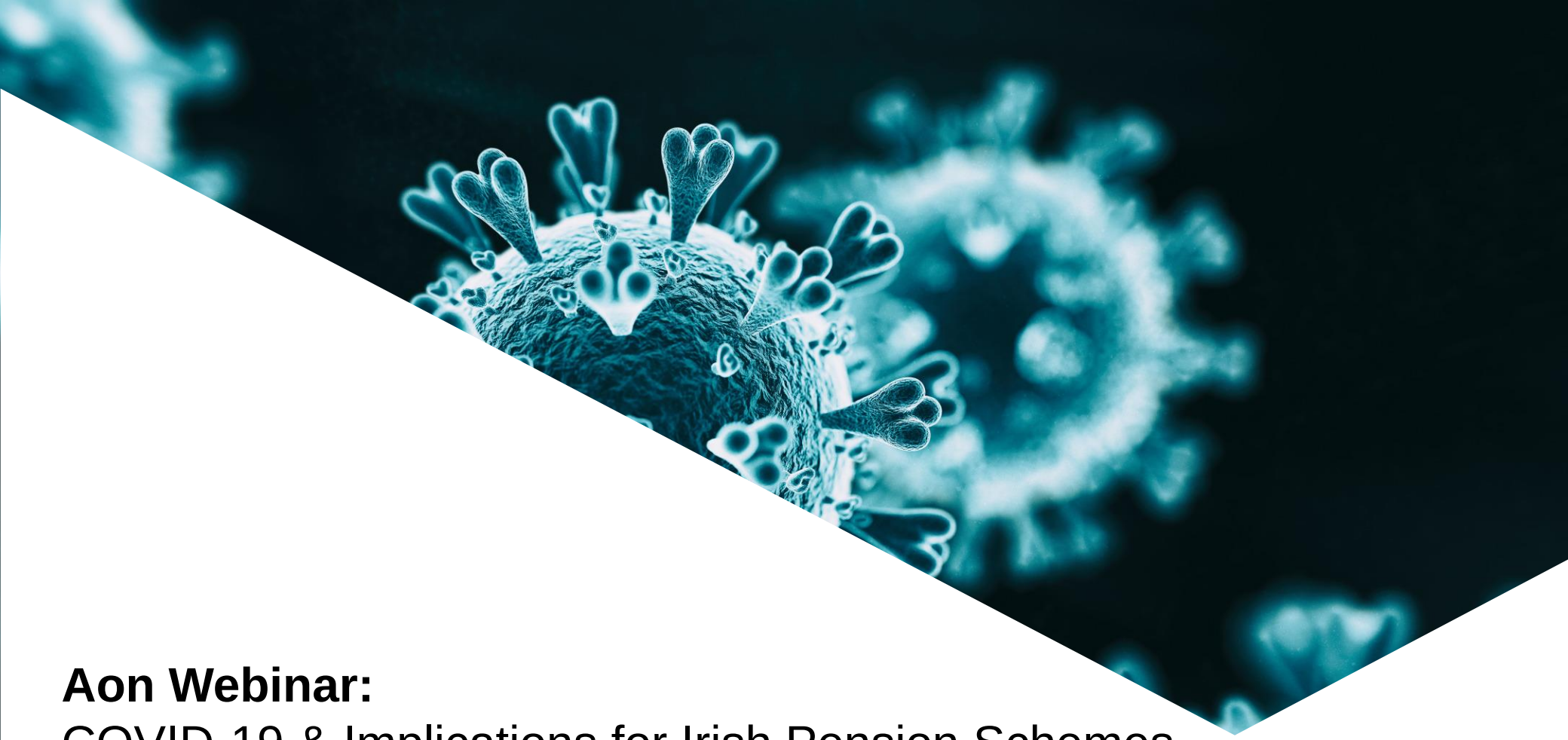


Aon Webinar:
COVID-19 & Implications for Irish Pension Schemes

Monday 6 April 2020
11:00 – 12:00

Empower Results®

Your Speakers

Rachael Ingle

Garry Clark

Anna Marie O'Sullivan

Betty O'Reilly

Paddy Ryan

6 April 2020

Aon Hewitt (Ireland) Limited trading as Aon is regulated by the Central Bank of Ireland.

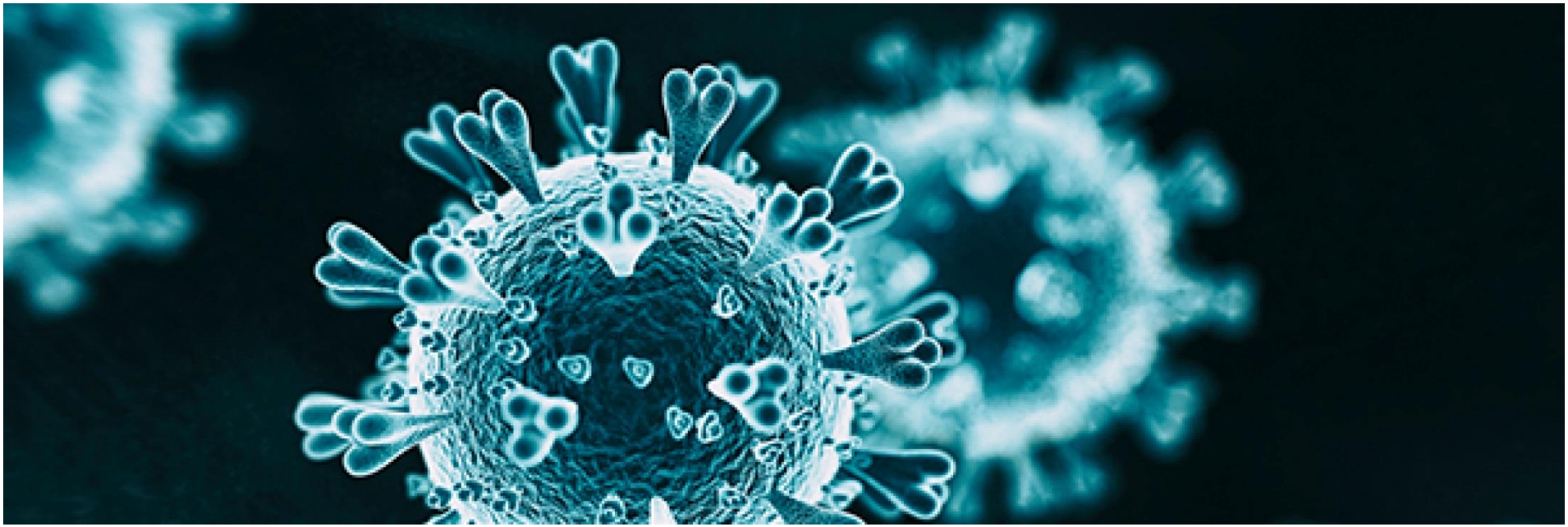
AON
Empower Results®

Agenda

- Trustee governance
- Investment challenges
- Actuarial challenges
- Actions for schemes

Aon Hewitt (Ireland) Limited trading as Aon is regulated by the Central Bank of Ireland.

