JLT PENSION CAPITAL STRATEGIES

Press Release

JLT Pension Capital Strategies: Schemes need more diversification options as liabilities increase due to fall in bond yields

London, 11 March 2013 – Research from JLT Pension Capital Strategies (PCS), which specialises in corporate consulting and pension scheme de-risking, reveals that the total deficit of FTSE 100 defined benefit (DB) pension schemes has improved by £8 billion from the position 12 months ago, resulting in the total deficit of FTSE 100 pension schemes at 30 December 2012 estimated to be £50 billion.

The trend towards de-risking continues to gather pace and, despite the equity rally, pension funds are increasing their bond weighting. The average pension scheme asset allocation to bonds now stands at 56%, up from 50% a year ago and 33% six years ago. A number of companies are reporting significant individual changes to the investment strategies of their company pension scheme: three FTSE 100 companies changed their bond allocations by more than 10%. The decline of DB pensions continues, and we estimate the underlying reduction in ongoing DB pension provision to be approximately 15% in the last 12 months alone.

The research also shows that year on year there has been a reduction in deficits, spurred on in part by the equity market rally, but also the large capital injections made by companies into their schemes. However, liabilities continue to rise; in the last 12 months, the total disclosed pension liabilities of the FTSE 100 companies have risen from £444 billion to £475 billion. Last year saw total deficit funding of £12.7 billion, up from £11.3 billion from the previous year. BT led the way with a massive deficit contribution of £1.9 billion, but 63 other FTSE 100 companies also reported significant deficit contributions in their most recent annual report and accounts.

Only 16 companies disclosed a pension surplus in their most recent annual report and accounts; 71 companies disclosed pension deficits. However, JLT Pension Capital Strategies estimates that only 13 companies would disclose a surplus if they had a year end of 31 December 2012.

The major concern is the significant number of FTSE 100 companies where the pension scheme represents a material risk to the business. Five FTSE 100 companies have total disclosed pension liabilities greater than their equity market value; this is, however, a reduction from nine companies as at September 2012. The latest figures show International Airlines Group's total disclosed liabilities to be almost five times their equity market value, despite an improvement on the position in the previous quarter. BAE Systems and BT have disclosed pension liabilities that are more than double their equity market value.

Charles Cowling, Managing Director of JLT Pension Capital Strategies, comments:
"Whilst the overall deficit position of the FTSE 100 has improved slightly on the previous year, a £50bn deficit still represents more than the whole 2013 UK defence budget and, consequently, it is imperative that companies continue to seek new ways of plugging these large funding gaps.

"What is clear is that the so-called 'great rotation' out of bonds into equities is a retail investment phenomenon and that the inverse rotation is very much at work across UK pension schemes. We could now be seeing the end of the George Ross-Goobey led cult of pension scheme investment in equities, as the pressure to find high-yielding fixed-income investments mounts. However, as yields continue their downward trajectory on the back of continued investor demand (despite today's announcement from the Bank of England of no change to the Quantitative Easing programme) UK pension funds need to find a way to diversify away from traditional methods of risk-averse investment through corporate bonds and gilts. As a matter of urgency the Government must develop mechanisms that provide low-risk opportunities with an attractive yield – bond-like structures, such as asset-backed securities or special "infrastructure bonds" which would benefit pension schemes at the same time as providing funding for much-needed PFI projects."

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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.

As part 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

Editor's Notes:

About JLT Benefit Solutions Limited

JLT Benefit Solutions Limited (JLT) 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), Small Self Administered Schemes (SSASs) flexible benefits, healthcare, benefit communication and financial education.

Authorised and regulated by the Financial Services Authority, JLT is part of the JLT Employee Benefits Group which through the recent acquisition of Alexander Forbes Consultants & Actuaries, now employs 2,000 professionals. In 2011 JLT Employee Benefits had revenues of some £137m.

Other pensions and employee benefits companies within the JLT group of companies include: Profund Solutions Limited, JLT Wealth Management Limited, JLT Investment Management Limited and Independent Trustee Services Limited.

JLT Benefit Solutions Ltd is part of Jardine Lloyd Thompson Group plc.

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