News From Aon

Canadian pension solvency in the first quarter of 2017 reaches its highest level since 2007 financial crisis

- Aon's median solvency ratio for surveyed defined benefit plans increased to 96.7%
- Canadian pension solvency reached its highest point since September 30, 2007

TORONTO (April 6, 2017) – As the global equity rally continued in the first quarter of 2017, the median solvency ratio of Canadian defined benefit (DB) pension plans – a key measure of their financial health – hit its highest level since before the 2007 financial crisis, according to the latest quarterly pension plan solvency survey from Aon Hewitt, the global talent, retirement and health solutions business of Aon plc (NYSE: AON). Driven by continuing positive returns across risk-seeking asset classes, and supported by relative stability in bond markets, median solvency on April 1, 2017 stood at 96.7%, up nearly two percentage points from the beginning of the year. Meanwhile, almost 40% of plans were fully funded at quarter's end, up four percentage points from Q4 2016.

Quotes:
"With solvency ratios at their best levels in a decade, conditions may not get much better to take meaningful steps in optimizing risks within pension plans," according to William da Silva, Senior Partner and Retirement Practice Director at Aon Hewitt. "Many plans that have been on the sidelines waiting for the 'right' time to take action should realize that time may be now."

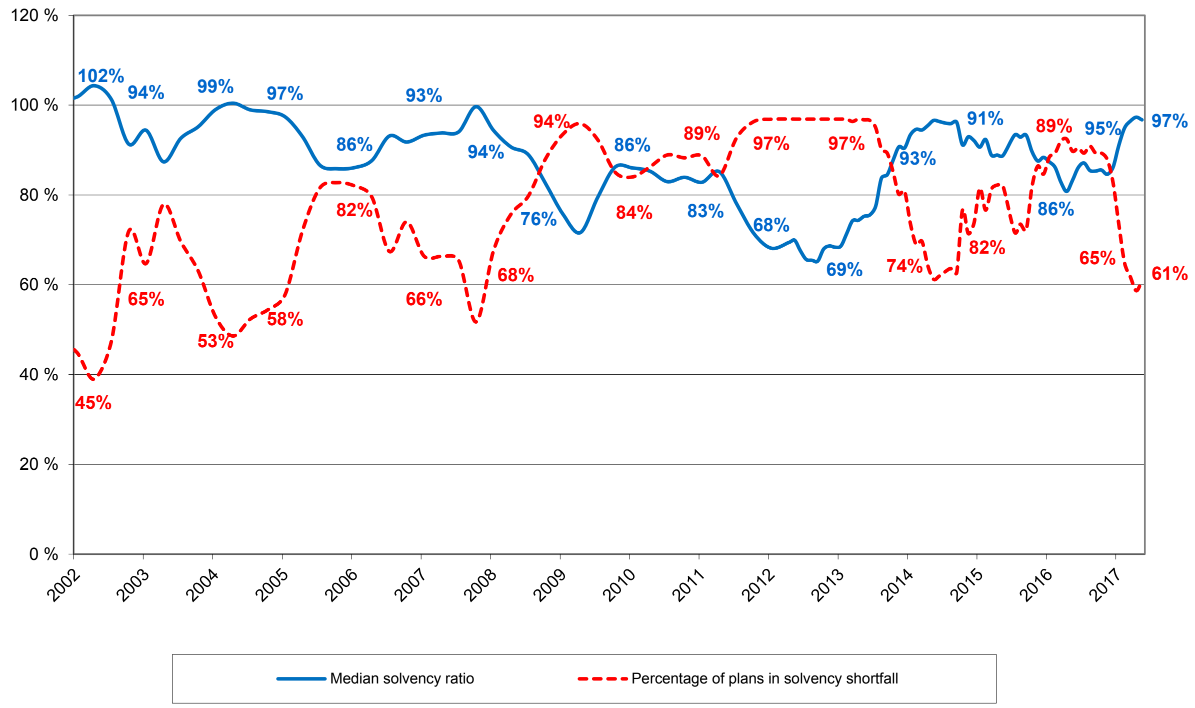
"The equity rally that defined the latter half of 2016 has continued into 2017, and was a key driver behind the current solvency ratios," noted Ian Struthers, Partner and Investment Consulting Practice Director at Aon Hewitt. "However, capital market conditions seem to be at an inflection point. Stocks continue to be priced for perfection, while the selloff in bonds has slowed, suggesting a more pessimistic view of the future. Amid these conflicting signals, our view is that pension plan sponsors should consider their strong solvency position as an opportunity to review their risk management and governance practices, so that they are prepared for market challenges."

"Actions taken to manage a plan's risk can vary from small adjustments to big and final decisions," adds da Silva. "We have more tools than ever before to manage and optimize risks within a pension plan. Now is the time to reassess your risk, understand what can be done about those risks, and take deliberate actions no matter how big or how small."

Key Facts:

- Aon's Median Solvency Ratio as of April 1, 2017 was 96.7%, up from 94.9% as of Jan. 1, 2017.
- First-quarter solvency was at its highest level since the third quarter of 2007, when it stood at 99.7%; by December 31, 2007, median solvency had declined to 94.4%.
- 39.2% of plans were fully funded as of April 1, up from 35.2% as of Jan. 1, 2017.
- Pension assets increased during the quarter by 3.2%; in the fourth quarter of 2016, asset returns were 7.2%.
- Among risk-seeking asset classes, emerging market equities performed the best in Q1, returning 10.8%, while U.S. equities (+5.5%), international (MSCI EAFE) equities (+6.7%) and global (MSCI World) stocks (+5.8%) also performed well.
- Domestic equities marked the worst performance among tracked stock indices, returning 2.4% through the quarter.
- As yields declined marginally (Canada 10-year benchmark yield was down ~10 basis points), bond returns were positive: FTSE Long Term Bonds returned 1.9%, while FTSE TMX Universe bonds finished the quarter up by 1.2%.
- Alternative asset returns were marginally positive, with global real estate up 1.7% and infrastructure up 5.7%.
- As bond yields declined, annuity purchase rates fell slightly through the quarter; however, the resulting increase in pension liabilities was more than offset by positive asset returns.

Aon's Median solvency index



About Aon's Median Solvency Ratio

Aon's Median Solvency Ratio measures the financial health of a DB plan by comparing total assets to total pension liabilities in the event of plan termination. It is the most accurate and timely representation of the financial condition of Canadian DB plans because it draws on a large database and reflects each plan's specific features, investment policy, contributions and solvency relief steps taken by the plan sponsor. The analysis of the plans in the database takes into account the index performance of various asset classes, as well as the applicable interest rates to value liabilities on a solvency basis. Actuarial valuation data are refreshed on an annual basis as new valuations are filed keeping the database always up to date. The Aon survey, which measures plans' assets over liabilities to calculate their solvency funded ratio, is based on results from Aon Hewitt-administered DB pensions from the public, semi-public and private sectors.

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About Aon

Aon plc (NYSE:AON) is a leading global provider of risk management, insurance brokerage and reinsurance brokerage, and human resources solutions and outsourcing services. Through its more than 72,000 colleagues worldwide, Aon unites to empower results for clients in over 120 countries via innovative risk and people solutions. For further information on our capabilities and to learn how we empower results for clients, please visit: http://aon.mediaroom.com.

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