Global leader in defined benefit retirement de-risking solutions

The challenge

Defined benefit retirement plans add significant risks and costs to the sponsoring organisation.

The consequence is the organisation being less competitive compared to industry peers without such legacy plans, as a result of:

- significant and volatile employer funding costs
- these plans being a stumbling block to business transformation and M&A activities
- impact on accounting profitability and on the employer balance sheet
- having a higher employer spend for a sub-section of the workforce
- having complex and costly arrangements – which employees may not fully value or understand
- employees having less control eg no investment choice
- ever increasing compliance and running costs.

Empower results – development and implementation of de-risking strategy

There is a clear and current focus on efficient de-risking of defined benefit retirement vehicles and a growing need to seek alternative solutions for a large number of organisations around the world.

Uniquely Aon – unrivalled innovation and large scale de-risking capacity

Leveraging Aon's global insurance solution capabilities to meet this demand and integrated with Aon's retirement consulting expertise across actuarial and investment disciplines, Aon is leading the globe in innovation to tackle these issues for our clients. Our solutions include longevity swaps, surety bonds, pension increase exchange, annuities, asset-liability exercises and plan wind-up strategies.

Longevity swaps

The benefit design of some retirement plans includes the payment of a regular pension for the whole of life of a former employee and their spouse. With life expectancy continuing to increase, this places a significant long-term financial obligation and risk on the sponsoring employer.

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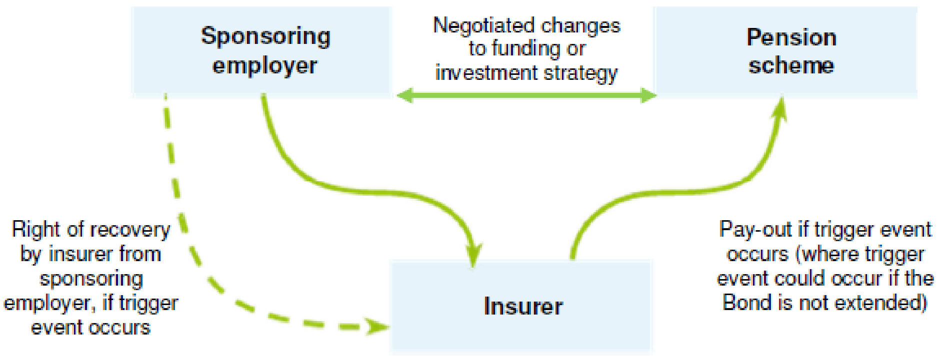
Aon arranges longevity swaps valued at 16 billion for major pension scheme – this provided hedging against over 25% of the overall exposure to improvements in longevity. This UK transaction is the largest pension de-risking deal and represents another step forward in terms of innovation.

Surety bonds

A significant issue for sponsoring employers is the volatility of cash flow demands for funding defined benefit arrangements. Often with little flexibility, once paid there is often no recourse should surplus assets arise. Employer cash flow may also of course not always be readily available to the extent required.

A surety bond is an agreement from an insurance company authorising the payment of a specified sum to the retirement plan on certain specified conditions. The bond is usually for a term of up to three years (although five years may be possible), with the premium fixed for the term of the bond. Importantly, such an approach does not impact the company's debt management.

Aon arranges surety bonds valued at <u>400 million</u> for multinational – Aon facilitated a five and a half year transaction which allowed a listed multinational company to offer surety bonds to its retirement scheme as part of their funding strategy. This transaction is a market first – nothing of this complexity or size has been successfully executed before. The arrangement brought together eight major insurance companies in the largest syndication the UK surety market.



The use of surety bonds can enable:

- increased flexibility in funding strategy
- reduced employer cash flow demands
- increased flexibility in investment strategy
- increased security for the trustee and members in relation to funding
- improved funding negotiations between sponsoring employer and retirement plan.

Types of circumstances this approach might be appropriate for include:

- corporate plans outside of multi-employer master trust structures
- plans with large defined benefit liabilities
- where a material deficit funding position exists in the plan
- where volatile funding demands on cash flow would impact the business.

Pension increase exchange

For retirement plans which pay regular pensions, often these pensions once in payment are inflation linked. This adds long-term inflation risk to the sponsoring employer's financial obligations.

Aon implements inflation buy-out strategy – via a one-off voluntary offer made to plan pensioners to exchange to a higher pension amount which is then fixed, which removed inflation risk and reduced liabilities.

Bulk annuity solutions

Leveraging Aon's insurance market presence and scale across the globe, Aon is a leading provider of full risk transfer solutions via buy-in and buy-out bulk annuity strategies. Aon has advised and brokered some of largest annuity settlement exercises ever completed.

Aon advises retirement fund on pre-buyout investment strategy and annuity transition relating to assets of over 1 billion – the investment strategy was designed to minimise the fund's volatility against the wide range of quotes from the different annuity insurers. The result was a successful protection of the fund, during the toughest market conditions in living memory.

Integrated actuarial and investment solutions

These solutions enable informed decision making in relation to the defined benefit plan's investment strategy. In particular, so to ensure that investment risk is aligned to the corporate sponsor's risk appetite and ability to accept cost volatility. These approaches, which include Asset Liability Modelling, also aid the sponsor to understand and so better manage the possible outcomes and inherent risks that the plan exposes the employer to.

Wind-up of defined benefit retirement arrangements

Aon offers a structured approach to the decommission of defined benefit arrangements – switching to a sustainable and cost controlled Defined Contribution approach. Starting with a comprehensive feasibility assessment which looks at the options available based your organisation's specific circumstances, through to a proven employee engagement, transition and communications strategy – support from Aon every step of the way.

Find out more: https://www.aonhewitt.com.au/Home/About/Case-studies/Case-study-Actuarial-services

Contact us for more information about how our specialists at Aon can help your organisation to de-risk.

About Aon Hewitt

Part of Aon plc, Aon Hewitt is the global leader in human resource consulting and outsourcing solutions. Our services focus on helping organisations mitigate risk in their workforce and realise the untapped potential of their employees. We also help individuals maximise their wealth to enable people to live the life they want.

In Australia, our team of experts partner with your organisation to develop and deliver people strategies that achieve positive business outcomes in the areas of: superannuation and retirement; financial advice; workers' compensation; work, health and safety; workforce risk solutions; employee benefits; talent, leadership and employee engagement; remuneration and incentives; total rewards; actuarial services; and mergers and acquisitions.

With more than 30,000 professionals in 90 countries, Aon Hewitt makes the world a better place to work for clients and their employees.

Aon Hewitt is the global talent, retirement and health solutions business of Aon plc.

For more information on Aon Hewitt, please visit aonhewitt.com.au.