Empower Results®



Trustee Governance

Garry Clark

6 April 2020

Aon Hewitt (Ireland) Limited trading as Aon is regulated by the Central Bank of Ireland.

Empower Results®

Focus on Governance

First Steps

Trustee Meetings

Business continuity plans

Technology

6 April 2020

Aon Hewitt (Ireland) Limited trading as Aon is regulated by the Central Bank of Ireland.

Empower Results®

Governance – First Steps

Business Continuity Plans

- Do you have one?
- Is it fit for purpose?
- Is it up to date?

Plan for a Trustee Meeting

- Does your Constitution and/or your Trust Deed provide for virtual meetings?
- What are your quorate requirements?
- Conflicts of interest
- Key service provider/company updates
- Consider a sub-committee structure

Aon Hewitt (Ireland) Limited trading as Aon is regulated by the Central Bank of Ireland.

Empower Results®

Trustee Meeting - Context

Business Continuity Plan

- Trustees to familiarise themselves
- Follow plan
- Refine as necessary to circumstances

Pensions Authority Guidance

- Continued payment of pensions when they fall due
- Settlement of other benefits in a timely manner
- Contributions paid are remitted promptly

UK Guidance

- TPR advice to Trustees of DC & DB plans
- TPR Detailed advice to Employers
- PLSA “Top Tips” for DC & DB plans

IORP II

- Not yet transposed
- Risk management function
- Change of emphasis

Trustee Effectiveness Toolkit

Effective trustees in a Covid-19 world

In a time when more and more of us are working in ‘isolation’, how do trustees continue to operate as effectively as possible? The Pensions Authority announced on 12 February that it is adopting a forward looking risk based approach to supervision. As part of this it intends to assess how schemes are meeting their governance and risk obligations. It will expect them to have appropriate monitoring and contingency planning in place for risks, and appropriate business continuity plans. Meetings are a key part of business continuity and need to happen. These are essential to enable trustees to keep on top of matters, and to ensure there remains appropriate governance and monitoring in a fast-moving environment. Deferring meetings for what could be an indefinite period is no way to run a pension scheme’s business.

So we need to get used to meetings happening in a different way. Here are our top ten tips for effective virtual meetings.

About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

Contact us

If you would like to know more about the actions you can take to enhance your trustee effectiveness, please contact us.

Garry Clark
Senior Retirement Consultant
+353 (0) 1 470 5304
garry.clark@aon.com

John Kearney
Senior Retirement Consultant
+353 (0) 21 497 2615
john.kearney@aon.com

Top ten tips for effective

1. Bite-sized chunk
Break down your meeting i

2. Virtual meeting
Hold virtual meetings – ste activity on the scheme, sta time critical items. Be clear are and include timings on focused.

3. Preparation is key
Make sure the trustees have plenty of time to read papers before the virtual meeting, so that time is not spent familiarising everyone with the material. If there are only one or two papers (as the agenda is short), this might only be two or three days before the virtual meeting, but make sure advisers and trustees are clear on what is expected. And try to keep ‘verbal update’ items to an absolute minimum… It is very easy to start losing a lot of time, and people’s interest, if there is no clear structure to the discussion.

4. Video facility
Use your video on the virtual meeting. It makes a huge difference in the way you connect with people – and make sure your camera is such that you are looking at it, and not something in the far corner of the room!

5. ‘Do not disturb’
Treat a virtual meeting in the same way you would a face-to-face meeting – turn on your ‘Do not disturb’ on your phone and instant messaging settings, and stop email notifications, so that you do not get distracted.

need to be present on each call to minimise the number of voices.

6. Any questions
The Chair will also need to pause or check more regularly if there are any questions – they will be getting less feedback during the discussion. Consider using ‘Raise a hand’ / ‘ask a question’ facility in the virtual meeting – or agree a protocol for asking questions to avoid people talking over each other. The scheme secretary may be best placed to facilitate this.

9. Formality
While ordinary meetings may be quite relaxed, a more formal style works better on a virtual meeting to ensure that everyone is given the opportunity to share their views.

10. Clarity on action points
The Chair might need to be more explicit on who is taking forward which actions and by when to ensure that the secretary is able to capture everything accurately – working out which voice belongs to whom can be difficult if there are 10+ people on a call.

Copyright © 2020 Aon Hewitt (Ireland) Limited. All rights reserved.

The information contained herein and the statements expressed are of a general nature and are not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information and use sources we consider reliable, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

Aon Hewitt (Ireland) Limited trading as Aon, is a private company limited by shares and is regulated by the Central Bank of Ireland. Registered in Ireland No. 324947. Registered Office: Block 2, Lough Crutt, Harcourt Road, Dublin 2, D02 H449, Ireland

www.aon.com

Aon Hewitt (Ireland) Limited trading as Aon is regulated by the Central Bank of Ireland.

Empower Results®

Business Continuity Plans – Issues to Consider

Governance Structure

- Conflicts of interest
- Ability to make decisions
- Review signatory lists
- Contact lists
- Key person exposure
- Data protection
- Statutory time limits
- Risk register

Company & Covenant

- Impact on business
- Administrative support
- Ability to meet contribution requirements
- Early warning of issues
- Furloughs, lay offs, change in working patters

Insurance

- Maintenance of cover
- Event limits
- Expression of wish forms
- Change in employee status

Members

- Change in employee status
- Concerns and fears
- Knee jerk reactions
- Communication
- Pension payroll
- Payment of benefits
- Exposure to scams

Third Parties

- Business continuity plans
- Service levels
- Prioritisation of key processes
- Force majeure clauses

Aon Hewitt (Ireland) Limited trading as Aon is regulated by the Central Bank of Ireland.

