

Media Release

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For immediate release

Xafinity: UK Corporate Pension Deficits Threat to Acquisitions

Based on assumptions as at the end of May 2011, the Xafinity Corporate UK Pension Scheme model shows that liabilities are sitting at £1.4 trillion. Despite a moderate fall back in equity values during May, the aggregate deficit across UK corporate pension schemes has fallen back a shade to £380 billion. This comes off the back of some easing of fears over longer term price inflation.

£ billion	May 2011	Last month	This time last year
Scheme Liabilities	1,400	1,466	1,345
Scheme Assets	1,020	1,040	947
Deficit	380	426	398

Hugh Creasy, director at Xafinity Corporate Solutions said, *“if we look back a year, the aggregate deficit stood at £398 billion. On the face of it, an improvement to £380 billion over twelve months seems like a pretty gentle improvement. However, the truth is that the headline deficit moves by far more than that - in just a month.”*

Hugh continued, *“whether we like it or not, the investments chosen for corporate pension schemes will produce large swings in the deficit over short periods. In a game of long term funding, some may be forgiven for being blasé over this short term volatility. Since the early days of FRS17, finance directors have been nervous at the year end for fear of upsetting the balance sheet and income statement, but the rest of the year has often been a time for other matters. Now, though, we have a new challenge to deal with.”*

The news that the Takeover Panel is being urged to force acquiring companies to clarify their intentions for target company pension schemes will send a shudder down the neck for acquirers.

“Without a proper understanding of the dynamics of the target’s pension scheme, bidders will be exposed to unexpected shifts derailing the entire process. The move will add to the pressure over recent years which has seen acquirers struggling to manage the relationship between themselves, the target and the trustees who run the pension scheme. What we can expect to see is a much greater focus from acquiring companies on understanding the “what ifs” for the pension scheme and actively managing those relationships. This may bring extra time and cost to the planning stage, but the consequences of not doing so are becoming increasingly unpalatable.”

The Xafinity Consulting model draws on the Pensions Regulator's latest edition of the Purple Book, which was published in November 2010. The model covers 99% of the UK's PPF-eligible DB schemes and some 12 million members, making it the most comprehensive and accurate appraisal of pension scheme funding in the UK.

ENDS

Note to editors:

You can visit the Xafinity's Corporate Solution's web site at 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.

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About Xafinity Consulting:

Xafinity Consulting is one of the UK's leading specialists in pensions and employee benefits. Our expertise addresses the needs of both trustees and companies in pensions and actuarial services, flexible benefits, healthcare and training. We are committed to working in partnership with our clients, providing tailored solutions to maximise the returns of their benefit strategies.

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