Press Release

FTSE 100 pension scheme deficit improved by 21% to £60bn over the last year

7 July 2014: The total deficit in FTSE 100 pension schemes is estimated to be £60 billion at 31 March 2014, a reduction of £16 billion from 12 months ago, according to research from JLT Employee Benefits (JLT). This improvement occurred despite the total deficit funding decreasing to £7.7 billion in the year to 31 March 2014 from £10.5 billion in the previous year.

HSBC made the largest deficit contribution of £0.5 billion (net of ongoing costs) whilst 61 other FTSE 100 companies also reported significant deficit funding contributions in their most recent annual report and accounts.

There are a significant number of FTSE 100 companies whose pension schemes represent a material risk to the business, with Sainsbury's pension liabilities having outgrown its equity market value in Q1 2014 by 13%. The other FTSE 100 companies with total disclosed pension liabilities greater than their equity market value are: International Airlines Group (total disclosed pension liabilities are almost three times its equity market value), BAE Systems, RSA, Royal Bank of Scotland and BT.

In the last 12 months, the total disclosed pension liabilities of the FTSE 100 companies have risen from £515 billion to £557 billion. A total of 15 companies have disclosed pension liabilities of more than £10 billion, the largest of which is Royal Dutch Shell, with £54 billion. A total of 18 companies have disclosed pension liabilities of less than £100 million, of which 12 companies have no defined benefit pension liabilities.

The decline in ongoing DB pensions continues. We estimate that after allowing for the impact of changes in assumptions and market conditions, the underlying reduction in ongoing DB pension provision is a further 6% in the last 12 months alone. Only 60 FTSE 100 companies are still providing more than a handful of current employees with DB benefits *(i.e. ignoring companies that are incurring ongoing DB service costs of less than 1% of total payroll)*. Of these, only 23 companies (i.e. less than a quarter of the FTSE 100) are still providing DB benefits to a significant number of employees *(defined as incurring ongoing DB service cost of more than 5% of total payroll)*.

Charles Cowling, Director, JLT Employee Benefits, comments: "Attempts by companies to stem the growth of their pension liabilities by closing defined benefit schemes continue but they have had minimal impact on deficits due to difficult economic conditions. The decline in DB pension provision continues and is concentrated in fewer and fewer companies. The top 10 pension schemes by liability make up one quarter of total private sector UK pension scheme liabilities. This poses challenges for the Pensions Regulator, which in its latest statement on pension scheme funding suggests it is going to pay even closer attention to those pension schemes that represent the biggest risks.

"Pension liabilities can have a considerable impact on corporate decision-making and their importance in the boardroom depends on the relative size of the pension scheme. BT is a case in point – the fact that it may be forced to increase its pension contribution could potentially impair its ability to compete with BSkyB over sports broadcasting rights. The case of BT also provides evidence that balance sheet volatility, caused by pension schemes, flows through to share price volatility with the company's share prices falling 2.4% on news of the potential increase in pension deficits.

"The Pension Regulator's new funding code for DB schemes published on 10 June is to be welcomed for it reflects the Regulator's new statutory objective around 'sustainable growth'. This will set the tone for a supportive relationship between trustees and sponsors to allow deficits to be cleared as quickly as the Sponsor can afford to, without irreparably damaging the sponsor's growth and investment plans along with its long term ability to contribute to the pension scheme.

"Recent changes to IAS19 are likely to have a noticeable impact on pension funds and their sponsors. The requirement for companies to disclose more detailed information on pension assets will help investors to understand the risks to which employers are exposed. In the P&L, the expected return on assets will be replaced by the discount rate applied to the assets, so there will be no P&L benefit from holding outperforming assets. If shareholders see none of the upside of pension scheme investment in equities and all of the downside, there will inevitably be further pressure on company management to encourage moves towards lower volatility investments in pension schemes."

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Notes to Editors

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About JLT Employee Benefits

JLT Employee Benefits is one of the UK's leading employee benefit providers offering a wide range of benefit and pension services, including administration, actuarial and pension consultancy, investment, Self Invested Personal Pensions (SIPPs) and Small Self Administered Schemes (SSASs) administration, flexible benefits, healthcare, benefit communication and financial education.

JLT Employee Benefits employs over 2,200 professionals throughout the UK and in 2013 had revenues of £172m in UK & Ireland.

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