8.1%	14.1%	17.2%	\$89,762	\$130,592	(\$40,830)	
2008	8.1%	-18.9%	-22.2%	\$98,303	(\$250,785)	\$349,088	
2007	8.2%	9.9%	9.0%	\$95,653	\$119,980	(\$24,327)	
2006	8.3%	12.9%	12.7%	\$88,078	\$142,245	(\$54,167)	
2005	8.3%	11.3%	10.7%	\$84,020	\$114,163	(\$30,143)	
2004	8.4%	12.4%	11.9%	\$82,683	\$114,536	(\$31,854)	
2003	8.5%	19.3%	19.0%	\$77,833	\$149,465	(\$71,633)	
2002	9.2%	-8.7%	-8.2%	n/a	n/a	n/a	
2001	9.4%	-6.3%	-6.2%	n/a	n/a	n/a	
2000	9.4%	4.3%	3.5%	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
2009	(\$25,703)	\$15,029	\$54,501	(\$25,010)	5.81%
2008	(\$10,674)	(\$9,054)	\$29,492	(\$2,092)	6.36%
2007	(\$19,728)	(\$7,347)	\$27,400	\$9,082	6.20%
2006	(\$27,075)	\$1,303	\$36,483	\$9,265	5.75%
2005	(\$25,772)	\$4,917	\$45,748	(\$3,278)	5.50%
2004	(\$20,855)	\$5,174	\$42,470	\$14,023	5.75%
2003	(\$15,681)	\$19,194	\$56,492	(\$21,853)	6.01%
2002	\$3,513	\$9,619	\$34,639	(\$24,265)	n/a
2001	\$13,132	(\$1,640)	\$10,374	\$1,569	n/a
2000	\$11,492	n/a	\$11,943	n/a	n/a

ASSET ALLOCATIONS

	2009	2008	2007	2006	2005
Equity Allocation	45.8%	43.9%	54.5%	60.3%	59.8%
Change From Prior Year	1.9%	-10.6%	-5.8%	0.5%	n/a
Fixed Allocation	36.8%	40.8%	33.2%	29.2%	28.1%
Change From Prior Year	-4.0%	7.6%	4.0%	1.1%	n/a
Other Allocation	17.4%	15.3%	12.4%	10.5%	9.4%
Change From Prior Year	2.1%	2.9%	1.9%	1.1%	n/a

OTHER POSTEMPLOYMENT 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
2009	\$50,440	(\$7,389)	\$238,436	(\$43,650)	(\$187,995)	\$36,261	21.2%	0.7%
2008	\$57,830	(\$29,905)	\$282,086	(\$44,228)	(\$224,256)	\$14,815	20.5%	-6.4%
2007	\$87,735	\$4,442	\$326,314	(\$11,200)	(\$239,071)	\$15,647	26.9%	2.2%
2006	\$83,292	\$5,721	\$337,514	(\$18,323)	(\$254,718)	\$23,586	24.7%	2.9%
2005	\$77,571	\$6,869	\$355,837	\$14,488	(\$278,304)	(\$7,636)	21.8%	1.1%
2004	\$70,702	\$15,263	\$341,349	\$16,859	(\$270,667)	(\$1,615)	20.7%	3.6%
2003	\$55,439	n/a	\$324,491	n/a	(\$269,052)	n/a	17.1%	n/a

ABOUT THE STUDY

The results of the Milliman 2010 Pension Funding Study are based on the pension plan accounting information disclosed in the footnotes to the companies' annual reports for the 2009 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, 157, 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 from those for U.S. qualified pension plans. The information, data, and footnotes 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 2009 annual reports were released by April 7, 2010. Eleven of the companies included in the 2010 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 2010 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 allocation.

ABOUT THE AUTHORS

John Ehrhardt is a principal and consulting actuary in the New York office of Milliman. He has more than 30 years of experience in advising plan sponsors on their corporate retirement programs. John specializes in the redesign of traditional pension plans, including the conversion of these plans to hybrid plans, such as cash balance and pension equity plans. To contact John, call +1 646 473 3300 or e-mail john.ehrhardt@milliman.com.

Paul Morgan is director of capital markets at Evaluation Associates, a Milliman company located in Norwalk, Conn. He leads Evaluation Associates' asset-liability modeling and risk budgeting services for corporate and public pension plan sponsors, and chairs the firm's asset allocation committee. Paul has more than 30 years of investment experience. To contact Paul, call +1 203 855 2285 or e-mail paul.morgan@evaluationassociates.com.

ACKNOWLEDGMENTS

The authors would like to thank the following people for their assistance in compiling the figures and editing the report for the Milliman 2010 Pension Funding Study: Courtney Bach, A.J. Balasinkam, Jeremy Engdahl-Johnson, Jennifer Faber, Kevin Ferris, Chris Goodman, Rick Gordon, Jim Loughman, Elizabeth Mattoon, Tim Nugent, Andres Rios, Marjorie Taylor, Lynn Yu, Zorast Wadia, and Delbert Zamora.

The information in this document represents the opinion of the authors and is not representative of the views of Milliman, Inc. Milliman does not certify the information, nor does it guarantee the accuracy and completeness of such information. Use of such information is voluntary and should not be relied upon unless an independent review of its accuracy and completeness has been performed. Materials may not be reproduced without the express consent of Milliman.

Copyright © 2010 Milliman, Inc