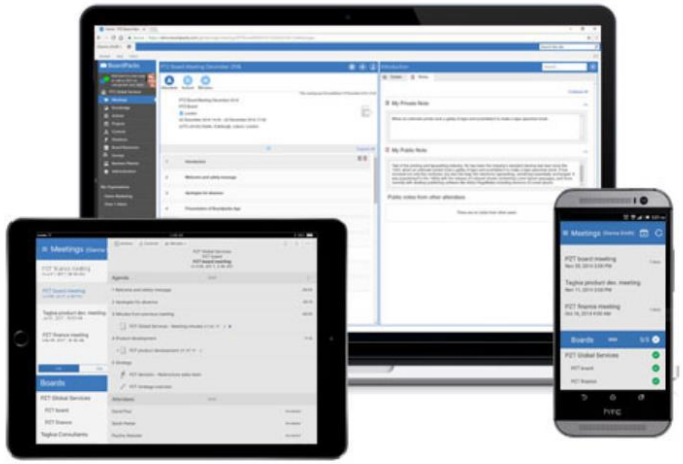
Empower Results®

Let Technology Help You

Virtual meetings

Electronic meeting packs

Virtual document libraries



Website for member communications

Electronic signing of documents

Electronic approvals processes

6 April 2020

Aon Hewitt (Ireland) Limited trading as Aon is regulated by the Central Bank of Ireland.

Empower Results®

What Should I Prioritise?

Next 7 Days

- Governance structure
- Covenant position and outlook
- Ensure full insurance cover

Next 30 Days

- Cash, investment and communications
- Establish future meeting structure
- Assign roles and responsibilities, agree monitoring plans

Next 60 Days

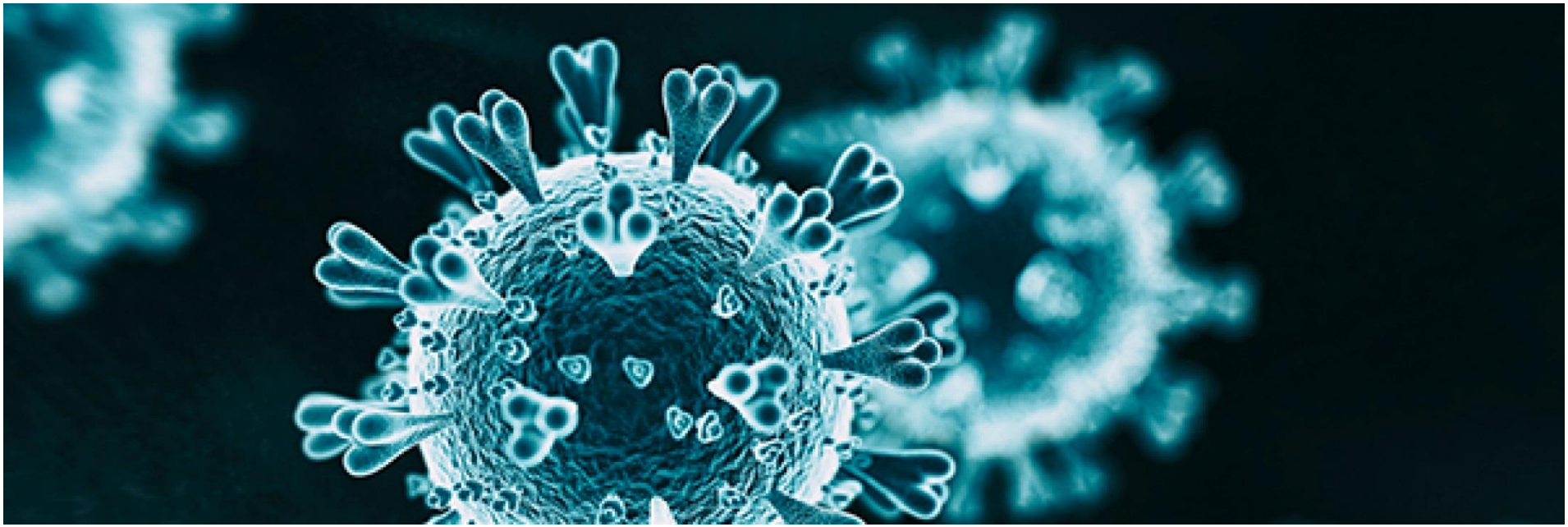
- Schedule meetings
- Review insurance
- Sign off on your business continuity plan

Next 90 Days

- Business as usual in the new environment

Aon Hewitt (Ireland) Limited trading as Aon is regulated by the Central Bank of Ireland.

Empower Results®



Investment Challenges

Anna Marie O'Sullivan

Betty O'Reilly

6 April 2020

Aon Hewitt (Ireland) Limited trading as Aon is regulated by the Central Bank of Ireland.

