

# The Aon Longevity Model

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Drawing on our extensive overseas longevity modelling expertise, the Aon Longevity Model is a first-of-its-kind proprietary tool that uses location-based data to help Canadian pension plan sponsors develop a comprehensive, in-depth understanding of the likely life expectancies of plan participants, as well as the risks associated with those assumptions.

## Why Longevity?

Canadian life expectancy at age 65 has increased by about five years since the early 1970s, or a rate of more than a year a decade. There seems to be no evidence that this rate of increase is slowing down. As expectations for life expectancies rise, so too do pension plan liabilities; in fact, a one-year increase in life expectancy at age 65 increase liabilities by approximately 3% - 4%.

Globally, there is a growing shift of assets from pension plans to insurance companies, particularly in the United States and the United Kingdom, where a number of organizations have moved towards the partial settlement of their pension plans through the transfer of assets and liabilities from plan sponsor to financial institutions, with the risks often ending up in the re-insurance market due to the size of these settlements. In Canada, this shift has been slower for large settlements, but is expected to grow.

## Longevity is a key component in effectively managing long-term risk and cost of pension plans

The Aon Longevity Model is a first-of-its-kind proprietary tool developed to help Canadian plan sponsors set best-estimate base table mortality assumptions. Leveraging the modelling capabilities of Aon Hewitt's global network and our deep data sources has enabled the creation of a model that uses location-based data as a proxy for socio-economic status to create plan-specific mortality adjustments. This approach has been proven effective in the United Kingdom, where plan-specific analysis is standard practice for determining assumptions.

## The power of data

The power of the Aon Longevity Model is the data behind it. We have used 10 years of mortality experience from a number of large plans across a wide range of industries, geographies and sectors (public and private).

## The next generation in longevity modelling

Standard published mortality tables are appropriate without adjustment only for a limited number of pension plans, or where mortality adjustments are not considered necessary due to the materiality of the liability.

To date, with the exception of very large populations, it has not been possible to make pension plan-specific adjustments, as the experience of the plan would not be of sufficient size to make credible adjustments. Industry-wide or collar-specific tables are sometimes available, but these often miss significant variations, and only apply to the "average" within the industry plan.

The Aon Longevity Model now allows sponsors to drill-down and make an allowance for the specific characteristics within their pension plans, irrespective of plan size.

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## Aon Hewitt can help organizations address their long-term plan risks

Aon Hewitt is a global leader in advisory services for pension risk settlement transfer solutions, bringing plan sponsors the expertise and the tools they need to effectively assess and mitigate longevity risk. The company has acted as lead advisor in many of the largest pension risk settlement transfers in the United Kingdom and United States, and in Canada is actively working with pension plans as they consider longevity risk solutions.

Whether plan sponsors are considering the complete settlement of liabilities, are looking to insure against longevity risk or simply want to establish better long-term risk parameters, Aon Hewitt can provide sponsors with a comprehensive view of their plans, participants and options to meet their specific needs.

[aon.com/longevity](http://aon.com/longevity)

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## We're here to empower results

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