



Media Release

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For immediate release

UK pension liabilities £1,204bn by end 2009, reports Xafinity

Whilst Finance Directors and Trustees will be taking comfort from the visible and substantive improvements in global equity markets, they are likely to be dismayed by the less visible but even more substantive rise that may have occurred to their liabilities reports Xafinity Consulting.

Back in June 2009, corporate bonds yields were experiencing their highest yield spreads since the Great Depression. Xafinity suggested this would be short lived and that if they reverted to historic norms then UK pension scheme liabilities could soar.

Corporate bond yields have indeed reversed and updating the Corporate UK Pensions Scheme model to use a yield of 5.5% and an increased inflation outlook, they estimate that liabilities will have increased over the year by around 45% from £823 billion in January to some £1,204 billion by December 2009. Most commentators are expecting further, albeit more modest, yield reductions which will push up liabilities even further.

So despite the encouraging increases in equity markets, Xafinity warn that this is no time to be complacent - liabilities are and may continue to out strip increases in assets over the year. With economists suggesting that the current equity rally is built on hope for, rather than expectation of, economic growth; set backs in equity markets before the year end are predicted, something which will clearly exacerbate the deficit position.

Robert Hunt, Corporate Solutions director at Xafinity commented:

“At the moment it looks like liabilities are winning - up by around 45% over the year, compared to the FTSE All Share Index which is up by around 27%.

“The introduction of additional allowances for future mortality improvements at the end of the year is another factor that could increase liabilities. If current trends continue, this could add 2-3 years to the average life expectancy of pension scheme members leading to an increase in liabilities of around 8%.

“Add in the gearing effect and you could see a very significant increase in the deficit disclosed in your year end accounts.”

Xafinity urged UK companies to get a true hold on their current position.

Mr Hunt continued:

“One of the areas that can have a significant impact on scheme liabilities is the longevity assumptions being used. For example, increasing life expectancy by 3 years would increase the UK pension deficit by £99bn.

“Opinions on longevity are mixed; on the one hand doctors are saying that our children are going to live to 100 at the same time as reporting obesity problems. Therefore, it’s essential that those involved in funding and running schemes agree longevity assumptions that are appropriate for their scheme. Such investigations should cover all the variables that affect life expectancy like lifestyle, occupation, location and historical data. Recent developments in the analysis of mortality rates mean that up-to-date data is becoming more accessible, even for very small schemes.”

Key factors affecting pension deficit positions in the year to date are:

- The FTSE All Share Index is up 27% since the beginning of the year, which will tend to reduce the pension scheme deficit where the scheme is investment in real assets, but
- Bond yields have returned to near pre-credit crunch levels – AA yields are now 5.5% compared to 6.7% at the start of the year. The reduction of 1.2% will increase liabilities by around 22%
- Long term inflation is around 0.5% higher than at the start of the year - increasing inflation-linked liabilities by up to 10%
- A increase in life expectancy of future pensioners of two years increase the year end liabilities by 6%.

Additional concerns are:

- Stronger year end assumptions will lead to higher future service costs in 2010
- Significant downward movement in corporate bond yields will greatly affect the funding and accounting of DB pension schemes and as a result companies should not be lulled into a false sense of security at this time.

Xafinity will be releasing monthly updates as we close in on 31 December 2009 to help finance directors and pension managers to predict their year end position.

An interactive model is accessible on Xafinity’s website (www.xafinity.com/modelsolutions) that allows users to test the impact of changes in market conditions on Corporate UK Pensions Scheme – a predictive tool that covers some 93% of the UK’s PPF-eligible DB schemes and some 12.4 million members.

The modelling tools developed by Xafinity Corporate Solutions enable companies to accurately model the impact of future changes in the factors that influence assets and

liabilities and the overall funding of their pension scheme, thus assisting decision-making on the viability of their pension scheme arrangements going forward.

