Pension Corporation
Pension Risk Transfer Index
19 October 2009

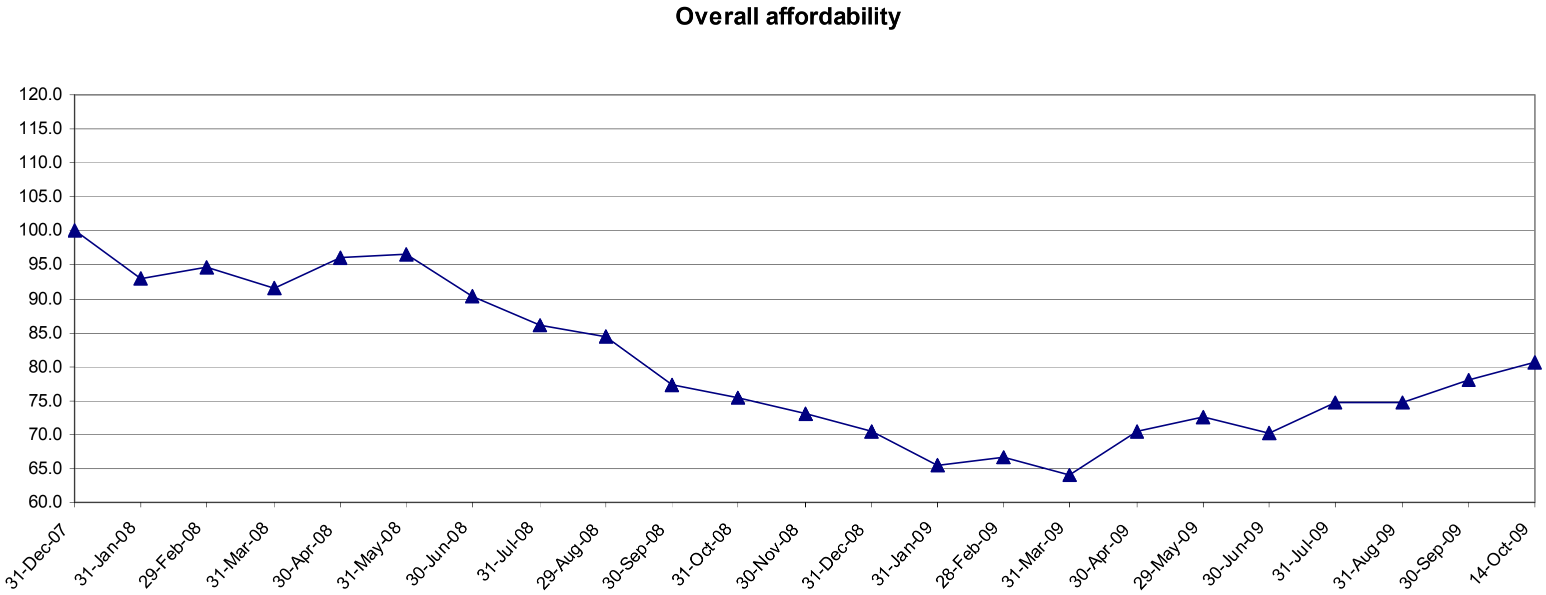
Highlights

- Q4 2009 is likely to be the busiest for pension insurance since Q3 2008, when there was approximately £2 billion of deals signed:
  - Overall affordability for pension insurance is at its most favourable level since September 2008
  - Sponsors and trustees have more ability to focus on de-risking the pension fund than at any time post-Lehman
  - Credit spreads continue to come in, providing impetus for schemes that are invested in gilts and corporate bonds to insure their liabilities

- High levels of uncertainty around the markets and the economy are leading to Trustees seeking to increase the speed of an insurance transaction, driven by uncertainty around:
  - Whether scheme assets will again reduce in value if there is a second wave of asset price falls
  - Future economic policy, outcome of quantitative easing and levels of inflation
  - The strength of the corporate covenant should insolvency rates increase