Empower Results®

Focus on Investment

Coronavirus Update

Market Insights

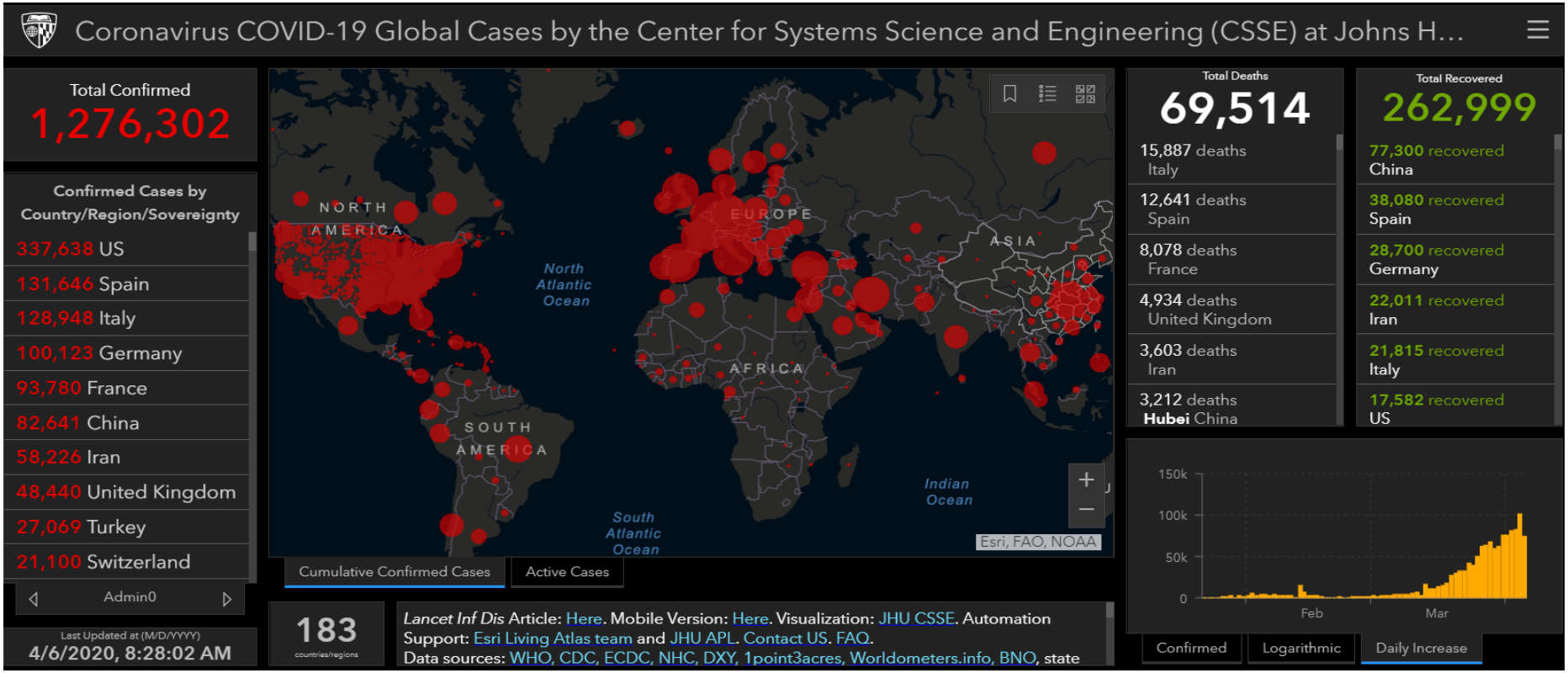
Economic Impact

6 April 2020

Aon Hewitt (Ireland) Limited trading as Aon is regulated by the Central Bank of Ireland.

Empower Results®

Coronavirus – A Global Healthcare Crisis



Source: Johns Hopkins University & Medicine

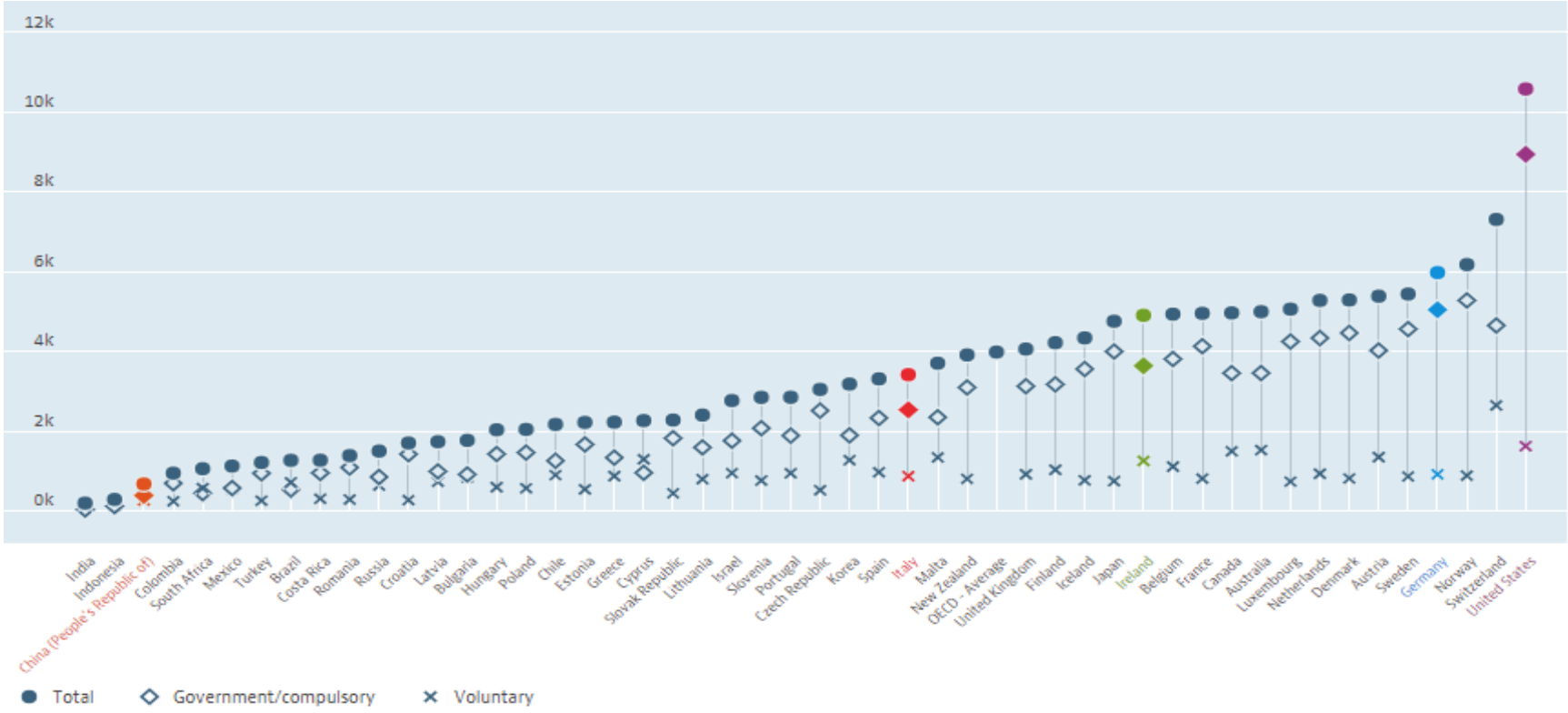
6 April 2020

Aon Hewitt (Ireland) Limited trading as Aon is regulated by the Central Bank of Ireland.

Empower Results®

Health Spending

Health spending Total / Government/compulsory / Voluntary, US dollars/capita, 2018 or latest available (OECD)



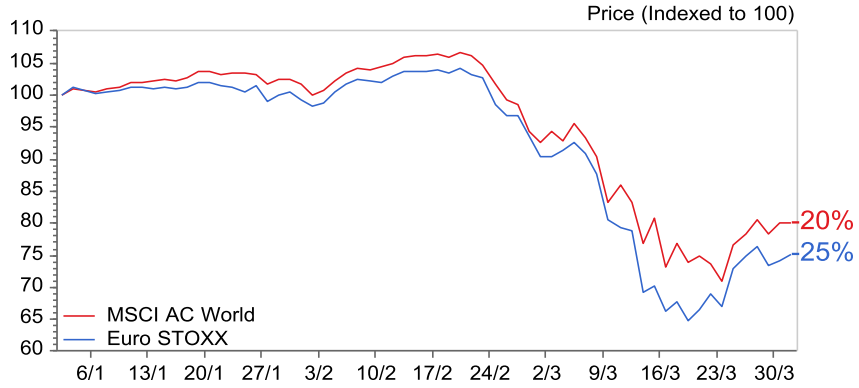
Source: OECD

Aon Hewitt (Ireland) Limited trading as Aon is regulated by the Central Bank of Ireland.

