

## Media Release

3 February 2010

For immediate release

### **Xafinity: The outlook for DB schemes in 2010**

#### £500 bn pensions deficit predicted for end 2010

Following The Pension Regulator's publication of the fifth edition Purple Book on 19 January, Xafinity Consulting has updated and released the 2010 version of the Corporate UK Pension Scheme; a model on their website that covers over 99% of the UK's PPF-eligible DB schemes and some 12.4 million members, thus providing the most comprehensive and accurate appraisal of pension scheme funding in the UK.

As at 1st January 2010, the Corporate UK Pension Scheme showed liabilities of £1,191 billion (an increase of £368 billion compared to this time last year) but assets of only £891 billion (compared to £765 billion last year) producing a funding deficit of £300 billion at the end of 2010 (a deficit around five times larger than this time last year).

The deficit could increase further over 2010 to above £500 billion following a further fall in bond yields even if equity markets remain at their current level.

Robert Hunt, Xafinity Corporate Solutions director said, "This deficit is expected to be a permanent fixture throughout 2010, particularly as the long term expectations for inflation are predicted to remain high. As a result, methods of mitigating or even removing defined benefit liability such as **Enhanced Transfer Value** (ETV) exercises will become more prevalent."

Robert cited other key factors affecting the viability of DB pension schemes this year,

"Uncertainties surrounding **life expectancy** will add upward pressure on the liabilities leading many more scheme sponsors to consider the viability of defined benefit pension provision."

"The **buy-out/buy-in market** is expected to more than double due to the increase in confidence as the financial crisis is left behind, leading to more competitive premiums from annuity providers. Schemes that missed out in the boom of 2007 will be looking very closely at the market and will be preparing to pounce once conditions become favourable.

Robert continues "The need for **quality data** to speed up annuity purchases and other liability management measures such as ETVs will mean that

trustees and sponsoring employers will wish to analyse the quality of the membership data held on their behalf.

**“Risk mitigation** will also be high on the agenda of sponsoring employers, leading many to find ways to measure and monitor the risks enabling more appropriate action plans to be put in place.” he said.

The Corporate UK Pensions Scheme model findings will be updated and published on a monthly basis to give all those connected with a pension scheme an indication of how changing market conditions can impact the financial status of pension schemes.

Companies are invited to run their own scenarios for the future of Corporate UK Pensions Scheme on the Xafinity Corporate Solutions model at [www.xafinity.com/modelsolutions](http://www.xafinity.com/modelsolutions)

## **ENDS**

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### **Notes to Editor:**

To compare:

| Last Year (2009)   | This year (2010)  |
|--|---|
| At 1st January 2009 the Corporate UK Pensions Scheme had liabilities of £823 billion but assets of only £765 billion producing a funding deficit of £58 billion.<br>In January 09, the FTSE 100 index (this index being used as a measure of the value of all equity holdings) was around 4,400, gilt yields stood at around 3.75% but driven by the supply/demand equation and the concern over corporate debt, the "credit risk premium" | As at 1st January 2010 the Corporate UK Pensions Scheme had liabilities of £1,191 billion but assets of only £891 billion producing a funding deficit of £300 billion.<br><br>Although in January 2010 the FTSE 100 index had increased to above 5400 thus leading to an increase in asset values, the "credit risk premium" within corporate bonds had reduced to more normal levels producing |

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|---|---|
| <p>within corporate bonds was at a near all time high, producing yields on AA bonds of some 6.25%</p> | <p>yields on AA bonds of some 5.75% at the year end. Coupled with the increase in expected inflation from 2.75% to 3.5% this lead to a significant increase in total liabilities to around £1,200 billion.</p> <p>The outlook for higher expected inflation and the continued rise in longevity will mean that pension schemes are expected to be in significant deficit throughout 2010 and beyond. This means that many pension schemes should be looking at ways to mitigate their DB liabilities.</p> <p>If as is expected equity markets remain stable over 2010 despite the anticipated change in government, the deficit could increase to over £500 billion by the year end if real yields on bonds were to fall further and the allowance for increased life expectancy in the valuation of liabilities continued to increase.</p> |
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In June last year Xafinity Consulting launched the 2009 version of their Corporate UK Pension Scheme model. The model received significant media attention given that it provides the most comprehensive review of the deficits shown by defined benefit pension schemes in the UK. The model was constructed using the fourth edition of the Purple Book that covered 93% of the UK's PPF eligible pension funds.

The fifth purple book released on the 19<sup>th</sup> January 2010 provides an even more comprehensive survey being based on 99% of the liabilities of UK pension schemes. The findings of this survey confirmed the predictions of the Corporate UK model that the vast majority of UK pension schemes would have significant deficits.