- Volatility in the markets is also helping to drive innovation:
  - Examples include the immediate transfer of investment risk to insurer, upon signing of exclusivity, rather than on signing of contract
  - Trustees are interested in factors other than price, although clearly this is very important

Overall Affordability – Scheme as a Whole



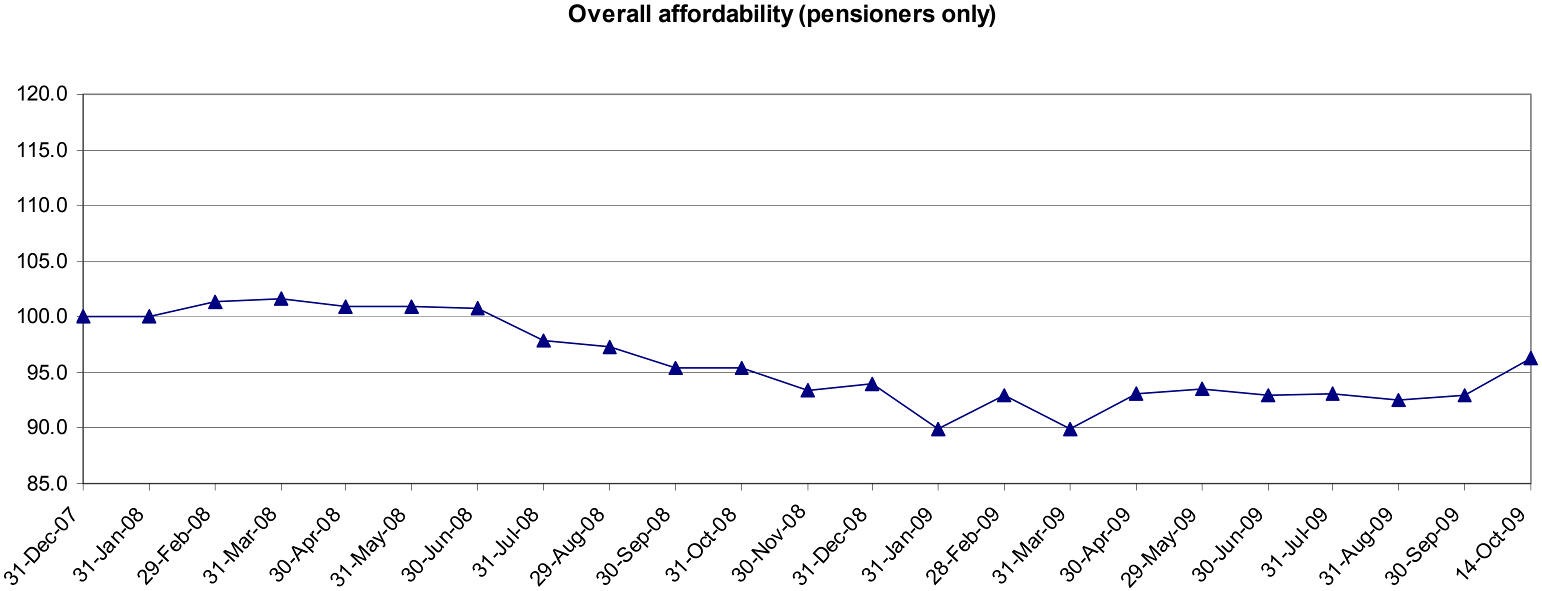
Key:

Chart shows ‘overall affordability’ for a scheme with a blend of deferred and pensioner liabilities, and invested in a 65% equities / 35% bonds mix. ‘Affordability’ considers the cost of insuring the pension risk compared to the value of the assets held by the scheme. A higher value in the index means that insurance is more affordable for pension schemes (insurance costs have fallen and / or asset values have risen)

Commentary:

