Aon survey finds financial health of defined benefit pension plans ends 2017 near decade-long highs

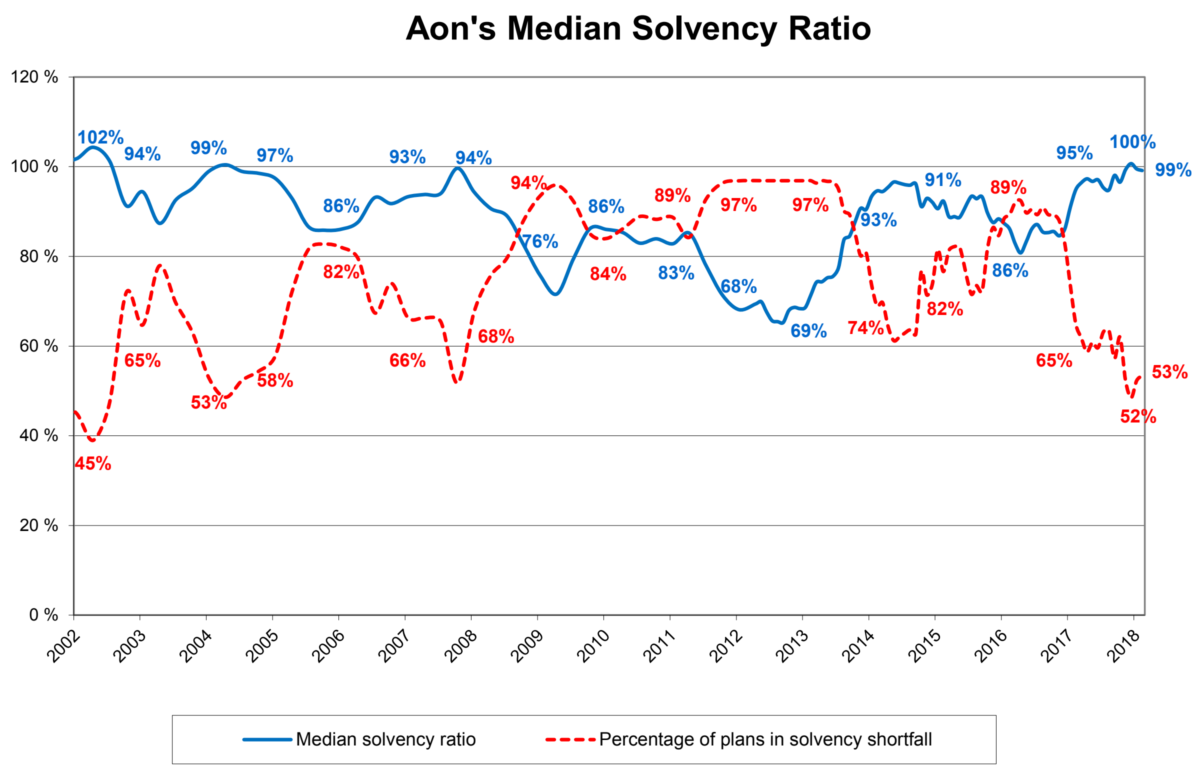
- Aon's Median Solvency Ratio at end of Q4 2017 stood at 99.2%
- Pension plans' financial strength positions them well to manage liabilities in 2018

TORONTO (January 4, 2018) – Capping a year that saw the financial health of Canadian defined benefit pension plans reach levels not seen in more than a decade, plan solvency in the fourth quarter of 2017 maintained the trend and remained near the post-recession high set in Q3, according to Aon's latest quarterly Median Solvency Ratio survey.

Quotes:
"From a financial point of view, 2017 was a very good year for the plans many Canadians will rely on in retirement, and pension plans are entering 2018 on solid footing," said William da Silva, Senior Partner and Retirement Practice Director at Aon Hewitt. "With solvency near 100%, it seems very clear that plan sponsors are looking at another manageable year regarding funding, and 2018 is also shaping up to be a good year for settlements, as one of the key impediments to fully settling liabilities – cash outlay – is now less of a concern."

"Markets and monetary policy got together in 2017 to make Canadian pension plans healthier than we've seen in years," said Ian Struthers, Partner and Investment Consulting Practice Director at Aon Hewitt. "Rising interest rates have decreased plan liabilities, but also remain low enough to continue to support the bull market in equities. How long these supportive financial conditions will last is anyone's guess, but the good news for pensions is that they are in a strong position to mitigate risk and employ smart diversification strategies going forward."

Key Facts:
- Aon's median solvency ratio held steady through the fourth quarter of 2017, standing at 99.2% on Jan. 1, 2018. That compares with 99.3% for Q3 2017.
- 46% of plans were fully funded as of Jan. 1, down from 48% in Q3.
- Canadian bond yields fell over the quarter, with Canada 10-year yields down 9 basis points and Canada long bond yields down 24 bps. Lower yields increase pension plan liabilities, and negatively impacted pension plan solvency over the quarter.
- Pension assets returned 3.1% in Q4 2017, in the previous quarter, asset returns were 0.1%.
- Emerging Market and U.S. equities were the strongest performers among asset classes in Q4, returning +7.6% and +6.8%, respectively, through the quarter. International MSCI EAFE (4.4%), global MSCI World (5.7%) and Canadian equities (4.5%) indices all posted strong returns in the quarter.
- In Canadian fixed income, falling bond yields bolstered bond performance in Q4 2017. FTSE TMX Long Term bonds ended the quarter up 5.2%, while FTSE TMX Universe Bonds were up 2.0%.
- Real asset returns were also strong this quarter, with global infrastructure up 1.8%, and global real estate up 3.8%, both in Canadian dollar terms.



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 on a solvency basis according to the different legislations. 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

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