



PENSION CAPITAL STRATEGIES

PENSION CAPITAL STRATEGIES FTSE 100 REPORT SHOWS COMPANIES CONTINUE TO DE-RISK PENSION SCHEME LIABILITIES THROUGH BUYOUT OPTIONS AND INVESTMENT STRATEGY

London, 28th July, 2008 – Pension Capital Strategies Limited (PCS) published its full FTSE 100 Report in association with Numis Securities today. The report estimates that whilst the combined deficit in FTSE 100 pension schemes at 30 June 2008 stood at £8 billion (a deterioration of £12 billion on the position 12 months ago), the total buyout solvency deficit of those schemes – the amount needed to secure members benefits in full with an insurer – has improved to an estimated £110 billion from £200 billion 12 months ago.

Charles Cowling, Managing Director, PCS, says, "In part, this is due to insurance company prices becoming significantly more competitive with the arrival of several new entrants to the market. Lonmin became the first FTSE 100 company to offload its pension liabilities to an insurance company. Friends Provident also completed a £350 million deal with Norwich Union to cover its current pensioners. The PCS publication – 2008 Survey of Analysts' Views on Pensions – showed that 72% of analysts in the survey were neutral to such moves (despite the apparent cost). The PCS Buyout Market Watch, July 2008, indicates that many more buyouts are expected to materialise in the next 18 months."

There is significant evidence emerging of moves in the last year to reduce the mismatching of assets to liabilities.

Charles Cowling continues, "14 FTSE 100 companies increased their bond allocations by more than 10%, with Rolls-Royce alone switching more than £3 billion into bonds. Overall, the average pension scheme asset allocation to bonds has increased from 35% to 40% in just 12 months. This represents the largest 12-month shift in investment strategy for 20 years.

"In total, the amount contributed to FTSE 100 company pension schemes in their last financial year was £12.6 billion, down from £14.3 billion in the previous year. This is more than the £7.9 billion cost of benefits provided to employees during the year. It therefore represents £4.7 billion of funding towards reducing pension scheme deficits."

Whilst many companies are more proactively managing their pension scheme liabilities, the issue of irrecoverable surpluses and the impact of new IAS19 guidance could have a huge impact this year.

"20 FTSE 100 companies are now reporting an irrecoverable surplus. The total reported irrecoverable surplus for FTSE 100 companies is now £2.4 billion. For British Airways, the irrecoverable pension surplus is equivalent to 47% of the market value of the company. New IAS19 guidance (IFRIC14) could dramatically affect pension surpluses or deficits published in 2008 accounts. For many companies, pension funding positions have improved, so the financial significance of pension scheme deficits has reduced. However, British Airways, Invensys, BT, ITV, Royal & Sun Alliance, FirstGroup and BAE Systems all have total pension liabilities greater than their equity market value," says Charles Cowling.

The PCS report, *The FTSE 100 and Their Pension Disclosures*, published in association with Numis Securities, explores the pension disclosures of the FTSE 100 companies, as well as the steps being taken to address pension scheme deficits. To access the latest *The FTSE 100 and Their Pension Disclosures* report, please refer to the PCS website at: www.pensionstrategies.co.uk.

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Notes to Editors:**About Pension Capital Strategies**

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.pensionstrategies.co.uk