

Comprehensive Pension Plan Management

Delegated Pension Manager

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The Changing Retirement Plan Landscape

The decline of the defined benefit plan as the primary source of employer-provided retirement income in the U.S. is well-documented. The trend has continued for the past two decades due to business pressures created by market volatility and notable regulatory changes impacting pension plan management. The majority of pension plans are underfunded, which often makes near-term plan termination an expensive proposition. In addition, the regulatory environment has become more complex, requiring organizations to dedicate more effort to managing their pension obligations. Whether your company's pension plan is open, closed or frozen, the key challenges facing plan sponsors include:

- Pension Benefit Guaranty Corporation (PBGC) premium increases: PBGC premiums have increased by more than 300 percent over the past 15 years and will continue to increase.¹ This creates a significant drag on plan assets and encourages plan sponsors to consider alternative strategies to mitigate these cost increases, such as lump sum windows, annuity purchases and discretionary cash contributions.
- Participant longevity: Life expectancies have increased significantly over the past two decades and are expected to continue to increase in the future. New mortality assumptions have increased pension liabilities and placed plan sponsors further away from plan full funding.
- Complicated regulations: New funding regulations allow plan sponsors to defer cash funding requirements. However, PBGC premiums continue to rise and balance sheet liabilities continue to be volatile. As a result, funding and asset allocation decisions need to consider several complex factors.
- Low but rising interest rates: Pension liability discount rates are rising but still lower than historic levels. Many pension plan sponsors are using dynamic hedging strategies to take advantage of interest rates as they begin to rise.
- Government plan audits: Both the Internal Revenue Service (IRS) and the Department of Labor (DOL) have increased the frequency of pension plan audits. Penalties and fines are being assessed for breaches of fiduciary duty. Plan sponsors are reviewing the key focus areas of these audits and putting processes in place to make their plans more compliant.

¹ Source: Pension Benefit Guaranty Corporation, Premium Rates: <https://www.pbgc.gov/prac/prem/premium-rates>

The Current Pension Environment

Interest Rates Remain at Historically Low Levels

Interest rates are still near historic lows.¹

U.S. 10 Year Treasury Yield



3

Sharply Increasing PBGC Premiums

Increasing PBGC premiums result in a significant drag on assets for plan sponsors. The average pension plan paid 2021 PBGC premiums of 0.4% of assets which is a significant headwind.

PBGC Premium Increases²

| | 2012 | 2022 | 2030 (projected) |
|---|-------------|-------------|---------------------|
| Flat Rate (per person) | \$35 | \$88 | \$111 |
| Variable Rate (per 1K unfunded) | \$9 | \$48 | \$61 |

\$1,800

Present value of future flat PBGC premiums for a 45-year-old participant

¹ Source: Barclays Live: U.S. 10-Year Treasury Bellwether Index

² Future PBGC premiums assume 3% annual increase in National Average Wages and 6% interest

Actions Taken

Mitigating Plan Costs

Employers are looking for ways to mitigate increased plan costs through liability settlements and increased contributions. Liability settlements, including lump sum windows and annuity purchases, continue to be an effective strategy for reducing PBGC premiums. Increasing discretionary contributions has the effect of both reducing PBGC premiums and reducing funded status volatility.

Actions to Decrease PBGC Premiums²

3,600+

total annuity purchases over the last decade

+50%

of plans have offered a lump sum window since 2012

42%

contributing more than minimum required²

Sponsors Are More Actively Managing Asset and Liability Mismatch

More plan sponsors are adopting investment strategies to reduce volatility by taking a more dynamic approach to matching assets and liabilities and adding diversifying assets.

53% of plans have a de-risking glide path in place⁴

Updating Procedures in Light of Government Audits

With the IRS and DOL increasing audit activity, 88 percent of employers are increasing the frequency of their search for missing participants. In addition, they are using different methods to search for addresses, including first class mail, certified letters, phone and email.