Empower Results®

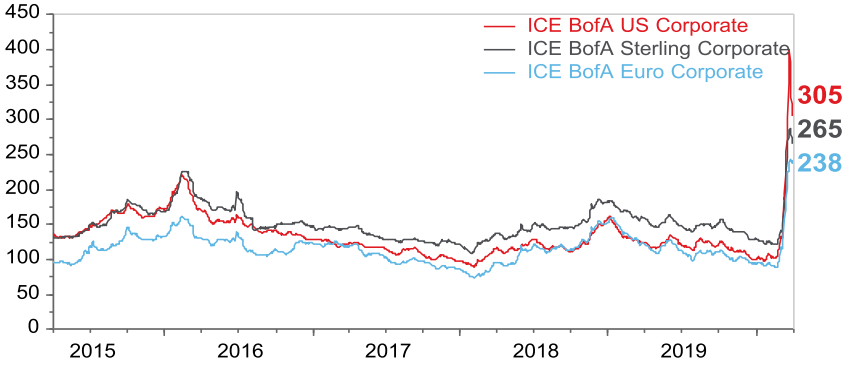
Financial Markets Reaction

Equity Market YTD (EUR terms)



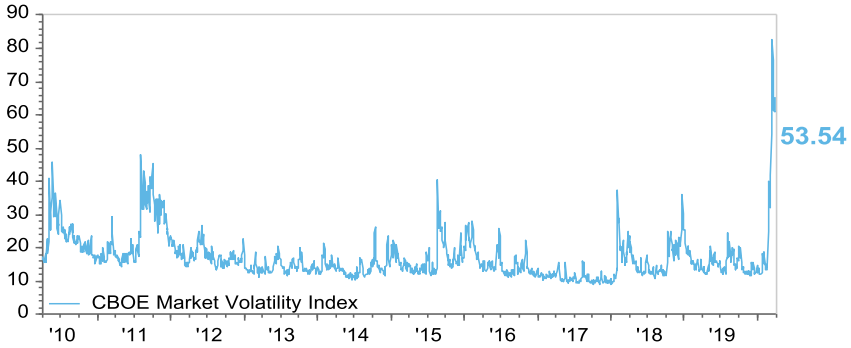
Source: FactSet

Credit Spreads (bps)



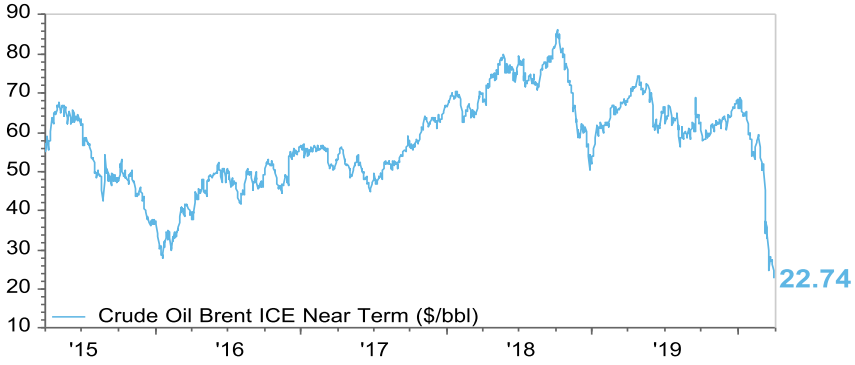
Source: Factset

VIX



Source: FactSet

Brent Crude Oil Spot Price



Source: FactSet

Data as of 31 Mar 2020

6 April 2020

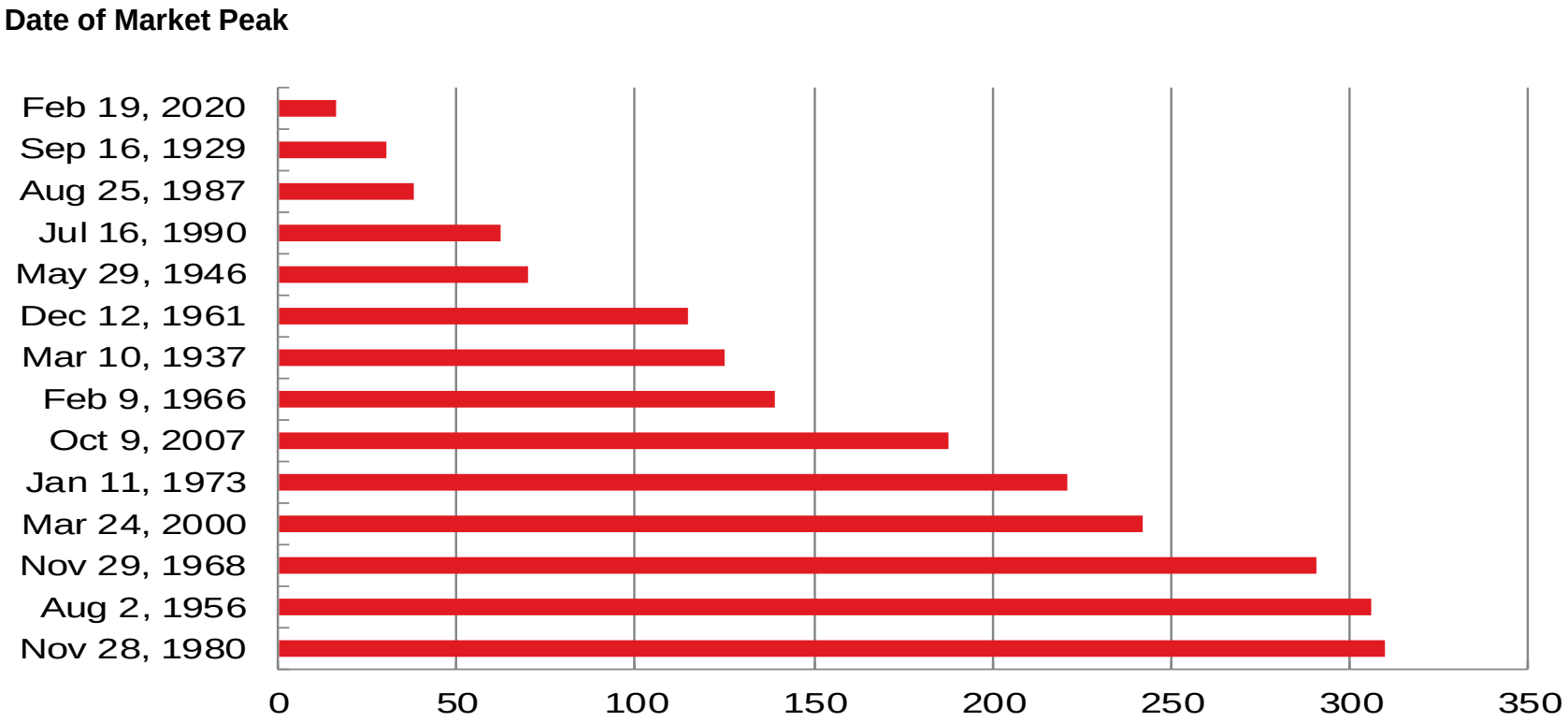
Aon Hewitt (Ireland) Limited trading as Aon is regulated by the Central Bank of Ireland.

