

Review of 2018 and actions for 2019

Insights from Aon's Accounting Strategy Team

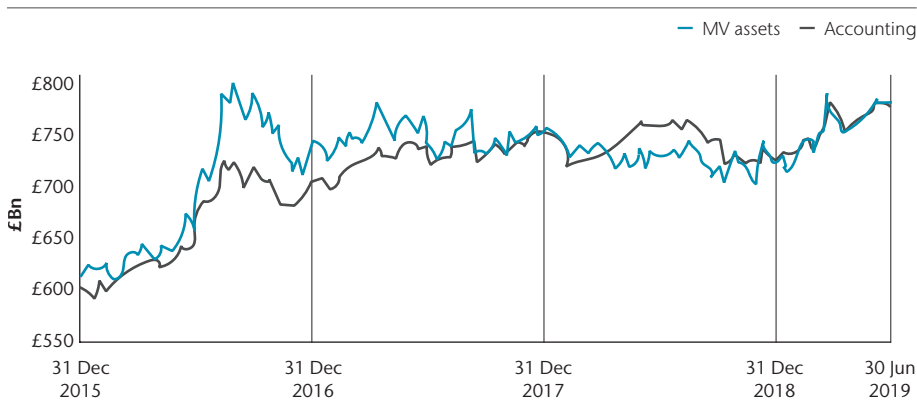
2018 was another rollercoaster year for pension schemes. In the middle of the year, the FTSE 350 was in a sustained IAS 19 surplus position for the first time in 10 years, peaking at almost 105% funded, but despite this, the year ended almost exactly as it began at just below 100%.

Meanwhile the aggregate buyout deficit in the FTSE 350 increased for the second year in a row to over £300Bn.

Perhaps the most interesting dynamic, though, is the continuing divergence of performance between the best and worst funded pension schemes – by the end of the year, the best were above 117% funded and the worst were below 70% funded.

The chart below shows the aggregate pension scheme assets and liabilities of the FTSE 350, and how this changed over 2016, 2017 and 2018.

Aon Pension Risk Tracker



Source: Aon Pension Risk Tracker

Individual plan performance is heavily dependent on investment strategy, company contributions, and the impact of member option exercises

2018 highlights



Balance sheet liabilities

- Accounting liabilities typically improved by 7% over 2018 (mainly from widening credit spreads pushing up discount rates)
- Whereas buyout liabilities typically improved by 2% (only reflecting slowing longevity improvements)



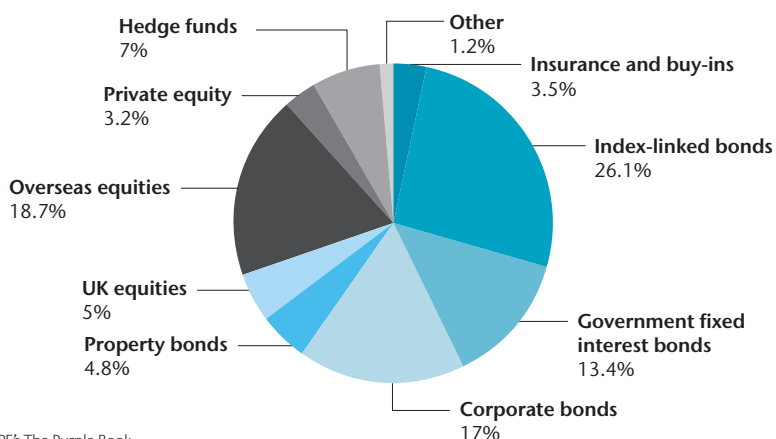
Balance sheet assets

- Matching assets (gilts, swaps and LDI) improved compared to accounting liabilities (the effect of credit spreads again)...
- ...but equity markets were down between 5% to 15% (though losses were smaller in sterling terms where currency was unhedged)

What is causing the divergence between the best and worst funded schemes?

Pension scheme assets vary significantly depending on the views of the particular company and trustees, but aggregate position still shows significant exposure to traditional high-risk growth assets such as equities.

Weighted average asset allocation

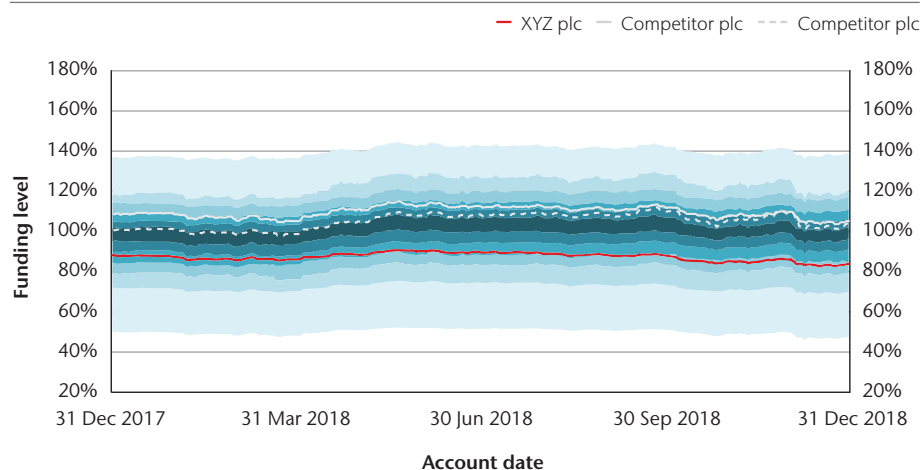


Source: PPF's The Purple Book

How are you performing compared to your peers, and what can you do about it?

We can show you how your scheme is performing compared to your competitors, and explain the key reasons for any differences, allowing you to take control of your accounting position. The chart below shows how three UK plc's performed over 2018 compared to each other and the wider FTSE 350.

Funding level, on an accounting basis, of companies in the FTSE 350 group



Source: Aon Pension Risk Tracker

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