FTSE 350 Companies Pension Scheme Deficits Double in 2011

London, 20 May 2012 – JLT Pension Capital Strategies Limited (PCS) which specialises in corporate consulting and pension scheme de-risking, has revealed in its latest research into the pension schemes of the FTSE 350 that the total deficit of FTSE 350 pension schemes doubled during 2011.

The total deficit as at 31 December 2011 was estimated to be £67 billion, compared to £33 billion in the previous year. In the past three years alone, the pension schemes of the FTSE 350 have gone from a total surplus of £13 billion to the deficit of £67 billion at the end of 2011, despite companies injecting £31 billion of deficit funding into their pension schemes.

Total disclosed pension liabilities now stand at more than half a trillion pounds (£513 billion). In several cases, FTSE 350 pension funds represent a material risk to the stability of the company. 10% (34) of FTSE 350 companies have disclosed pension liabilities greater than the total equity value of the company. Moreover, 11 FTSE 350 companies have disclosed pension liabilities valued at over double the company's equity value and 14 companies disclosed pension liabilities of more than £10 billion.

As markets continue to be impacted by the Eurozone crisis and regulatory changes force companies to reduce risk in their pension schemes, the trend out of equities and into bonds has continued, with bond allocation jumping from 33% to 50% in the last five years. Over the last three years, 20 FTSE 350 companies have switched more than a quarter of their assets from equities into bonds.

Ten FTSE 350 companies (Royal Dutch Shell, HSBC, Lloyds Banking Group, Unilever, BT, BAE Systems, GlaxoSmithKline, National Grid, Barclays and Unilever) have each paid more than £1 billion of deficit funding into their pension schemes during the last three years.

Charles Cowling, Managing Director, PCS comments: "Increasing life expectancy and the current economic conditions facing the companies of the FTSE 350 have both contributed to the spiralling growth of liabilities outlined in our findings. Indeed, if the oft-mooted idea of measuring pensions on a risk-free basis – using gilt-based discount rates rather than AA corporate bond discount rates – we estimate that the total FTSE 350 liabilities would rocket by more than £100 billion and the total deficits would almost quadruple.

“Against this backdrop, we anticipate that the trend of pension liabilities being transferred to insurance companies via buyouts will accelerate.”

This latest report from PCS contains an analysis of those companies most affected by their pension scheme and shows how large the impact can be. It is demonstrated most dramatically by those companies that have fallen out of the FTSE 350 in the three year period covered by the report; those with the largest DB liabilities are:

Name	Pension Liabilities £m	Equity Market Value (EMV) * £m	Liabilities of a % of EMV
Premier Foods	3,438.4	139.3	2468%
Trinity Mirror	1,705.8	124.6	1369%
Thomas Cook	1,074.3	129.1	832%
Wincanton	719.7	75.8	949%
Yell	370.7	124.6	297%
Mouchel	317.4	6.1	5215%
Mothercare	246.0	146.5	168%
Xchanging	199.2	155.0	129%
HMZ	145.1	14.7	986%
Punch Taverns	54.4	66.0	82%

**equity market value as at 31 December 2011*

Notwithstanding the operational and economic reasons for a decline in company fortunes, the drag effect of a large DB scheme deficit on a sponsoring employer’s cash reserves will inevitably impact its ability to invest in growth areas and develop new revenue streams. In addition, as schemes continue to demand cash from the business, management can be distracted from the day to day operation of the business to managing the pension deficit.

Charles Cowling continues “We are seeing the emergence of a ‘two track’ environment, with an overwhelming large majority of FTSE 350 companies ceasing to offer DB pension provision to employees. Those still sponsoring DB schemes are under enormous pressure; with the huge drag effect of these schemes affecting the company’s ability to be competitive"

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The PCS report, The FTSE 350 and Their Pension Disclosures, explores the pension disclosures of the FTSE 350 companies, as well as the steps being taken to address pension scheme deficits. To access the latest The FTSE 350 and Their Pension Disclosures report, please refer to the PCS website www.jltpcs.com

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Notes to Editors:

About JLT Pension Capital Strategies

JLT Pension Capital Strategies (PCS) was established in 2006 to help companies to manage their Defined Benefit pension obligations, offering advice on managing scheme assets and liabilities, on communication with trustees and on finding the right funding solutions.

A subsidiary of the Jardine Lloyd Thompson Group, PCS can draw upon skills and experience in the areas of corporate finance, tax, capital markets, asset management, actuarial and general pension regulation and practice to provide strategic advice and practical answers.www.jltpcs.com

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