On the back of the new Purple book Xafinity Consulting have launched the 2010 version of the Corporate UK Pension Scheme model and a copy can be accessed at [www.xafinity.com/modelsolutions](http://www.xafinity.com/modelsolutions). The model will be up-dated on a monthly basis to give all those connected with a pension scheme an indication of how changing market conditions can impact the financial status of pension schemes.

**Background information:**

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.

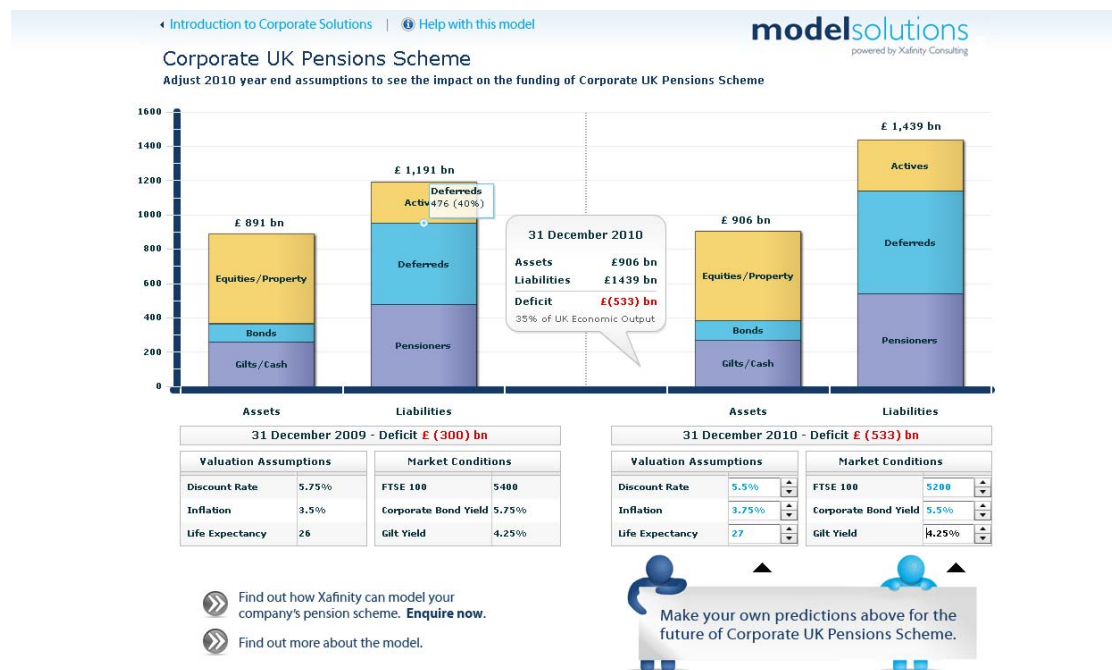
To date most of the surveys covering the funding positions of UK final salary arrangements have focused on the pension schemes of only the very largest companies - often the FTSE100 - and have primarily aggregated their historic

or current funding positions. Whilst sizeable in liability value, in number these schemes represent less than 1.5% of UK final salary schemes and thus cannot show a representative picture of the true funding plight of UK defined benefit arrangements.

Recognising this deficiency, Xafinity Corporate Solutions has, utilising its powerful Model Solutions valuation tool, created the **Corporate UK Pensions Scheme** model. Using as a base the dataset from the PPF's and the Pensions Regulator's "Purple Book", the model covers over 99% of the UK's PPF-eligible DB schemes and some 12.4 million members thus providing the most comprehensive and accurate appraisal of funding in the UK.

You can visit the Xafinity's Corporate Solution's web site at [www.xafinity.com/modelsolutions](http://www.xafinity.com/modelsolutions) and use the interactive tool to see how the year end funding position of **Corporate UK Pensions Scheme** varies under your own economic predictions.

**Make your own predictions for Corporate UK Pensions Scheme:**  
[www.xafinity.com/modelsolutions](http://www.xafinity.com/modelsolutions)





Xafinity is one of the UK's leading specialist providers of pensions, employee benefits and payments expertise, with 170 years' experience and handling £2 trillion annually.

The Group provides consulting, software, resourcing, training and business process outsourcing services that enable public and private sector organisations to deliver employee benefits more efficiently.

In 2009, Xafinity was voted best Third Party Administration provider at the Pension and Investment Provider Awards. In 2008, Xafinity was voted Pensions Administration System Provider of the Year and won the Pensions Administration Software Award, as well as winning Best Pensions Software provider in 2007. Xafinity is the accredited software supplier to the UK Principal Civil Service Pension Scheme.

With 1,400 people nationwide, Xafinity has operational and relationship management centres across the UK, in Bath, Cardiff, Crawley, Fleetwood, Leeds, London, Reading, Stafford, Stirling and Waterlooville.

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Xafinity Consulting is one of the UK's leading specialists in employee benefit innovation and optimisation. Our expertise covers pensions and actuarial services, corporate solutions, 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.

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