Sponsors Plans for Changing Search Procedures¹

28%

Annually

20%

Quarterly

20%

Semi-Annually

16%

Monthly

16%

Other or Don't Know

Increasing Fixed Income and Diversifying Assets³

Over the last decade, plan sponsors have continued to move assets out of equities and into fixed income and other diversifying assets to reduce risk and to look for other return enhancing alternative investments.

| Assets | 2010 | 2020 |
|------------------------|------|------|
| Diversifiers and Other | 8% | 15% |
| Fixed Income | 36% | 49% |
| Equity | 56% | 36% |

¹ 2020 Aflac Hot Topics in Retirement and Financial Wellbeing report
² Internal Aon data and PBGC premium filing data as of the end of 2021
³ 2020 U.S. pension reporting for S&P 500 pension sponsors
⁴ www.ai-cio.com/surveys/2021-liability-driven-investment-survey/

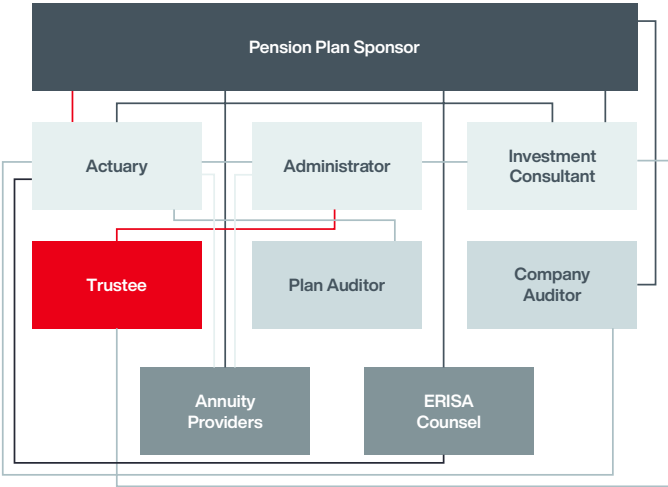
Pension Plan Management

The Traditional Approach

The traditional pension plan management approach has been predicated upon independent asset and liability strategies and multiple vendors providing support across varying needs. This approach often lacks the dynamic qualities required to efficiently manage a plan through the complexities of today’s landscape.

Efficient plan management requires more resources, attention and a more integrated strategy than ever before. Yet, the role of the pension plan within the organization has typically diminished, suggesting fewer resources should be devoted to managing the plan.

Traditional

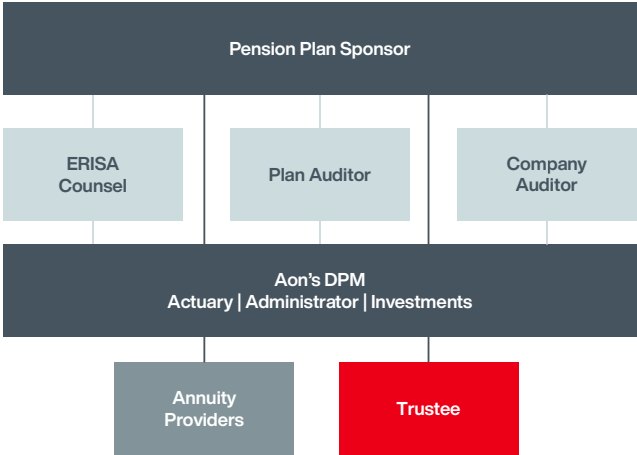


A New Approach: DPM

The new era of pension plan management shows a shift in objectives for most plan sponsors from plan sustainability to efficient execution of an exit strategy. Success hinges upon being able to integrate investments with the liability profile, adjust asset allocations as de-risking opportunities arise, settle liabilities opportunistically and coordinate strategies.

To help plan sponsors overcome these obstacles, Aon has designed a turnkey approach to delegated pension management (DPM). Our DPM approach provides plan sponsors a single point of contact to integrate and execute the strategies needed to take them from today to their desired future state.

Aon's Delegated Pension Manager



The Benefits of Bundling

Integrated strategy development and execution:

Allows holistic consulting about asset allocation, contribution strategy, settlement activity and accounting policy.

