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HOW WILL THE ELECTION IMPACT ALMOST £2 TRILLION OF CORPORATE-SPONSORED DEFINED BENEFIT PENSION LIABILITIES?

London, 30 April 2015 – The General Election carries significant risks for defined benefit (DB) pension fund trustees and their corporate sponsors, including the immediate risk of deficits widening as gilt yields fall, according to a paper “Political risks for defined benefit pension schemes in the next Parliament”, published today by Cicero Group and Pension Insurance Corporation (“PIC”), a specialist insurer of defined benefit pension funds.

The report also includes independent comment from Dr Ros Altmann, CBE, pension expert and government adviser; Baroness Greengross, President, International Longevity Centre; and Huw Evans, Director General, Association of British Insurers.

The likely outcomes of the General Election outlined in the report:

- A Conservative minority acting with the support of Lib Dems and DUP
- A Labour minority, acting with the support of the SNP and/or Lib Dems or others
- Gridlock, possibly resulting in a re-run of the election
- Additional medium-term risks in the form of possible referendums on Brexit and on Scottish independence

What these outcomes mean for DB pension funds and their corporate sponsors:

- A government which is seen as a credible steward of the economy could mean a fall in gilt yields and widening deficits in the short-term, even though pension funds are likely to benefit as the economy strengthens in the longer term
- A government with a less credible fiscal plan would likely see gilt yields rise from their current record lows. This would bring short-term gain by closing deficits, but may result in longer term pain for trustees in the form of depressed asset prices and lower economic growth
- Parliamentary gridlock could cause short-term volatility in markets, precipitating longer term economic problems

In addition, pensions remain an area of considerable political interest. After a major overhaul of the pensions system in this Parliament, further reform in the next Parliament is inevitable.

John Rowland, Executive Director at Cicero, said, “Elections matter for markets and they matter for the pensions system. This is probably the most uncertain general election since 1974. Whether Labour or the Conservatives form the next government, they will almost certainly be governing as a minority. However, unlike 2010, the electoral arithmetic suggests that a stable coalition is unlikely to emerge, meaning we see a far more fluid political situation based on inter-party bargaining. Keeping public finances under control could prove challenging in these circumstances. This has particular relevance for the gilt markets which are uniquely exposed to political risk.”

Mark Gull, Head of Fixed Income at PIC, said, “Both Labour and the Conservatives agree on the need for further deficit reduction although they differ on its proposed pace and how to achieve it. It is therefore likely that their respective plans will have very different outcomes for the gilts market. With almost £2 trillion of DB liabilities priced off this market, trustees should be aware of potential outcomes including the near-term outlook for scheme deficits and the longer term impact on the economy. This report has been written to help trustees evaluate the potential electoral outcomes in a world where financial and political risks are increasingly linked.”

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Notes to Editors:

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About Pension Insurance Corporation

Pension Insurance Corporation plc ("PIC") provides tailored pension insurance buyouts and buy-ins to the trustees and sponsors of UK defined benefit pension funds. PIC brings safety and security to scheme members' benefits through innovative, bespoke insurance solutions, which include deferred premiums and the use of company assets as part payment. PIC has almost £14bn in assets and has insured 100,000 pension fund members. Clients include FTSE 100 companies, multinationals and the public sector. PIC is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority (FRN 454345). For further information please visit www.pensioncorporation.com

About Cicero Group: (www.cicero-group.com)

Cicero Group is an integrated communications agency specialising in corporate PR, government relations, digital communications and market research aimed at policymakers, business and consumer audiences. Founded in the UK in 2000, Cicero has grown from one to over 200 clients from our wholly owned regional office network in London, Brussels, New York and Singapore. Cicero's 50-strong team is drawn from media, industry and government.