ENDS

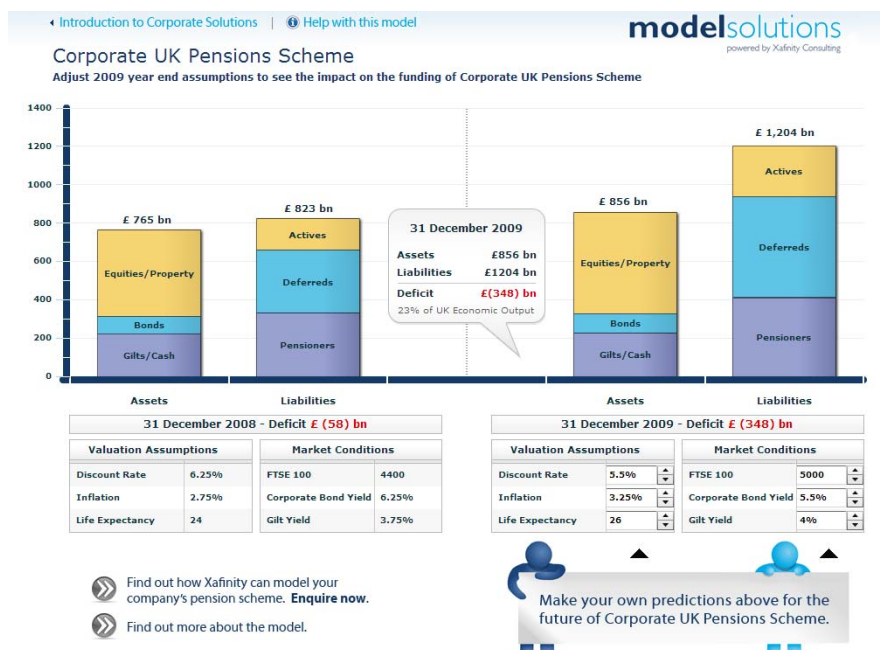
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Notes to editors:

- Robert Hunt is available for interview or further comment on this subject.
- By using the unique power of Xafinity’s Model Solutions technology, Xafinity Corporate Solutions ‘Corporate UK Pensions Scheme’ model can project future funding positions. It accurately models the impact that future changes in the factors that influence assets and liabilities will have on the overall funding of UK pension schemes, whether measured on an ongoing funding, FRS17 or even buy-out basis.
- Access the model – www.xafinity.com/modelsolutions



About Xafinity Consulting:

Xafinity Consulting is one of the UK's leading specialists in employee benefit innovation and optimisation. Our expertise covers pensions and actuarial services, flexible benefits, healthcare, trusteeship and training. We are committed to working in partnership with our clients, providing a service to maximise the returns of their benefit strategies.

www.xafinityconsulting.com

What is Xafinity Corporate Solutions?

Controlling and financing the liabilities and assets within final salary pension schemes is commonly one of the most critical business issues facing today's finance professionals.

Recognising the need for companies to receive a business centred consulting approach to their pension issues, we have created Xafinity Corporate Solutions. This brings together all of our corporate specialists - actuaries, consultants, investment advisors and lawyers - into one dedicated practice that is solely focused on delivering innovative pensions advice to the corporate community.

Scheme funding negotiations - Professionally guiding the company so they obtain the optimum solution in their discussions with the trustees and their advisors. We maintain a substantial bank of benchmarking data on assumptions to add authority to the negotiating process.

Pension accounting disclosures - Understanding the businesses financial objectives (e.g. balance sheet protection or P&L maximisation) as well as the financial dynamics of the scheme's funding, are crucial elements in arriving at the most appropriate pension disclosures within the accounts. In Model Solutions we have a remarkable tool that enables companies to continually monitor the financial health of their schemes.

Liability & risk reduction exercises - Restricting benefits, enhanced transfer values, increasing member contributions, partial buy-ins or buy-outs can all have a role to play in helping control the schemes liabilities.

Corporate input to asset management - The impact of poor investment performance on the financial well being of the company is of such magnitude that trustees should not be left to formulate strategy in isolation. With our Model Solutions tool, companies can readily visualise the financial risks inherent within their current portfolio and arrive at an asset allocation that will deliver the optimum strategy, for the level of volatility and risk appetite of the company.