



## PENSION CAPITAL STRATEGIES

### ARE PENSION SURPLUSES NOW TOO MUCH OF A GOOD THING ASK PENSION CAPITAL STRATEGIES LIMITED

**London, 30th JUNE, 2008** – Pension Capital Strategies Limited (PCS) is concerned that changes in accounting standards are causing yet another problem for companies and shareholders – too much surplus.

Charles Cowling, Managing Director, PCS, says "This may seem like a strange problem but it is - if it is surplus locked in the pension scheme which the company and shareholders cannot touch. Such "irrecoverable" surplus could represent wasted company contributions or reflect an investment strategy which is too risky – why should shareholders allow risks to be taken in the investment strategy if they get all the grief and cost of any deficit on the downside, but none of the surplus on the upside".

The latest PCS analysis of the pension schemes of the FTSE100 shows that a staggering 20 companies are now reporting an irrecoverable surplus. Total reported irrecoverable surpluses in the FTSE100 now total £2.4 billion. This is a huge increase of approximately 150% over the position just 12 months ago.

The top ten largest reported irrecoverable surpluses in the FTSE100 are as follows:

<b>British Airways</b>	<b>£1,159 million</b>
<b>Cable &amp; Wireless</b>	<b>£405 million</b>
<b>Scottish &amp; Southern Energy</b>	<b>£211 million</b>
<b>Thompson Reuters</b>	<b>£119 million</b>
<b>Rolls-Royce</b>	<b>£114 million</b>
<b>Compass</b>	<b>£92 million</b>
<b>Anglo American</b>	<b>£68 million</b>
<b>BHP Billiton</b>	<b>£55 million</b>
<b>British American Tobacco</b>	<b>£44 million</b>
<b>Associated British Foods</b>	<b>£34 million</b>

In the case of British Airways the irrecoverable pension surplus is equivalent to over 40% of the market value of the company.

The accounting standard which governs the reporting on pension schemes for the large majority of companies is IAS19. This standard treats the pension surplus or deficit as a balance sheet asset or liability of the company. However, it also makes it clear that there are restrictions on the asset that can be taken to the balance sheet

Charles Cowling continues, "The maximum surplus that can be treated as an asset on a company's balance sheet is the value of possible future refunds and reductions to future contributions. However, for most pension schemes refunds of surplus funds are unlikely to be possible. Moreover, the number of employee members of pension schemes is dwindling as schemes are closed to new entrants and, increasingly, closed to all future accrual. This could limit the value of any reduction in future contributions. All this means that the maximum surplus that can be treated as a balance sheet asset may well be limited".

"Companies should therefore check that their pension investment strategy continues to make sense from a shareholder perspective. If it does not, there needs to be an urgent discussion with the trustees on the investment strategy. Increasingly now, companies and pension schemes are in an "end game" scenario. For large numbers of companies the big picture strategy should be to manage the pension liabilities downwards as fast as possible, typically using a combination of transfer value exercises for deferred pensioners and buyouts for pensioners. Shareholders will want to know that companies are planning to deal with the "problems" of irrecoverable surpluses and have a clear "end game" strategy in place" concludes Charles Cowling.

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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](http://www.pensionstrategies.co.uk)