Empower Results®

Financial Markets Impacts - Equities

The S&P 500 took 16 days to close in a bear market

Number of trading days to close down 20% or more from its peak



Source: Aon Calculations, S&P, FactSet

6 April 2020

Aon Hewitt (Ireland) Limited trading as Aon is regulated by the Central Bank of Ireland.

Empower Results®

Historic Bear Markets

The table below shows historic bear market cycles and their respective one week recoveries.

Market Peak (High)	Market Trough (Low)	Peak to Trough Unannualized Performance*	Recovery (Back to Previous High)	Trough to Recovery Unannualized Performance*	Best One Week Period During Recovery**	Best One Week Performance **	% of Recovery From Best Week**
December 1972	September 1974	-42.74%	March 1976	79.28%	January 31, 1975	12.86%	16.22%
December 1976	February 1978	-17.83%	October 1980	21.65%	March 31, 1978	8.67%	40.07%
August 1981	August 1982	-19.64%	October 1982	24.29%	October 11, 1982	6.97%	28.71%
February 1985	September 1985	-18.92%	February 1986	23.85%	December 11, 1985	4.85%	20.35%
August 1987	December 1987	-30.92%	May 1989	44.98%	June 3, 1988	5.66%	12.59%
December 1989	October 1990	-36.48%	February 1993	58.03%	September 21, 1992	9.82%	16.92%
June 1991	August 1992	-19.51%	October 1992	24.39%	September 21, 1992	9.82%	40.26%
July 1998	October 1998	-23.43%	January 1999	31.60%	October 15, 1998	7.07%	22.36%
September 2000	March 2003	-53.85%	March 2013	117.28%	March 18, 2003	10.63%	9.06%
October 2007	March 2009	-40.13%	December 2010	67.84%	March 12, 2009	9.53%	14.05%
April 2015	August 2015	-16.90%	June 2016	22.55%	August 28, 2015	6.91%	30.64%
August 2018	December 2018	-16.34%	June 2019	19.71%	December 31, 2018	4.34%	22.03%

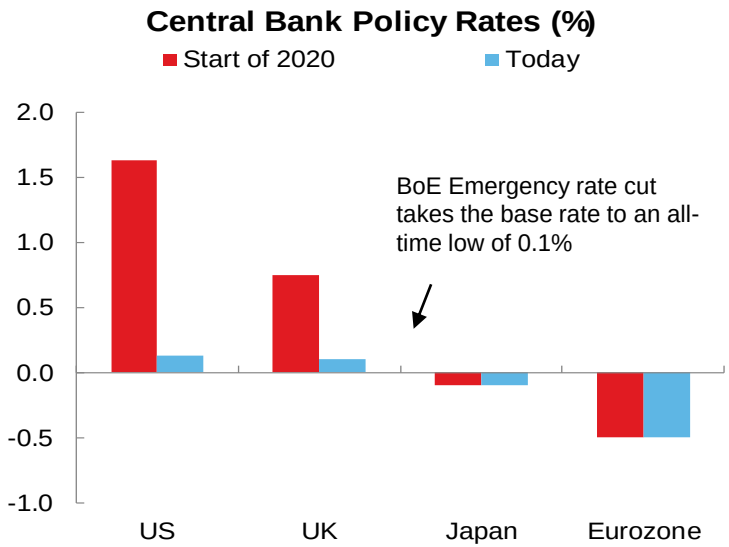
* Performance is based on MSCI World Price Index Return (not the Total Return Index)
** One Week is defined as 5 consecutive trading days
Source: MSCI

Aon Hewitt (Ireland) Limited trading as Aon is regulated by the Central Bank of Ireland.

Empower Results®

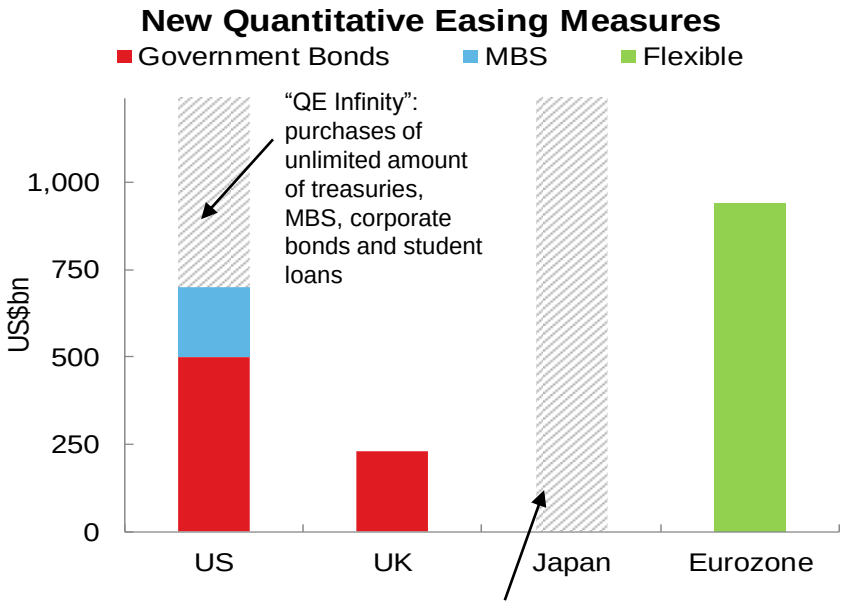
Policy Response - Monetary

- Where possible central banks around the world have eased policy, but with rates being low there is a limit
- Unprecedented new quantitative easing measures have been announced to provide further monetary stimulus



Past performance is no guarantee of future results.

Source: Aon, Bloomberg OIS Pricing



QE endpoint? The BoJ is extending purchases of everything from government and corporate bonds to equities ETFs

Aon Hewitt (Ireland) Limited trading as Aon is regulated by the Central Bank of Ireland.

Empower Results®

Policy Response - Fiscal

USA	▪ Congressional leaders and the White House have reached an agreement on a c.$2 trillion fiscal stimulus package. The package expands jobless benefits and provides direct transfers of up to $1,200 for Americans earning less than $75,000 per year ▪ State of Emergency declared releasing $50bn to States to deal with virus ▪ April tax date to be delayed, providing a $200-300bn bridge loan to households
UK	▪ £330bn in loans and £20bn in other aids have been announced to provide help to businesses. ▪ The government has agreed to cover 80% of salary for employees who are unable to work due to coronavirus related shutdowns. ▪ Budget included significant fiscal stimulus measures. About a third was virus related.
Japan	▪ Variety of small fiscal measures passed. Two small business loan bills totaling $20bn. $4bn for mask production and stopping viral spread. ▪ Further stimulus measures of around 15 trillion yen (c.$137 billion) expected
Eurozone	▪ Germany have launched a €156bn supplementary budget, suspending the “debt brake” constitutional rule that limits new borrowing to 0.35% of GDP ▪ Italy announced a €25bn spending package to deal with fall out from virus. ▪ France has announced emergency fiscal spending of up to €45bn.

