



PENSION CORPORATION: FOCUSING QUANTITATIVE EASING WOULD BENEFIT PENSIONERS

London, 7 December 2011 – If Quantitative Easing (QE) was focused away from the purchase of long dated Gilts, defined benefit (DB) pension funds would have seen their liabilities rise by only a fraction of the estimated figure of c.£200 billion¹, according to research published today by Pension Corporation, a leading provider of risk management solutions to defined benefit pension funds.

The Bank of England estimated in its Q3 2011 Bulletin that QE had dropped Gilt yields by 1%. The effect on DB pension funds' c.£1 trillion of liabilities is different across the yield curve. The over-25 year liabilities increase by almost £110 billion, the 10-25 year liabilities increase by £67 billion, and the 0-10 year liabilities by only £13 billion.

Over-25 year liabilities typically represent about 30% of the value of a DB pension fund's liabilities, but about 58% of overall rate sensitivity. This means that the majority of the c.£200 billion rise in liabilities may be as a result of the long dated liabilities moving more for a similar rate shift than shorter dated liabilities.

Pension Corporation had previously estimated that pension fund deficits were pushed out by a net £74 billion under the first round of QE – the increase in liabilities minus the estimated rise in equities and bonds². This means sponsors could be forced to pay an additional £7.4 billion a year until at least 2020 into their pension fund to cover the additional £74 billion hole created by QE1.

Pension Corporation recognises the wider benefits of the QE programme. However, in the interests of UK pension funds, QE2 should not buy Gilts with a maturity longer than 25 years and should return to the original mandate which did not target these

long dated Gilts. Policy should also address the stressed areas of the economy by buying stressed assets off banks' balance sheets.

This would maintain a low Gilt yield, allow banks to be more certain of their asset values and make them more likely to lend, and would help drive economic growth by supporting corporate sponsors. Pension fund deficits may actually narrow under this scenario.

At the long end, the Government is the main beneficiary of low yields as it has issued 75% of all the long Sterling fixed rate bonds since 2009, and pension funds are the main losers.

Mark Gull, Co-Head of Asset-Liability Management at Pension Corporation, said: "The Chancellor's number one metric for measuring international confidence in the UK's economic policy is the yield available on Gilts, which is now lower than that for German bonds. By this measure, and this measure alone, he is succeeding in keeping the UK out of intensive care. What is less well understood, however, is that by targeting Gilts with maturities over 25 years, where the Government is by far the main beneficiary, QE is damaging pension funds.

"QE2 and any further rounds should revert to QE's original form, and not target over 25 year maturity Gilts, as well as addressing the stressed areas of the economy. This would help pensioners, UK corporate sponsors and the wider economy."

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Notes to Editors:

Footnotes:

- 1) The Effects of QE on Pension Funds, Pension Corporation, October 2011
- 2) The Effects of QE on Pension Funds, Pension Corporation, October 2011

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About Pension Corporation

Pension Corporation is a leading provider of risk management solutions to the trustees and sponsors of defined benefit pension funds. Its FSA authorised and regulated insurance company, Pension Insurance Corporation ("PIC"), brings safety and security to scheme members' benefits through innovative, tailored solutions factored around pension insurance buyouts and pension insurance buy-ins. PIC has c.£4.5bn in assets and has insured more than 50,000 pension fund members. Clients include FTSE 100 companies, multinationals and the public sector. PIC concluded the first UK public sector backed pension insurance buyout and the first buyout over £1 billion. PIC is proud to work with pension fund trustees to maximise member benefits. For further information please visit www.pensioncorporation.com