Better, faster and cheaper in times of need:

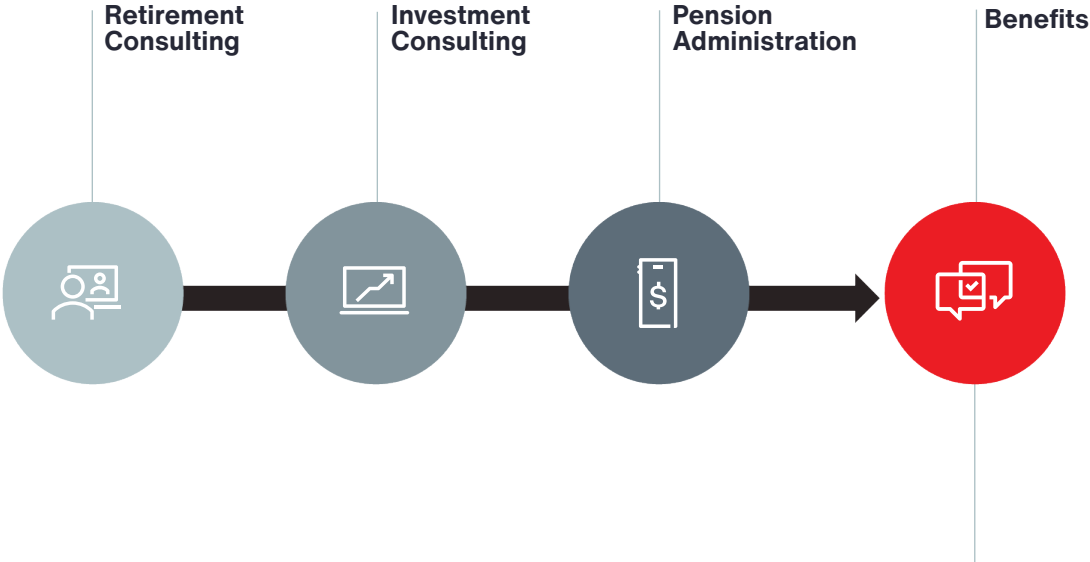
Supports special, one-time events including settlement projects, mergers and acquisitions, spin-off divestitures and strategy and design changes.

Efficiency:

No need to coordinate answers to questions between multiple firms; this decreases staff time and turnaround for projects and calculations.

Enhanced experience for plan participants:

Requires less time to get questions answered about difficult plan provisions or unique situations; administration team has direct access to the plan actuaries.



- Integrated Strategic Consulting
- Potential Cost Savings
- Valuation Results Available Earlier
- Smoother Strategy Execution
- Efficient Delivery Model
- Enhanced Participant Experience
- Coordinated Assets and Liability Monitoring
- Faster Response
- Plan Knowledge

How We Do It: Integrated Strategy Development

Under Aon's DPM approach, we begin every relationship with an objective-setting discussion. This discussion ensures our recommendations are aligned with our clients' objectives, whether to fully fund and terminate their pension plan or maintain a more sustainable, ongoing pension plan. Key pension objectives for a typical plan sponsor include:

| | | | |
|---|--|---|---|
| <p>Close Funding Deficit</p> | <p>Reduce Funding Ratio Volatility</p> | <p>Prepare and Manage Toward Settlement</p> | <p>Remove or Reduce Financial Risk</p> |
| <ul style="list-style-type: none">• Contributions• Stock market rising• Interest rates rising | <ul style="list-style-type: none">• De-risk asset allocation• Increase interest rate hedge• Daily monitoring; ability to act quickly | <ul style="list-style-type: none">• Preparation of data for settlements• Partial liability settlements• Completion portfolio management | <ul style="list-style-type: none">• Manage and maintain with less risk• Terminate plan |