Aon Hewitt (Ireland) Limited trading as Aon is regulated by the Central Bank of Ireland.

Empower Results®

Conclusion – Implications for DC Pension Plans

Member Concerns

- Long-Term Horizon
- Avoid Short-Term Reactions
- Time in the market, not timing the market is what matters

Investment Strategy

- How robust is your Default Strategy
- Is the range of Self-Select Options sufficient
- Degree of diversification and the extent of any concentrations of risk
- Review your Investment Governance Structure

Operational Considerations

- Operational Due Diligence on your underlying investment managers
- Using one fund platform
- Administration Platform capabilities and member switching

Aon Hewitt (Ireland) Limited trading as Aon is regulated by the Central Bank of Ireland.

Empower Results®

Conclusion – Implications for DB Pension Plans

Funding Impact

- Growth assets down across the asset class spectrum
- Liabilities unchanged year-to-date (depending on inflation linkage)
- Funding levels likely to be under pressure

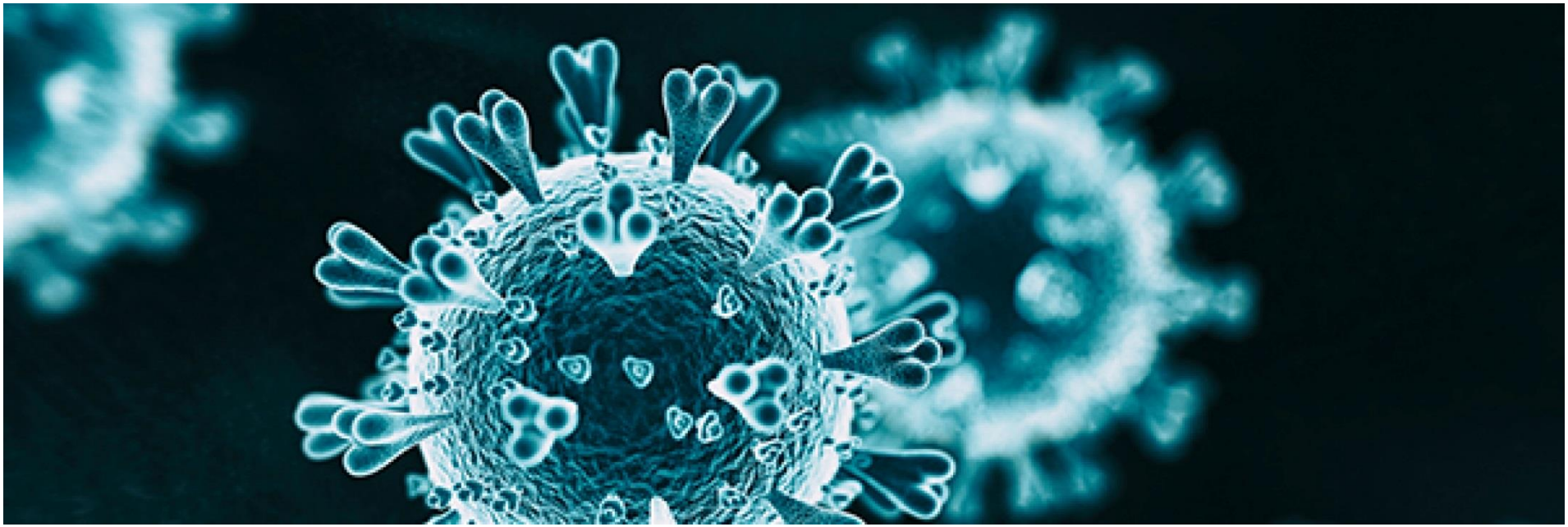
Investment Strategy

- Review long-term strategy to avail of other investment opportunities that will present post the crisis
- Lower for longer interest rates. Some asset classes will benefit (e.g. property/infrastructure etc.)
- Review your Investment Governance Structure

Considerations

- Rebalancing policy. Stick to your long term target
- Cashflow and trading implications. Trading costs elevated (credit in particular)
- Sponsor covenant and contributions

Aon Hewitt (Ireland) Limited trading as Aon is regulated by the Central Bank of Ireland.



Actuarial Challenges

Paddy Ryan

6 April 2020

Aon Hewitt (Ireland) Limited trading as Aon is regulated by the Central Bank of Ireland.

Empower Results®

Focus on Actuarial

Funding Standard

Transfer Values

Actuarial Valuations

Deferred Contributions

Accounting

Aon Hewitt (Ireland) Limited trading as Aon is regulated by the Central Bank of Ireland.

Empower Results®

Funding Standard and Transfer Values

Funding Standard

- Less mature schemes high likelihood they now do not satisfy the statutory funding
- Mature schemes with a matching asset strategy investment may continue to meet the funding standard
- Formal certification at the scheme year end
- New Funding Proposals – requirements, planning and deadlines

Transfer Values

- Pensions Act power to reduce TVs for funding standard coverage level
- Immediate steps to consider:
  - No guarantee period
  - May be subject to change / reduction
  - Cease quoting TVs for a period of time

Aon Hewitt (Ireland) Limited trading as Aon is regulated by the Central Bank of Ireland.

