

Media Release

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For immediate release

Xafinity: UK Corporate Pension Deficits Prowl Around £370 Billion

Based on assumptions as at the end of July 2011, the Xafinity Corporate UK Pension Scheme model shows that liabilities remain at £1.4 trillion. In an almost exact reversal of the previous month's fortunes, the outlook for price inflation has eased back and corporate bond yields have tightened up again.

£ billion	July 2011	Last month	Last year
Scheme Liabilities	1,400	1,383	1,361
Scheme Assets	1,026	1,018	959
Deficit	374	365	402

Hugh Creasy, Director at Xafinity Corporate Solutions said: *“Corporate sponsors have been fortunate so far this year. Each month we have seen tension rise in one area, but see it smoothed away by easing markets elsewhere. The net effect has been one of illusory calm.”*

Hugh continued: *“Whether we like it or not, corporate balance sheets hang on a snapshot of corporate bond yields and the outlook for price inflation. Neither has been stable, yet each has managed to keep the other in check throughout 2011. This is not something sponsors can count on – as history has shown us.”*

The news that parties are working together on the US debt ceiling has helped to ease short term fears in equity markets, maintaining corporate pension scheme assets above the £1 trillion mark.

“Helpful as the resilience in equity markets has been, gradual de-risking from equities has reduced corporate sponsors’ exposure to equity prices. The real threat lies in financial markets and their impact on pricing the pension promise. As an indicator, the Xafinity model shows that a 0.25% shift in inflation would kick the deficit up by £70 billion. It would take a fall in the FTSE of 700 points to achieve the same impact. While we cannot be so blasé as to dismiss such a fall in equity prices, a 0.25% shift in the outlook for price inflation is not at all unusual.

“Why is the state of corporate pensions so dependent on price inflation? While sponsors have made great strides in de-risking from equity exposure, there has been so much less movement to protect against inflation. The mantra that protection is too expensive has been persuasive for many, but those sponsors are riding on the hope that inflation will stay under control.”

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.

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Note to editors:

You can visit the Xafinity's Corporate Solution's website 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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