

Recovering from Rollercoaster 2020

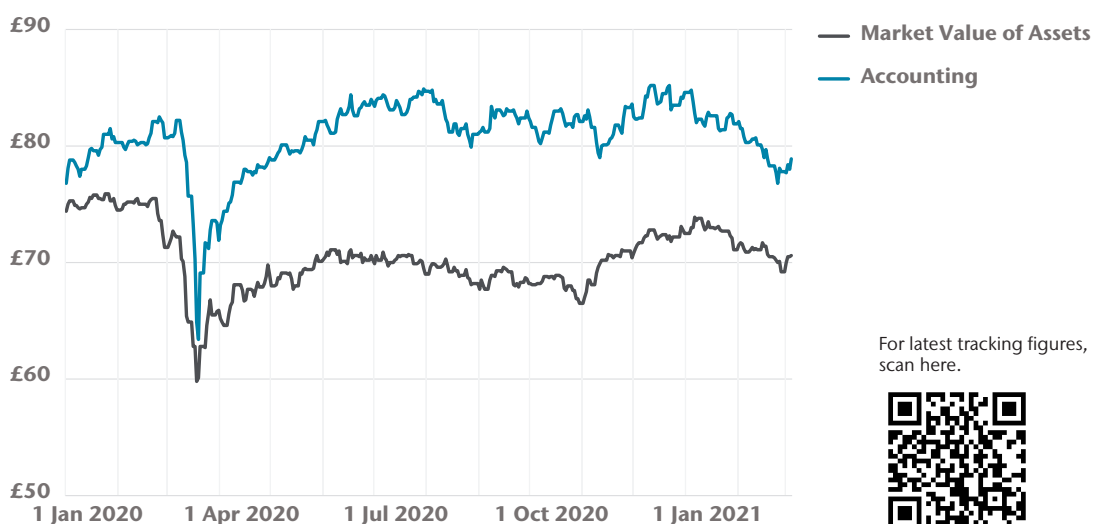
Insights from Aon's Accounting Strategy Team



FTSE 250 insights

- ◆ FTSE 250 aggregate deficit in 2020 hit double that of the 2008 credit crunch
- ◆ A wide gap remains between the best and worst funded schemes
- ◆ With no recovery in sight, scheme sponsors must take control of strategy and capitalise on 2021 opportunities
- ◆ FTSE 100 sponsors have fared significantly better than FTSE 250, with deficits much lower than the double 2008 levels observed in the FTSE 250

FTSE 250 aggregate accounting assets and liabilities (£M)



Source: Aon Pension Risk Tracker

Rollercoaster 2020... Stagnant 2021...?

2019 swings were dwarfed by volatility in Q1 2020, amid the economic impact of COVID-19. Over 2020 the aggregate funding position of the FTSE250 fell from 97% to 86%. The FTSE350 also fell from 103% to 95% – increasing net deficits by £75bn.

There have been little signs of recovery since. Many schemes' funding positions have worsened due to falling yields but some have been bolstered by strong equity performance, particularly US equities.

