News From Aon

As financial health of Canadian pension plans improves in second quarter, “complacency is the biggest risk”

- Aon’s Median Solvency Ratio at end of Q2 2018 stood at 100.2%
- Trade tensions and market volatility may present headwinds going forward

TORONTO (July 4, 2018) – As tensions over trade and shifting monetary policy created volatility in financial markets, the health of Canadian defined benefit pension plans improved in the second quarter of 2018, 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:
“Defined benefit pension plans have fared remarkably well during a period defined by worrisome headlines and rising international tensions,” said William da Silva, Senior Partner and Retirement Practice Director at Aon. “Now, complacency is the biggest risk. While the Aon Median Solvency Ratio improved quarter-over-quarter, we’ve seen some fairly significant variations in the measure over the past few months – in fact, we’ve seen a ***decline*** of 150 basis points in the Median Solvency Ratio from a high point of 101.7% at the end of April. In short, it wouldn’t take much to see all of this year’s solvency gains erased – and quickly. Clearly, plan sponsors should now be at least considering steps to implement or update their risk management strategies. In the past, many sponsors have been reluctant to do so because of the actual or opportunity costs involved, but with solvency strong and risks on the horizon, they no longer have a reason ***not*** to act.”

“We noted at the end of the first quarter that markets had entered a more volatile investment environment, and the second quarter confirmed it,” said Ian Struthers, Partner and Investment Consulting Practice Director at Aon. “In equity markets, we’ve seen about a 50% increase in volatility so far in 2018 over last year, but the uncertainty applies beyond stocks. Bond yields fluctuated by almost 50 basis points through the second quarter – and ended up pretty much where they began. There is likely more volatility to come, as central banks continue to recalibrate towards a higher-interest-rate world, as trade tensions rise globally, and as geopolitical factors influence commodity prices. In this environment, it only makes sense for pension plan sponsors to take advantage of their strong funded positions, lock in some gains, and take concrete steps to strengthen risk management going forward.”

Key Facts:
- Aon’s quarterly median solvency ratio stood at 100.2% as of June 29, 2018, up 1.5 percentage points from the previous quarter.
- The proportion of plans that were more than fully funded increased to 50.8%, up from 45.8% at the end of Q1.
- Benchmark bond yields fluctuated throughout the quarter but ended little changed, with Canada 10-year yields up eight basis points and Canada long bond yields down three basis points. 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 rose by 1.15%; in the previous quarter, asset returns were -0.4%.
- As commodity prices rose (+4.9% in Q2), Canadian equities were the strongest performers among all risk-seeking asset classes in the quarter, up 6.8%; U.S. S&P 500 (+5.5%), global MSCI World (+3.8%) and international MSCI EAFE (+0.8%) also ended Q2 in positive territory. Emerging Market equities were the weakest in the quarter, falling 6.1% in Q2 and down 2% year-to-date. (All returns in Canadian dollar terms.)
- In fixed income, FTSE TMX Long Term and FTSE TMX Universe bond indices rose modestly, by 0.9% and 0.5% respectively, through the quarter.
- Amid equity volatility, global infrastructure ended the quarter up 4.3%, while global real estate surged, up 7.3%, in Canadian dollar terms.

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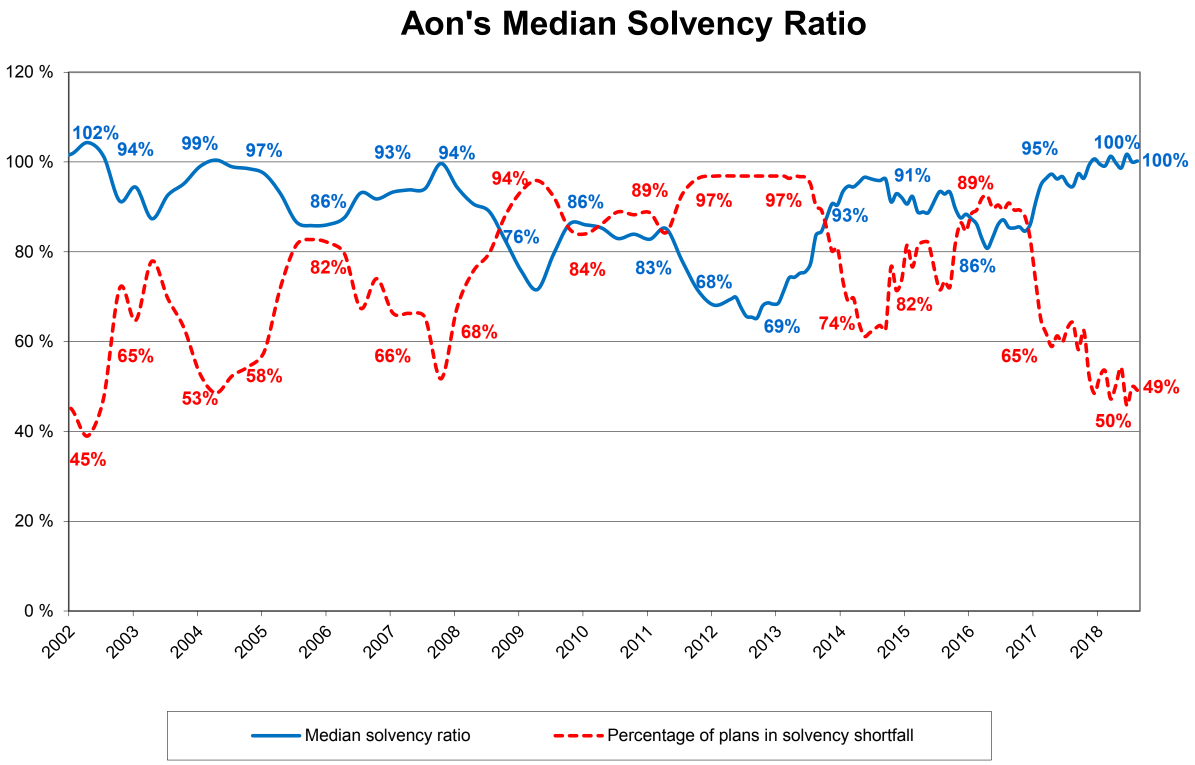

About Aon's median solvency ratio survey
Aon's median solvency ratio measures the financial health of a defined benefit plan by comparing total assets to total pension liabilities in the event of plan termination. It is the most accurate and timely representation of the financial condition of Canadian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