# 2010 saw modest gains in global pension funding: Aon Hewitt

By Editor Test *Wed, Jan 19, 2011*

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Global pension funding levels ended the year slightly up, despite a roller coaster year, according to a new analysis from Aon Hewitt, the global human resource consulting and outsourcing business of Aon Corporation.

Aon Hewitt monitors and analyzes daily pension funding levels of U.S., U.K., Continental European and Canadian companies in the S&P 500, FTSE 350, DJ Euro Stoxx 50 and TSX, through its Pension Risk Tracker tool.

The analysis found that the funded status of global pension plans were 87% at the end of 2010, up slightly from 86% at the beginning of the year. According to Aon Hewitt's estimate, global pension assets increased by 8% during the year, while pension liabilities increased by 7% over the same period.

**Analysis by region**

According to Aon Hewitt's analysis, global pension assets gained in 2010, fueled by a strong performance in equity markets and bond price appreciations due to falling interest rates.

United States

- Pension funded status in the U.S. closed 2010 at 88%, unchanged from the start of the year. Three quarters of positive returns offset the negative returns of the second quarter and the drop in interest rates.
- Strong equity returns of 5% to 15% and a 30-50 basis point recovery in corporate bond rates boosted end-of-year status by six percentage points.

"Action [in 2011] will take the form of dynamic de-risking… Plan sponsors will also shift their focus to the payment of lump sums starting in 2012, when the changes in terms brought on by the Pension Protection Act are fully implemented," said Joe McDonald, Aon Hewitt's Global Risk Services leader in the U.S.

United Kingdom

- Accounting deficits eased significantly for U.K. companies in the FTSE 350 index during the fourth quarter of 2010. Assets rose by just over 2% and liabilities fell by 4%.
- The drop in liability values was largely due to an increase in corporate bond yields of 40 basis points, although this was partially offset by an increase in market implied inflation.
- The average funded ratio increased to about 91% at the end of the year from 85% at the start of the final quarter, despite a rise in bond prices and collapse of equity prices on the last trading day of the

year.  as bond prices increased and equities fell.

- The year saw double-digit growth in asset values outstripping the increase in liabilities. The aggregate deficit of FTSE 350 companies reduced from pounds Sterling 60bn at the start of the year to under pounds 50bn—an improvement but still low compared to 2008 and 2009.
- Volatility of funding ratios continues, with many daily changes in excess of 1 percentage point—not critical, but enough to cause significant distress to finance directors seeking to control emerging quarterly results.

Continental Europe

- In Continental Europe, average funded ratios fell to 71% from 75% over the course of the year, as liabilities grew faster than asset values.
- Funding levels fall as low as 64% in August, before peaking at 73% just before the December holidays. Rising bond yields boosted fourth quarter funding levels. Funding levels fell a full percentage point on the last trading day of the year.

Canada

In Canada, a positive fourth quarter 2010—assets rose 4%, liabilities fell 2%–helped reverse some of the losses by pension plans in the first three quarters.

The average funded ratio among companies in the S&P/TSX index increased from to 94% on December 31 from 88% on October 1.  However, the positive results were not enough to reverse loses experienced during the first three quarters. Volatility continued to be a major concern throughout the quarter, with daily changes in funded ratios of 2%.