- Increasing level of affordability means that transactions put on hold post-Lehman are now being re-examined
- Trustees are also more alive to the levels of risk to which they are exposed :
  - Weakened corporate covenant – pension fund exposure to this can be as much as 30% of total risk profile
  - “New world” for setting technical provisions
  - Asset management decisions can compound strain on sponsor
  - Funding plans represent a single line of credit for an extended period

Overall affordability – Pensioners Only



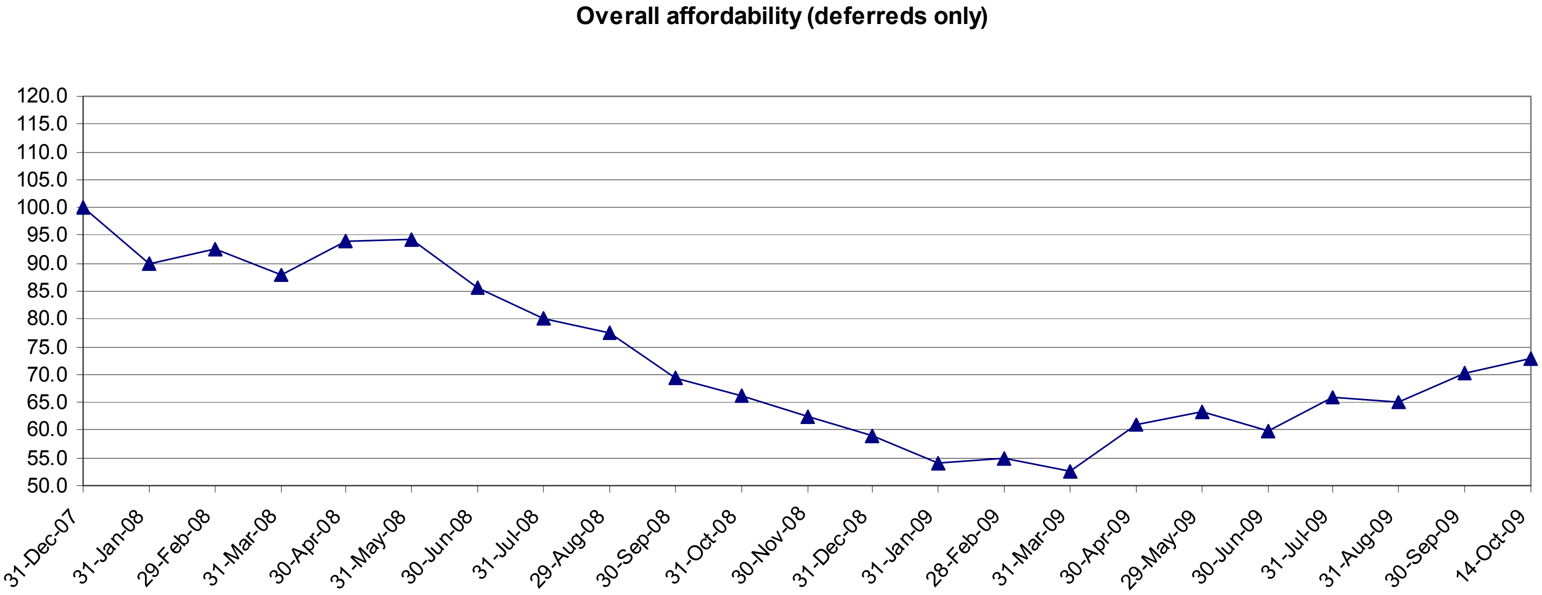
Key:

Chart shows 'overall affordability' for a scheme with pensioner liabilities only and invested 100% in gilts and corporate bonds. 'Affordability' considers the cost of insuring the pension risk compared to the value of the assets held by the scheme. A higher value in the index means that insurance is more affordable for pension schemes (insurance costs have fallen and / or asset values have risen)

Commentary:

- Buying out pensioners has become even more favourable over the past couple of months, since most benefits are inflation-linked.
- For schemes which are less well funded, but which have adopted prudent longevity assumptions, a longevity risk transfer solution can significantly reduce risk at a low cost and be a step on the road towards full insurance