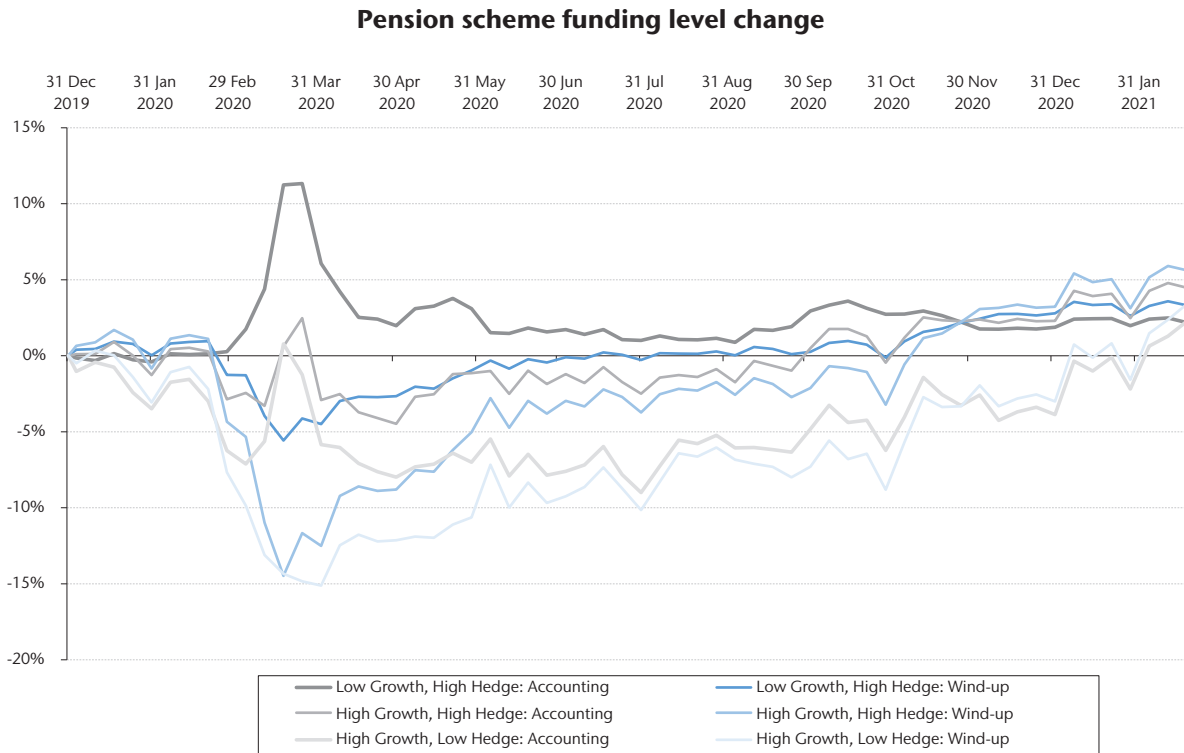
Differing outcomes

Not only has the aggregate position shown a fall in funding level over 2020, but the worrying trend of recent years has continued. The best funded pension schemes have been the least affected and have often seen improvements in their positions, while the worst funded were the most affected.

Over 2020, schemes that could afford to implement higher levels of protection from the falls in yields (through adopting a lower risk investment strategy, higher interest rate and/or inflation hedging levels or implementing member options to manage the liabilities) tended to perform better. However, schemes with lower levels of protection experienced greater volatility.

Is investment strategy the answer?

The chart below shows possible 2020 outcomes for three 'straw man' pension schemes with differing investment strategies. This shows that it should have been possible to achieve an improvement in funding over 2020 with a passive investment strategy, plus high hedging and diversified growth assets.

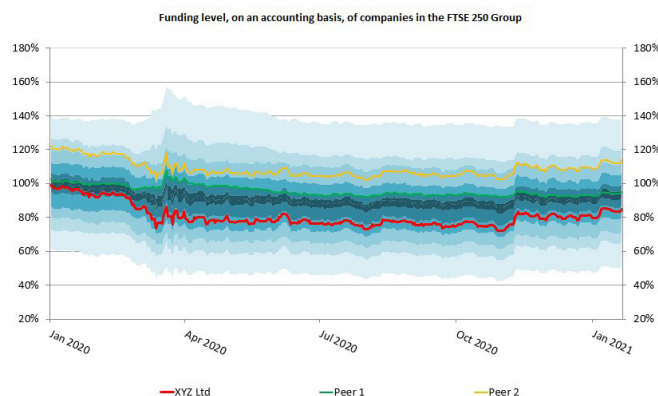


Source Aon

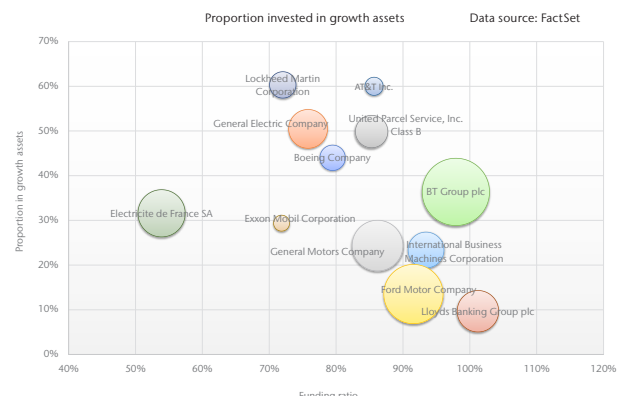
Strategy for 2021

While the UK Governments roadmap for lifting lockdown gives cause for optimism and potential for market recovery, it is apparent that 2021 will continue to be a challenge for pension schemes. Now is an opportune time to understand how your scheme shapes up and to develop a strategy for its recovery.

The best way to begin understanding how your scheme is performing is to compare your scheme to its peer group. That may be companies or pension schemes of similar size, or your direct competitors. You can then get to grips with what is driving the differences in performance. The charts below illustrate how you can benchmark your scheme against your peers or your relevant peer group.



Source: Aon



Whether you outperformed your peers in 2020 or underperformed, there could be significant accounting challenges ahead.

We are working with our clients to develop their plans for 2021, focused on taking advantage of opportunities to undo any damage done in 2020 and to build a more resilient scheme for the future.

Do you know how your scheme has been affected, and how it is performing compared to your peers?

We can benchmark your scheme to help you:

- Assess your resilience
- Identify and address the risks associated with scheme assets and liabilities
- Identify opportunities to remove volatility and optimise your balance sheet and P&L position

Here to help



Aon can provide you with a **FREE** personalised benchmarking report.

For further information [click here](#) or contact one of our Accounting Strategy specialists.

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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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