Pension Scheme Deficits

JLT PENSION CAPITAL STRATEGIES ***Press Release***

Latest Monthly Update

London, 31 December 2011

JLT Pension Capital Strategies (PCS) has updated its monthly index showing the funding position of all UK private sector defined benefit (DB) pension schemes under the standard accounting measure (IAS19 / FRS17) used in company reports and accounts.

As at 31 December 2011, PCS estimates the total DB pension scheme funding position as follows:

At 31 December 2011	**Assets**	**Liabilities**	**Surplus / (Deficit)**	**Funding Level**
FTSE 100 Companies	£423bn	£479bn	(£56bn)	88%
FTSE 350 Companies	£492bn	£559bn	(£67bn)	88%
All UK Private Sector Pension Schemes	£1,018bn	£1,164bn	(£146bn)	87%

For comparison, the corresponding figures as at 31 December 2010 are as follows:

At 31 December 2010	***Assets***	***Liabilities***	***Surplus / (Deficit)***	***Funding Level***
FTSE 100 Companies	*£411bn*	*£447bn*	*(£36bn)*	*92%*
FTSE 350 Companies	*£469bn*	*£511bn*	*(£42bn)*	*92%*
All UK Private Sector Pension Schemes	*£983bn*	*£1,057bn*	*(£74bn)*	*93%*

Charles Cowling, Managing Director of PCS comments:

"2011 has been a difficult year for companies and their pension schemes. The true extent of the systemic problems that exist are hidden by accounting disclosures which do not reveal the full extent of the pain being felt by many companies with large pension obligations. The accounting rules dictate assumptions (based on high quality corporate bonds) for calculating pension liabilities which are far less onerous on companies than assumptions used by pension scheme trustees and encouraged by the Pensions Regulator. This means that cash demands from trustees are likely to far exceed the deficit funding which the accounting figures will suggest.

Unfortunately 2012 does not look like being any easier for companies and their pension schemes. There is no relief in sight from the problems in financial markets and to make matters [much] worse there is the possibility of a new solvency directive for pension schemes from Europe which could drive a number of companies and their pension schemes into insolvency. 2012 is also likely to see a continuation in the trend for Private Sector final salary pension schemes to be closed to all employees. By the end of 2012, we predict that the large majority of Private Sector employees will no longer have access to such generous pension arrangements, which will become the preserve of the privileged Public Sector.

If there is to be any light at the end of the tunnel, we need a fundamental change in the attitude to managing pension liabilities. There needs to be a significant transfer of pension liabilities away from companies who can no longer afford to manage such risks on their balance sheet (particularly when they have so little control over them). This transfer needs to take place both to insurance companies (we predict another big increase in buy-out activity in 2012) as well as, where appropriate for the individual member, directly to members.

A Government and Pensions Regulator which have, so far, been negative towards enhanced transfer values, need to recognise that we urgently need a system which encourages the payment of fair transfer values to members (which means far more generous transfer values than most trustees are currently paying), irrespective of whether any cash is involved. With the assistance of independent financial advice and where it is in the individual member's interests, this would then allow members to take control of their own pensions on fair and reasonable terms and start to ease the burden on embattled employers."

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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.

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