

## Press Release

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PR/65/08

25th November 2008

**PRE-BUDGET REPORT: NEW GILT SALES ARE A MISSED OPPORTUNITY TO HELP  
PENSION FUNDS AND PENSION SAVERS**

In response to the Pre-Budget Report announcement of an increase in planned gilt sales of £66.4 billion, **Chris Hitchen, National Association of Pension Funds (NAPF) Chairman, said:-**

“Before the Pre-Budget Report, we urged the Government to ensure that any increase in debt issuance was skewed towards greater issuance of long-dated low-risk assets, which would help pension funds and their members, UK companies and the Government itself.

“The fact that so little extra has been made available is a missed opportunity.

“In the current economic environment, the Government must take all steps necessary to help pension scheme sponsors and pension savers. This includes ensuring the right assets are available to back schemes.”

The Government announced an increase in planned gilt sales of £66.4 billion (see <http://www.dmo.gov.uk/documentview.aspx?docName=/remit/sa241108a.pdf>)

Of the £66.4 billion increase in planned gilts sales for 2008-09, only £6.3 billion will be in long-maturity conventional gilts (of 15 and over years maturity) and £2 billion in index-linked gilts.

In a letter<sup>1</sup> sent to the Chancellor of the Exchequer on 14<sup>th</sup> November 2008, the NAPF called on the Government to issue more long-dated Government debt, both fixed and indexed-linked. The letter explained that this action would achieve three mutually beneficial objectives:-

- (1) Government would obtain access to funding at low rates of interest (lower than those available at shorter durations).
- (2) Institutions such as pension funds and insurance companies would benefit from greater availability of a strategic asset and reduced pressure on their balance sheets.
- (3) Companies would have greater access to debt finance at short and medium durations with less 'crowding out' by government borrowing.

## **ENDS**

### **Notes to Editors**

1. The full text of the letter is set out below:-

14 November 2008

Rt Hon Alistair Darling MP  
Chancellor of the Exchequer  
HM Treasury  
1 Horse Guards Road  
London SW1A 2HQ

#### **Pre-Budget Report - gilt issuance**

Ahead of the Pre-Budget Report on 24 November, I am writing to you to urge the Government to issue more long-dated Government debt, both fixed and indexed-linked. The NAPF believes this action will achieve three highly desirable objectives:

- (1) Government will obtain access to funding at low rates of interest (lower than those available at shorter durations).
- (2) Institutions such as pension funds and insurance companies will benefit from greater availability of a strategic asset and reduced pressure on their balance sheets.
- (3) Companies will have greater access to debt finance at short and medium durations with less 'crowding out' by government borrowing.

You will be aware that the yield curves for both conventional and index-linked gilts are often inverted, with lower yields available to long-term investors than short-term investors. The NAPF believes this is clear evidence that more issuance can be absorbed at the long end.

If issuance is substantially skewed towards the long end, this will eventually cause yields to rise, but in the meantime Government will have the opportunity to raise funding at low cost. Pension funds will be able to obtain greater quantities of low-risk assets, thereby reducing risks for scheme sponsors, members and the Pension Protection Fund. Just as significantly, because liabilities are valued by reference to long bond yields, there will be a notable improvement in scheme funding levels. This will be an important factor in helping to keep DB schemes open in the current economic downturn.

The NAPF believes that the Government is best placed to issue long-dated paper – private companies cannot successfully offer such assets as investors are unwilling to risk long-term exposure to corporate covenants. Corporates must therefore seek shorter term finance, and we believe will benefit from reduced Government activity in this area.

I hope that you will use the opportunity of the Pre-Budget Report to announce that the Government will issue more long-dated index-linked gilts which we see as being a ‘win-win’ – helping not only pension funds and their members, but also Government and UK companies.

I would welcome the opportunity to meet to explain our need further.

Yours sincerely  
**Chris Hitchen**  
**Chairman**

### **About the National Association of Pension Funds**

The NAPF is the leading voice of workplace pensions in the UK. We speak for 1,200 pension schemes with some 15 million members and assets of around £800 billion. NAPF members also include over 400 businesses providing essential services to the pensions sector.

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