CIMA GLOBAL PRESS CENTRE

Press Release

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CIMA WARNS ON PENSION RISK – 2 YEARS EXTRA LONGEVITY WORTH £45bn

CIMA (Chartered Institute of Management Accountants) has today (30 April) warned companies of the impact longevity risk can have on their finances if they have defined benefit pension liabilities on their balance sheets. The report 'Apocalyptic demography? – Putting longevity risk in perspective', published in association with the Pensions Institute at Cass Business School, provides a checklist to finance directors who may not fully understand how seriously even small changes in mortality assumptions can affect them. Defined benefit pension schemes promise specific levels of payouts to retired members, putting the investment risk on the shoulders of the companies which run them.

CIMA believes that longevity risk is one of the most challenging risks around today for finance directors. UK life expectancy has nearly doubled over the past 150 years, with a trend of 2 – 2.5 years per decade. This has consistently exceeded official projections. There is currently no commonly accepted forecasting model when it comes to predicting longevity risk and substantial, unprecedented increases in life expectancy could potentially undermine the financial viability of defined benefit pension schemes across the UK.

Charles Tilley, Chief Executive at CIMA, says:
"While multinationals and other larger FTSE100 companies are alive to the risks posed by longevity issues, it is typically smaller to medium organisations that may not realise quite how seriously life expectancy assumptions can impact upon their balance sheets. The Pensions Regulator estimates that two years of extra life could add up to 5% to a defined benefit pension liability – with liabilities across UK pension schemes adding up to around £900bn, a move of 5% would equal £45bn. It is therefore imperative that these risks are understood. CIMA has created its pensions guidance and accompanying checklist to help finance teams manage their pension schemes and put longevity risk into perspective, by

encouraging them to question their actuaries more rigorously on the mortality assumptions used in estimating their scheme liabilities."

David Blake, Director of the Pensions Institute at Cass Business School, also comments:
"Longevity risk in pension schemes might not be as significant as, say, interest rate or inflation risk. But having hedged these last two risks using Liability Driven Investment (LDI) strategies such as duration and inflation swaps, the relative importance of longevity risk increases substantially. If Finance Directors do nothing to hedge this risk, they leave themselves exposed to cures for cancer and other medical advances extending the lives of plan members in a way that was not anticipated or reserved for when those members retired. Is this something Finance Directors really want to have to deal with in the years ahead, particularly when the world is becoming a much more competitive place to do business in?"

'Apocalyptic demography? – Putting longevity risk in perspective' follows on from CIMA's initial report on pensions, 'The Pensions Liability – Managing the Corporate Risk', which was launched in November 2006 and updated in March 2008. For more information see www.cimaglobal.com/pensions.

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Notes to Editors

1. CIMA (the Chartered Institute of Management Accountants) is the only international accountancy body with a sole focus on business. It is a world leading professional institute that offers an internationally recognised qualification in management accountancy, focusing on accounting in business in both the private and public sectors. It is the voice of 164,000 students and members in 161 countries. CIMA is committed to upholding the highest ethical and professional standards of members and students, and to

maintaining public confidence in management accountancy. For more information about CIMA, please visit www.cimaglobal.com.

CIMA is responsible for the education and training of management accountants who work in industry, commerce and not-for-profit and has more members in the public sector than any other UK based body. CIMA prides itself on the commercial relevance of its syllabus, which evolves continually to reflect the latest developments in global business. CIMA has been awarded superbrand status in the UK for a second year in a row this year and for the first time in Sri Lanka. According to independent research conducted by the University of Bath School of Management, CIMA's syllabus and examination structure are the most relevant to the needs of business of all the accountancy bodies assessed. See the CIMA Difference report for further information at www.cimaglobal.com/thecimadifference.

2. The Pensions Advisory Group was established by CIMA in May 2006 and its members are as follows:

• Mike Samuel (Chair)	Chairman/Trustee, Rank Group/Unilever pension funds
• Professor David Blake	Director, Pensions Institute at Cass Business School
• Ian Bull	Finance Director, Greene King
• Harry Byrne	Chairman, CIMA pension fund and former Chairman of Guinness Ireland Pension Fund
• Andrew Carr-Locke	Former Group Finance Director, George Wimpey Plc
• John Coghlan	Past President, CIMA
• Charles Cowling	Managing Director, Pension Capital Strategies
• Dr Rebecca Driver	Chief Economist and Director of Research, ABI
• Douglas Flint, CBE	Group Finance Director, HSBC Holdings plc
• Professor Steven Haberman	Deputy Dean, Cass Business School
• Richard Mallett	Director of Technical Development, CIMA
• John Pickles	Research Fellow, Pensions Institute at Cass Business School
• Charles Tilley	Chief Executive, CIMA
• Kate Wilcox (Secretary)	Project and Relationship Management Specialist, CIMA.

2. CIMA's report 'The pension liability – managing the corporate risk' (March 2008) includes more information on both interest rate risk and inflation risk. www.cimaglobal.com/pensions

3. Cass Business School, City University, delivers innovative, relevant and forward-looking education, training, consultancy and research. Located on the doorstep of one of the world's leading financial centres, Cass is perfectly positioned to be the intellectual hub of the City of London. Our dialogue with business shapes the structure and content of all our programmes of study, our executive education programmes and our research. Our MBA, Specialist Masters and Undergraduate Programmes have a reputation for excellence in professional education. Our Executive MBA is ranked 18th in the world by the *Financial Times*.

   The school undertakes research of national and international significance and supports almost 100 PhD students. Cass has the largest Finance Faculty and the largest Actuarial Science and Insurance Faculty in Europe. Our finance research is ranked 2nd in Europe and 4th in the world outside the US by *Financial Management Magazine* and our insurance and risk research is ranked 2nd in the world by the *Journal of Risk and Insurance*.

Within Cass, CassExec has been creating and delivering executive education to the world of business for more than 15 years. The disciplines we cover range from finance and insurance through to leadership, corporate governance and risk. At the heart of our success is the importance we place on working in partnership with our clients to construct bespoke programmes that truly meet their business needs.

Cass is a place where students, academics, industry experts, business leaders and policy makers can enrich each other's thinking. For further information visit: www.cass.city.ac.uk

4. The Pensions Institute at Cass Business School aims to:

• undertake high quality research in all fields related to pensions
• communicate the results of that research to both the academic and practitioner community
• establish an international network of pensions researchers from a variety of disciplines
• provide expert advice to the pensions industry and government.

The Pensions Institute takes a fully multidisciplinary approach. For the first time disciplines such as economics, finance, insurance, and actuarial science through to accounting, corporate governance, law and regulation have been brought together in order to enhance strategic thinking, research and teaching in pensions. As the first and only UK academic research centre focused entirely on pensions, the Pensions Institute unites some of the world's leading experts in these fields with a view to resolving many of the problems caused by the disparate elements making up the pensions mix (www.pensions-institute.org).