Actuarial Valuations

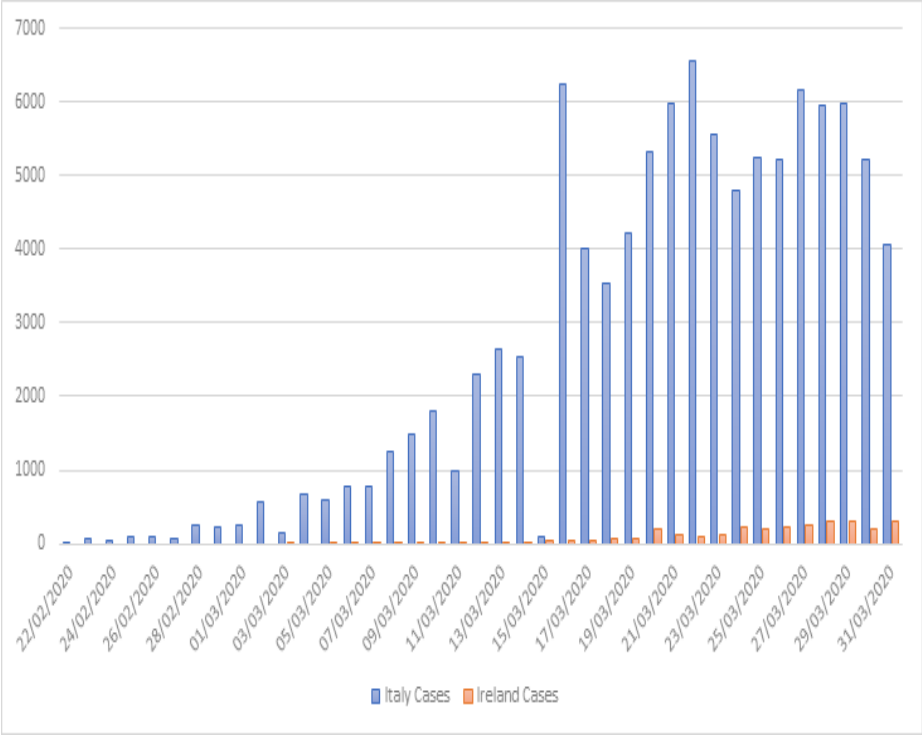
Actuarial Valuations

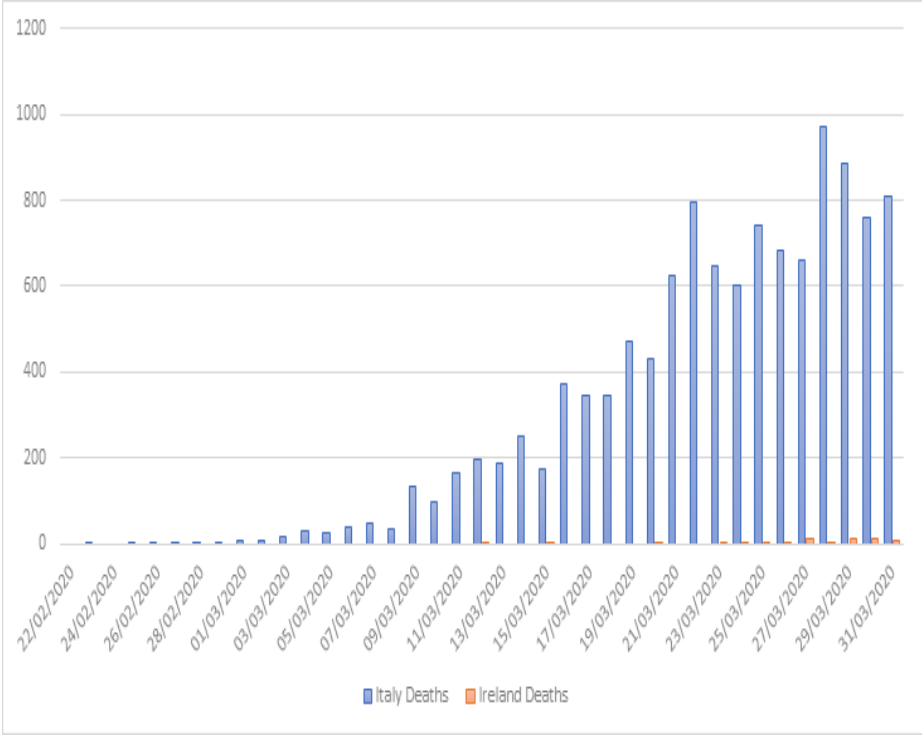
- 1 January 2020 valuations need to be completed within statutory deadline 30 September 2019
- At this stage results have been reviewed by trustees and with sponsor for consideration
- Based on 1 January market conditions the trustees may consider taking account of current market conditions
- Less willing to take into account a request from the sponsor to weaken any assumptions
- At this stage results have been reviewed by trustees and with sponsor for consideration
- Any scheme with a 1 April 2020 valuation effective date should initially review funding standard position and review preliminary results and any alternatives as soon as possible

Aon Hewitt (Ireland) Limited trading as Aon is regulated by the Central Bank of Ireland.

Empower Results®

COVID-19 longevity impact and long term on mortality assumptions





6 April 2020

Aon Hewitt (Ireland) Limited trading as Aon is regulated by the Central Bank of Ireland.

Empower Results®

Deferring Contributions

Deferring contributions

- Obligations on employers to pass on member contributions to trustees continue
- Recent announcement by the Pensions Authority with a further announcement expected
- Consider the nature of the Sponsor industry and any current news on that sector
- Will the plan need to disinvest assets to meet current cashflow requirements
- Is reducing contributions instead of ceasing an alternative
- Agree triggers points with the company as to when contributions payments will restart again

Aon Hewitt (Ireland) Limited trading as Aon is regulated by the Central Bank of Ireland.

AON
Empower Results®

Accounting discount rates to 31 March 2020

How are discount rates set?

The discount rate used to value accounting liabilities is set by reference to the yield on AA rated Eurozone corporate bonds of a term consistent with the duration of the liabilities

Discount rates since 31 Dec 19

Date/Duration	10 Years	15 Years	20 Years	25 Years
31 Dec 19	0.80%	1.05%	1.20%	1.30%
28 Feb 20	0.45%	0.70%	0.85%	0.90%
31 Mar 20	1.55%	1.75%	1.90%	2.00%

Impact

- P&L charges for 2020 are based on assumption/position at start of year -no immediate impact
- Budget cycle forecasting for FY 2021 starting and schemes with 31 March years ends will reflect current conditions
- Higher discount rates and lower inflation expectations will lead to lower accounting liabilities and service cost charges

Aon Hewitt (Ireland) Limited trading as Aon is regulated by the Central Bank of Ireland.

Empower Results®

Next Steps

- Meet as soon as possible to develop your **business continuity plans**
- Consider how **technology can help** you function in the virtual space
- Maintain a **long term view** and avoid short-term market reactions
- **Reassess your investment strategy** to ensure it is sufficiently diversified and robust for all environments
- **Obtain actuarial advice** from either a funding standard or accounting perspective
- **Agree an approach** with regards to any current or upcoming transfer value requests

Aon Hewitt (Ireland) Limited trading as Aon is regulated by the Central Bank of Ireland.

Empower Results®

Aon Hewitt (Ireland) Limited trading as Aon, is a private company limited by shares and is regulated by the Central Bank of Ireland.

To protect the confidential and proprietary information included in this material, it may not be disclosed or provided to any third parties without the prior written consent of Aon Hewitt (Ireland) Limited.

Aon Hewitt (Ireland) Limited does not accept or assume any responsibility for any consequences arising from any person, other than the intended recipient, using or relying on this material.

Copyright © 2020 Aon Hewitt (Ireland) Limited. All rights reserved.