

Media Release

1 September 2011

For immediate release

UK Corporate Pension Deficits Beat the Stock Market Woes

Based on assumptions as at the end of August 2011, the Xafinity Corporate UK Pension Scheme model shows that liabilities have eased back slightly to £1.3 trillion. The outlook for price inflation has again saved the day during a turbulent period in equity markets, with the aggregate deficit ending over £200 billion lower than one year ago.

£ billion	August 2011	Last month	Last year
Scheme Liabilities	1,338	1,400	1,528
Scheme Assets	979	1,026	966
Deficit	359	374	562

Hugh Creasy, Director at Xafinity Corporate Solutions said: *“Equity markets have grabbed the headlines, even dipping below 4800 during August. While all of this has been going on billions have indeed been disappearing from pension scheme asset values. But look more closely and you will see, under the surface, the effects of price inflation gently easing back the pressure on company balance sheets. The change in outlook has only been 0.25% but unwind this over pension scheme lifetimes and you have a very powerful effect.”*

There are just three drivers behind the volatility in corporate pension scheme finances: price inflation, corporate bond yields and equity values. Quite how these work with – or against – each other has huge implications for corporate balance sheets.

Hugh continued, *“This is the second month in a row that price inflation has bailed out bad news elsewhere. Last month we saw corporate bond yields tighten up. Yields stabilised during August, but now it has been the turn of those headline falls in equity markets. With the global economy remaining so fragile and government bond yields also down, it would be a brave investor who relied on either equity prices or corporate bond yields providing respite in the near future. This leaves corporate balance sheets wide open to the effects of price inflation. A slip back to levels just two months ago would rack up corporate pension scheme deficits by £130 billion.*

“All of this comes at a time the evenings start to become darker and finance directors begin the long run into 31 December year ends. Once we hit those year end disclosure dates, the volatility in corporate pension scheme deficits will inevitably take on a high profile again. To date, corporate sponsors have tended to focus on equity market exposure and put inflation protection to one side as an expensive

solution. It will be interesting to see whether sponsors begin to take steps to manage their exposure to all of the big three drivers.”

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 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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