



Pension Corporation says £250 billion of new capacity needed by 2012 to fulfill pensions' buyout demand - £30 billion of additional solvency capital required

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Pension Corporation, a leading provider of pension solutions, estimates that the capacity of the UK pensions' buyout market will have to grow by nearly £250 billion over the next three years if the current levels of demand from trustees are to be met, according to new research by Pension Insurance Corporation (PIC), the Group's fully authorised and Financial Services Authority regulated insurance company. New capacity of £250 billion represents an increase of more than 80 times over the aggregate value of pensions' buyout transactions in 2007. Pension Corporation estimates that £30 billion of additional solvency capital will be required to underpin buyout demand.

The research echoes a recent poll by Hymans Robertson, which indicated that nearly a third of trustees expect their scheme will be bought out within the next decade.

The last two years has seen an explosion of activity in the pension insurance market with £2.9 billion of insurance deals transacted in 2007 and £5 billion in the first half of 2008. By the end of this year, the total could surpass £10 billion. Additionally the corporate deals market, where Pension Corporation and Citibank took on the sponsorship of over £4.5 billion of pension liabilities, and insurer to insurer bulk annuity transfers totalling over £10 billion, have also absorbed substantial capacity. Key to this growth has been the

attractive pricing and innovative solutions offered by insurers such as Pension Insurance Corporation, as evidenced by their partial buyout of Delta Plc's pensioner liabilities. Another notable example of the innovation offered is PIC's recent buyout of the orphaned UK Can scheme, which left the members with greater benefits than they would have otherwise had under the PPF.

Pension Insurance Corporation estimates that the current capacity of the pensions' buyout market could accommodate up to another £25 billion of buyout transactions, significantly less than the demand expressed by trustees. Current buyout liabilities for the private sector are approximately £1.2 trillion. If 31% of these transact over the next decade as indicated by Hymans Robertson's poll, nearly £350 billion of additional capacity will need to be found by the industry, according to Dr. Amarendra Swarup at Pension Corporation. Much of this will be required within the next three years if current levels of demand are to be met.

Edmund Truell, Chief Executive of Pension Corporation, commented:

“These estimates from both Hymans Robertson and ourselves reaffirm the immense growth potential inherent in the pension solutions sector. We are confident that Pension Insurance Corporation is well placed to help trustees secure their members' benefits. Indeed, it was in anticipation of this future growth that we raised nearly £1 billion of capital. As the popularity of pension insurance continues to grow, we look forward to meeting the demand from trustees and sponsors to reduce risk in their pension funds.”

John Coomber, Executive Vice Chairman of Pension Corporation, commented:

“I believe we are witnessing a paradigm shift in the pensions' industry. Buyouts are the obvious way for trustees and sponsors to take risk off the balance sheet and secure members' benefits. Pension Corporation has a strong support base of committed blue chip investors and we are confident of our capacity to accommodate the market's growing appetite for pension solutions.”

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Notes to Editors:

The Pension Corporation group provides the following solutions to defined benefit pension funds:

- Insurance Buy-out
- Longevity Insurance
- Pension Fund Sponsorship
- Asset Liability Management

These solutions enable pension funds to protect their members' benefits by strengthening and stabilising their financial position, and enable their employers/sponsors to protect themselves against the volatility of their earnings and balance sheet values.

Insurance Buy-out: An insurance policy is issued by Pension Insurance Corporation ("PIC"), which gives the members of the pension fund the security of having their benefits underwritten by a fully FSA-authorized and regulated insurance company and removing the responsibility for the pension fund payments from the balance sheet of the employer/sponsor. PIC can undertake the insurance in respect of all or some classes of the members, according to what the fund can afford, and is able to act quickly and in a flexible way (for example by offering different ways of financing the transaction).

Longevity Insurance: PIC offers a longevity insurance policy, the first of its kind in the world, to protect pension funds and their employer/sponsor against the cost of pensioners living longer than expected. The policy is tailored to the member-by-member profile of the fund so as to provide comprehensive "whole of life" protection against what is

perhaps the most significant risk faced by pension funds and their employers/sponsors. Inflation risk can be included or covered separately by an inflation swap.

Pension Fund Sponsorship: Typically used where a fund cannot afford a pension insurance buy-out immediately, Pension Fund Sponsorship involves the Pension Corporation group becoming the owner of the employer/sponsor of the pension fund. In this way, the fund gains the additional backing of the Pension Corporation Group, while continuing to have the backing of the original sponsor and of the assets of the fund itself. Under this model financial returns to Pension Corporation can only be drawn once the pension fund members' benefits have been secured, in much the same manner as funds within an insurance company. For each of the three pension schemes where Pension Corporation has acquired the employer/sponsor, it has advocated a reduction in the risk level of the pension fund assets, which shows the conservatism of Pension Corporation's views on investment management and its emphasis on pensioner security.

Asset Liability Management: Pension Corporation has a highly experienced investment management team, which is able to advise on state-of-the-art asset and liability management. It offers this service on a fee basis or, in the case of funds under the sponsorship of companies owned by it, without charge.

Security

Pension Corporation is backed by large blue chip financial services companies, including The Royal Bank of Scotland, HBOS and Swiss Re. Its Board and management include a number of expert and highly experienced insurance industry executives, including Sir Mark Weinberg, co-founder of St James's Place Wealth Management Group, John Coomber, former Chief Executive of Swiss Re, Sir Martin Jacomb, former Chairman of the Prudential Assurance Group, Bob Scott, former Group Chief Executive of Aviva and John Fitzpatrick, former Chief Financial Officer of Swiss Re. Pension Corporation has almost £5 billion of pension assets under its stewardship.

www.pensioncorporation.com