Overall affordability – Deferreds only



Key:

Chart shows 'overall affordability' for a scheme with deferred liabilities only and invested 100% in higher return-seeking investments, such as equities. 'Affordability' considers the cost of insuring the pension risk compared to the value of the assets held by the scheme. A higher value in the index means that insurance is more affordable for pension schemes (insurance costs have fallen and / or asset values have risen)

Commentary:

- It has become more affordable to buyout deferreds since September 2008. This is due to an increase in equities since April 2009, combined with wide corporate bond spreads.
- Although spreads narrowed in mid-09 leading to a increase in buyout cost, for schemes which back their liabilities with corporate bonds and equities this effect would have been offset by the increase in value of these assets.

Cost of Buying Out Pension Liabilities – pensioners only

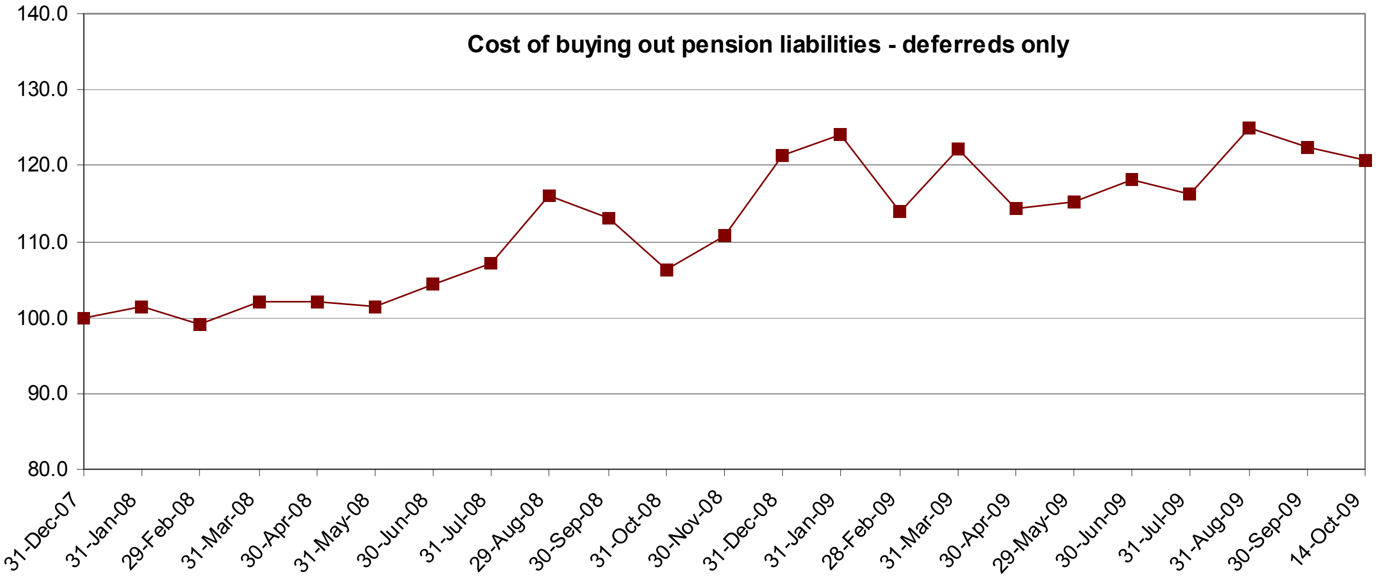
Key:

This chart shows the cost of buying out pension liabilities of pensioners only over time. A scheme providing typical benefits which cost £100m to insure in Dec 2007 could be insured for £116m in October 2009

Commentary:

