Take control of your Defined Benefit superannuation assets

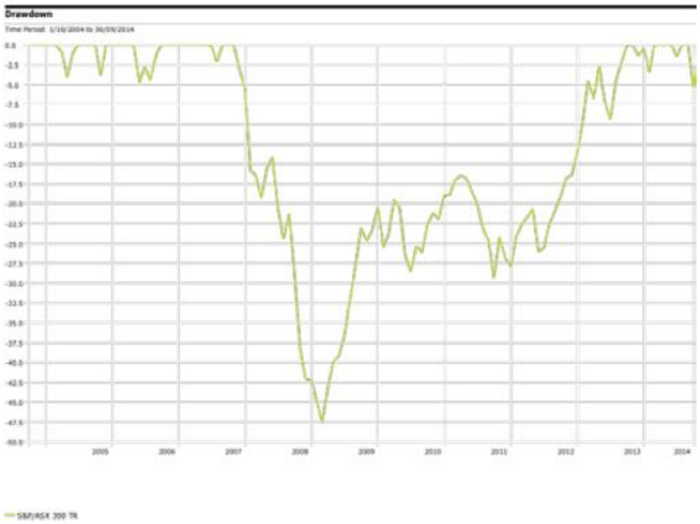
A risk-based approach to integrated funding and investment

Employers with Defined Benefit (DB) plans in some cases are still working through recovery plans following the second “once in a lifetime” investment market crash. The events of 2008 left employers dealing with funding deficits which required large injections of cash to meet regulatory requirements. To make matters worse, investment markets continue to be volatile, potentially increasing plan deficits further.

Properly managing DB plan finances requires an integrated approach between the investment and funding strategy, benefit design and the assumptions and modelling methodology used in the actuarial valuation.

Asset-Liability management is a critical aspect of DB plan management that has implications on each of these areas, most notably on the effective management of the investment strategy.

Australian equity market volatility over 10 years



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Aon Hewitt can help review your investment strategy and check it aligns to your objectives and risk appetite. In addition, if the answer is no any one of the following questions, please read on to see how Aon Hewitt can help.

- As a sponsoring employer, do you know where your DB plan assets are invested?
- Have you reviewed the DB plan's investment strategy in the last three years?
- If the plan actuary were to recommend a large cash contribution to the plan following a market downturn, do you have the finances readily available to cope with this?

What exactly is an integrated approach to funding and investment?

Traditional DB actuarial valuations consider a single deterministic projection of future experience to determine the employer contribution rate. The real world of course does not behave as simply as this - there is a wide range of possible future outcomes.

Asset-Liability Modelling (ALM) exercises can be carried out after a traditional actuarial funding valuation has been completed given that the investment and funding decisions are inter-linked. Investment considerations include:

- the time horizon being considered
- the nature of the liabilities
- the sponsoring employer's attitude to risk and its ability to pay higher cash contributions
- the balance between risk and return
- taxation and expenses
- evolving legislation requirements
- liquidity and investment concentration risk.

Carrying out an actuarial valuation and a modelling exercise in isolation, fails to fully recognise the key linkages between the contribution strategy and investment strategy. However, through Aon Hewitt's integrated valuation system, our experienced consultants are able to advise on both contribution and investment strategy as part of a single review exercise and offer joined up actuarial and investment advice.

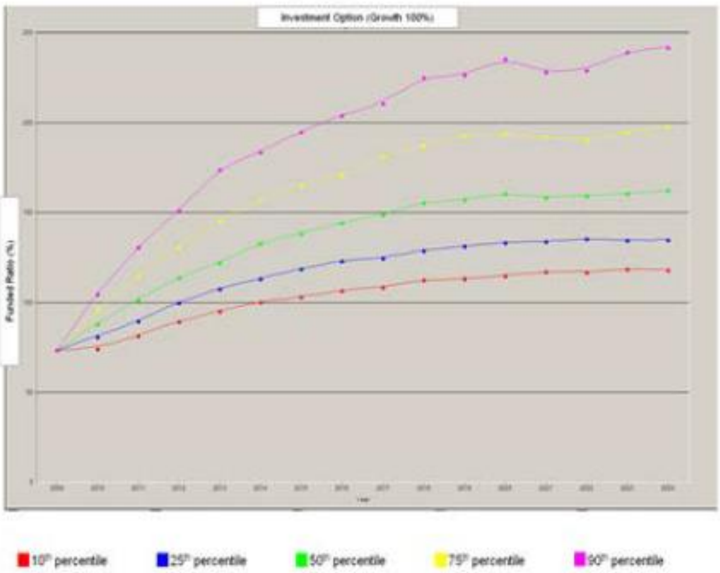
Our experience has shown that a risk-based approach using modelling techniques can help quantify the level of any prudence included in the assumptions. In addition, it can help understand the likelihood of a deficit correction (or surplus retention) strategy being successful by the end of a chosen time horizon. This allows trustees and employers to agree a contribution and investment strategy with the desired likelihood of success and with a quantified understanding of the variations possible. In addition, the approach allows alternative strategies to be compared more easily, leading to more effective decision making.

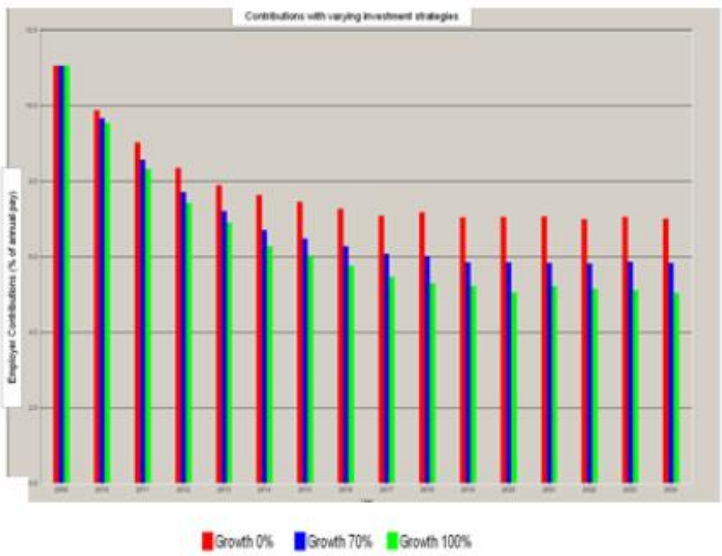
Model output

Alternative investment and contribution strategies

Our model has full flexibility to change the proportions of assets held in growth and defensive asset classes and show how these changes impact over a range of outcomes on the funding position and on the level of employer contributions needed.

We can also show the impact on employer contributions of varying the actuarial assumptions.





Pricing

If the work is completed following your triennial actuarial valuation or annual funding update, then there are savings in undertaking this modelling work compared to as a separate exercise.

We offer a fixed-fee service and the cost of Aon Hewitt undertaking this modelling exercise for your DB plan would depend on your exact requirements.

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.

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