

## Media Release

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For immediate release

### Xafinity: UK Corporate Pension Deficits Plummet

Based on assumptions as at the end of September 2011, the Xafinity Corporate UK Pension Scheme model shows that the aggregate deficit has reached a record low over the year, now only standing a shade above £300 billion. Total liabilities across occupational pension schemes have now fallen below £1.3 trillion, following further falls in the outlook for price inflation.

£ billion	Sept 2011	Last month	Last year
<b>Scheme Liabilities</b>	1,280	1,338	1,442
<b>Scheme Assets</b>	975	979	994
<b>Deficit</b>	<b>305</b>	<b>359</b>	<b>448</b>

**Hugh Creasy, Director at Xafinity Corporate Solutions said,** *“this will come as encouraging news for finance directors as, despite the current mini-heatwave, we enter the final quarter of the year. In what has been a repeat of the previous month, we have seen a further fall of ¼% in the outlook for price inflation. This may seem small beer, but it is enough to wipe £60 billion off company balance sheet deficits.”*

While equity markets have wavered, de-risking of investment strategies over recent years means that the deficit would only have been £25 billion worse at the darkest days in September 2011. This puts the significance of price inflation into context when it comes to the deficits corporates need to report on their balance sheets.

Hugh continued, *“the good news contrasts with the picture trustees may be receiving on their actuarial funding valuations. The great majority of funding valuations have, for some years, been determined by government bond yields. These government bond yields have been taken as a fundamental risk-free rate and then used to build up an assumed return across all Scheme assets. If we simply “turn the handle”, falling government bond yields translate into a more pessimistic view of long term returns on equity holdings, property and all other asset holdings. Operation Twist will make this even worse as long dated yields become artificially depressed – but now is the time to check that you can still see the wood, despite the trees. Do we really believe that US monetary policy has such a significant, negative impact on long term growth for equities? While company balance sheets follow prescribed rules – for good reason – funding valuations should never be “turn the handle” and do require judgement. Radical increases in funding deficits may appear dramatic, but we do need to step back and judge how much is a real impact, and how much is just number-crunching.*

*“Where corporates will be disappointed is that the fall in government bond yields is having a serious impact on insurance costs. Despite the benefit of lower expectations for price inflation, the costs of insurance buyouts are stretching. While this may put a hold for now on buyouts, it will inevitably increase corporates’ resolve to implement other routes available to them, including of course enhanced transfer value exercises.*

*“Finally, it would be remiss to pass up celebrating another piece of good news during the month. The latest statistics point to a small fall in the rates at which longevity is expected to increase. While the slowdown is very marginal, the fact that we do not face increased costs on this score will be a relief. For once, as far as longevity improvements are concerned, up is not the only way.”*

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](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.

**For more information:**

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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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