News From Aon

Aon: despite slight decline, financial health of defined benefit pension plans remains strong in first quarter

- Aon's Median Solvency Ratio at the end of Q1 2018 stood at 98.7%
- Strong solvency positions plans well for implementing risk management strategies

TORONTO (April 3, 2018) – Coming off decade-high levels at the end of 2017, the financial health of Canadian defined benefit pensions plans declined only slightly in the first quarter of 2018, and overall financial health remains very strong, according to the latest quarterly Median Solvency Ratio survey from Aon, a leading global professional services firm providing a broad range of risk, retirement and health solutions.

Quotes:

"Despite a slight decline in median solvency this quarter, the fact remains that DB plans continue to have funded statuses that are exceptionally strong," said William da Silva, Senior Partner and Retirement Practice Director at Aon. "That means it's the best time in a long time for plan sponsors to implement or at least revisit their risk management strategies. With the move away from solvency funding in some jurisdictions, most plans will be soon experiencing a much different risk environment and their risk management strategies may need to evolve as a result. Couple that with a much deeper market for pension risk transfer and management solutions, and it is clearly a great time for pension plans to do something to better manage risk."

"The first quarter has given pension plans a reminder of the rollercoaster of volatile markets, and a preview of what we expect to be a more volatile investment landscape in 2018," noted Ian Struthers, Partner and Investment Consulting Practice Director at Aon. "We have seen some recovery in equity markets from the February selloff, but there are lots of reasons to expect more volatility. Although the economy is generally viewed as strong and corporate performance remains positive, this is offset by high valuations, a 'long-in-the-tooth' equity bull market, trade noise and sector risk. Additionally, interest rates present a mixed picture – policy rates are rising but a flattening yield curve implies a more pessimistic long-term view."

"The environment puts a lot of emphasis on effective risk management. Where plans are well funded and have a solvency or windup objective, LDI strategies allow a 'hedge path' to be developed that takes advantage of interest rate increases," Struthers added. "All plans need to be taking advantage of diversification across asset classes, including liquid and illiquid alternatives. When it is not clear where the next market storm will come from, it is important to build an all-weather portfolio."

Key Facts:

- Aon's quarterly median solvency ratio stood at 98.7% as of April 1, 2018, a slight decline from the previous quarter (99.2%).
- The proportion of plans that were more than fully funded detiorated as well, with 46% of them fully funded, compared with 47% in Q4 2017 and 48% in Q3 2017.
- Benchmark bond yields were little changed over the quarter, with Canada 10-year yields up five basis points and Canada long bond yields down three bps from the beginning of the year to March 29. Lower yields effectively raise pension plan liabilities, and adversely impact pension plan solvency.
- Amid mixed equity and fixed income markets, pension assets during the quarter declined by 0.4%; in the previous quarter, asset returns were -0.3%.
- Emerging Market and international MSCI EAFE equities were the strongest performers among asset classes in the quarter, returning +3.5% and +1.1%, respectively. U.S. (+0.7%) and global MSCI World (+0.6%) also finished March positive, but Canadian equities (S&P/TSX Total Return) fell by 5.8% - the worst performer of all measured equity classes.
- In fixed income, FTSE TMX Long Term and FTSE TMX Universe bond indices were little changed, declining by 0.3% and 0.1% respectively through the quarter.
- Global infrastructure ended the quarter down by 1.6%, while global real estate declined by 2.0%, both in Canadian dollar terms.

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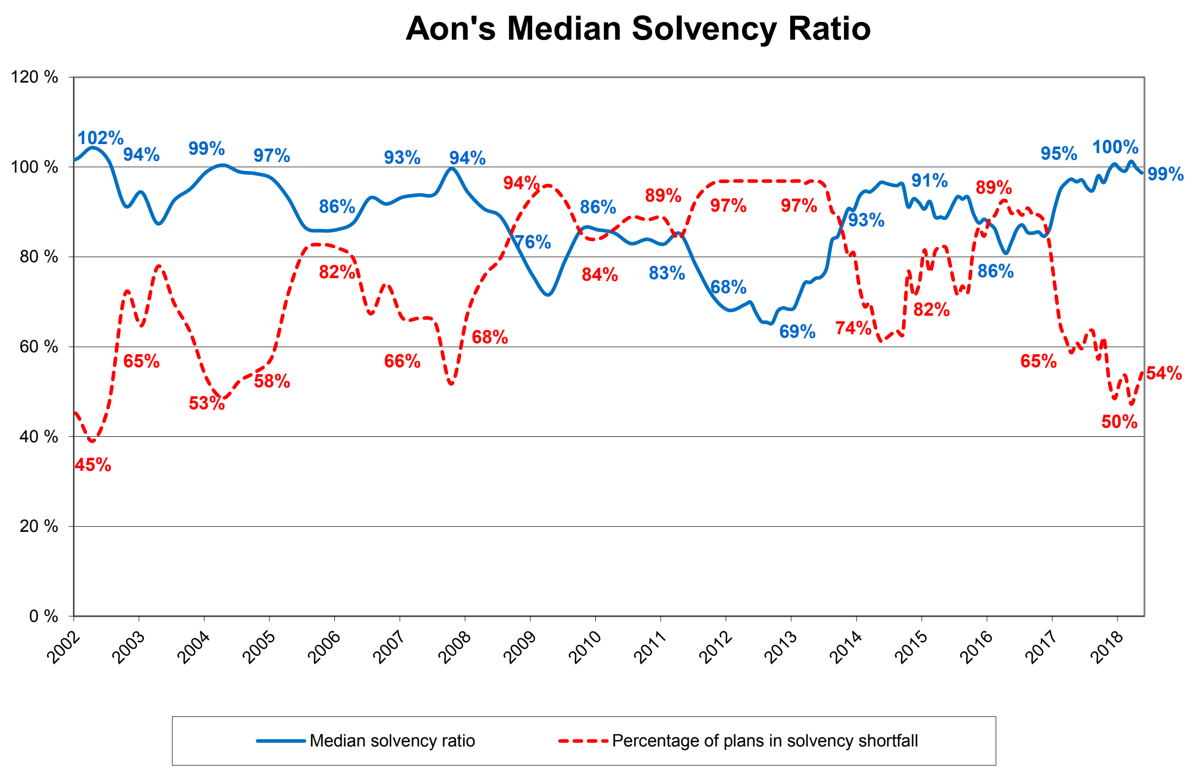

About Aon's median solvency ratio survey
Aon's median solvency ratio measures the financial health of a defined benefit plan by comparing total assets to total pension liabilities in the event of plan termination. It is the most accurate and timely representation of the financial condition of Canadian 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.

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About Aon
Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

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