- This price is also dependent on the movement of assets relative to liabilities

Cost of Buying Out Pension Liabilities – Deferreds Only



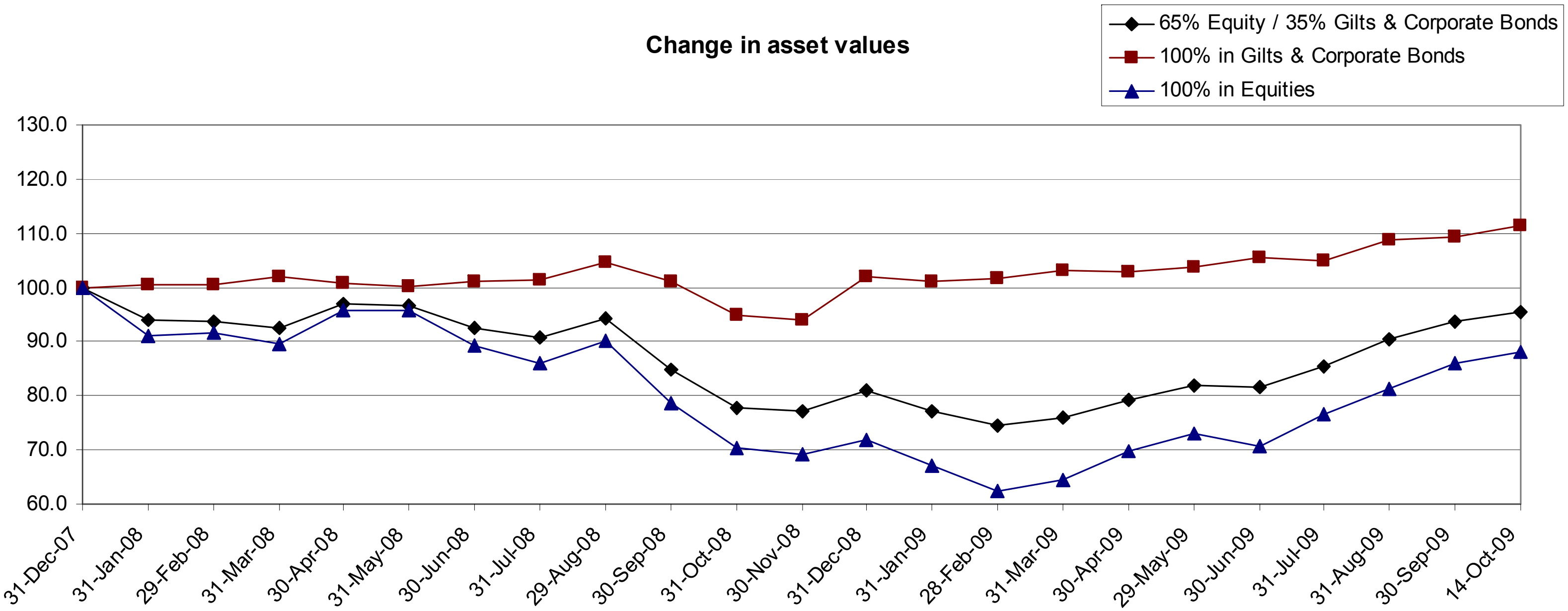
Key:

Chart shows relative movement in the cost of buying out deferred pensioner liabilities over time as market conditions vary. A deferred pensioner-only scheme which cost £100m to insure in Dec 2007 would cost £120m in October 2009

Commentary:

- This price is also dependent on the movement of assets relative to liabilities
- Since the duration of deferred pensioner liabilities is longer than for pensioners, market volatility makes insurance pricing for deferreds fluctuate more than for pensioners

Change in Asset Values



Key:

Chart shows relative movement in the value of a variety of investment strategies based on movements in common indices. ‘Gilts’ reflects a mix of Fixed Interest and Index-Linked gilts.

Commentary:

- Volatility in the markets has led Trustees to want to offload investment risk as early as possible in the insurance process
- Extreme levels of uncertainty around the economic environment
- Credit spreads continue to come in leading to an increase in prices, but this is more than offset by the increase in equity markets and corporate bonds
- Equity markets have seen a sustained bull run this year, but are still well below the levels of summer 2007

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