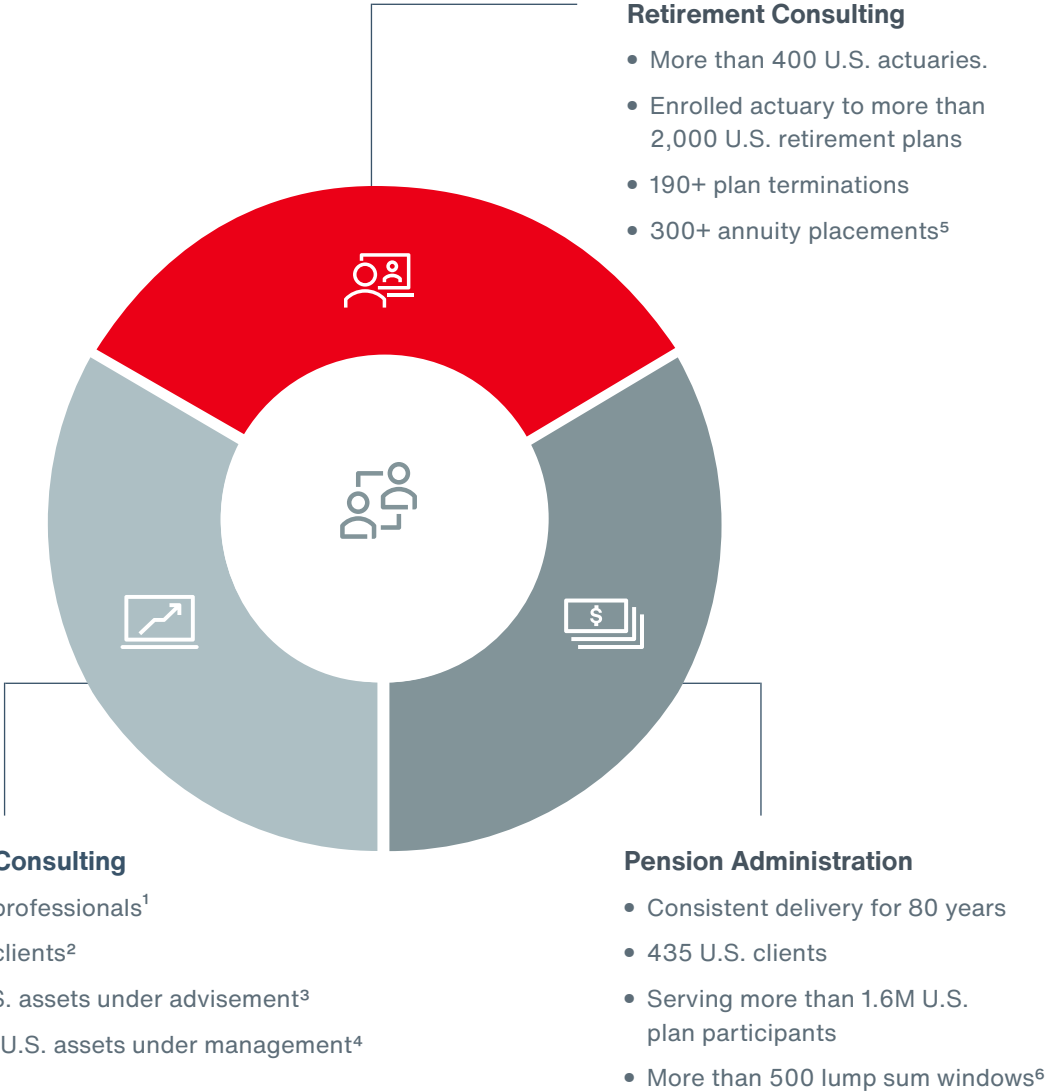
After we establish the objectives for the pension plan, we complete a customized pension risk analysis that integrates all aspects of plan management. We believe it's crucial for plan sponsors to integrate their investment policy (asset allocation and de-risking), funding strategy (when and how much to fund), liability management strategies (plan design and liability settlements) and the assumptions and methods used to allocate these costs.

The outcome of the pension risk analysis and subsequent discussions is an integrated pension management strategy to guide our clients from today to the desired future state for their pension plan.

| Investment Policy | Funding Strategy | Liability Management | Assumptions and Methods |
|--|--|--|---|
| <ul style="list-style-type: none">• Glide path or hedge path• Diversifying asset classes• Tactical adjustments• Scale | <ul style="list-style-type: none">• Opportunistic funding• Borrow-to-fund• Contributions in kind | <ul style="list-style-type: none">• Plan design and plan merger or splits• Lump sum windows• Annuity providers | <ul style="list-style-type: none">• Mark-to-market accounting• Economic liability• Full yield curve |



The Experience To Make It Happen



1. As of September 30, 2021; U.S. only.
 2. As of September 30, 2021; contains both discretionary and non-discretionary U.S. retainer clients.
 3. As of September 30, 2021; represents U.S. retainer non-discretionary assets.
 4. As of December 31, 2021; total assets under management represents \$149.6B in U.S. discretionary assets under management advised by AIUSA.
 5. All Retirement statistics as of December 2020 based on internal Aon data.
 6. All Pension Administration statistics as of December 31, 2020 based on internal Aon data.

Results Tell the Story

Case Study: Integrating Pension Services Adds Value

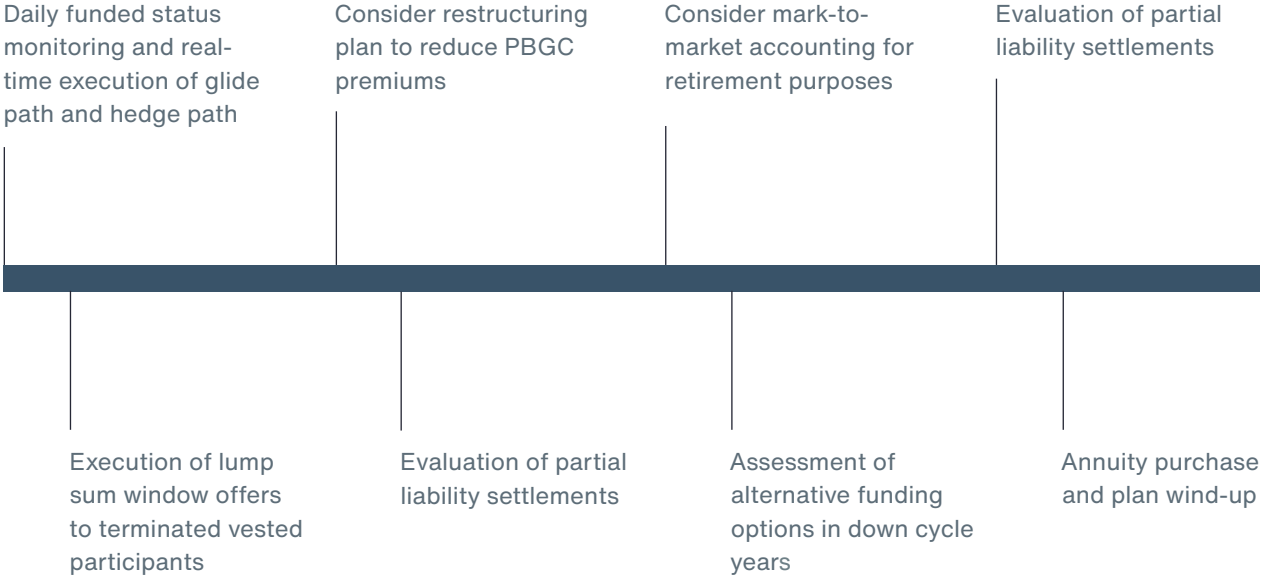
Our DPM solution helps clients make better, more timely decisions by integrating real-time information about all aspects of plan management. Below is a case study about a client that recently implemented Aon’s DPM approach to develop an integrated pension management strategy.¹



1. There is no guarantee that results or savings will be achieved if you should select AIUSA and/or its affiliated entities to provide services to you. The experience described does not represent all recommendations made to clients nor does it represent the experience of all clients. The reader should not assume that an investment in any securities identified or a particular recommendation was or will be profitable or favorable.

Long-Term Pension Roadmap

We also worked with our client to formulate a long-term plan toward its end-state pension objective. Then, the client was positioned to proactively manage pension risk and capitalize on opportunities as they arose.



Not all clients may have the same experience. There is no guarantee that savings will be achieved if you should select Aon Investments USA Inc. or its affiliated entities to provide services to you.



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Aon plc (NYSE: AON) exists to shape decisions for the better—to protect and enrich the lives of people around the world. Our colleagues provide our clients in over 120 countries with advice and solutions that give them the clarity and confidence to make better decisions to protect and grow their business.

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