



PENSION CAPITAL STRATEGIES

FTSE100 PENSION SCHEMES SADDLED WITH £50 BILLION DEFICIT

- *Research Shows Loss Of £86 Billion In Past 12 Months*
- *Effects Of Quantitative Easing Exacerbate Schemes' Flight From Equities*

London, 11 May 2009 – Pension Capital Strategies Limited (PCS) has updated its regular analysis of the pension schemes of the FTSE 100 to the end of first quarter of 2009, and can reveal that its latest estimate of the total deficit in the pension schemes of the FTSE100 amounts to £50 billion at 31 March 2009. This represents a massive loss of £86 billion on the position a year ago.

Moreover, the situation for pension schemes could be a lot worse than these figures suggest, as Charles Cowling, Managing Director, PCS, explains "Through a quirk in accounting rules, pension liabilities are valued using the yield on AA bonds. The economic crisis has sent AA bond yields soaring, depressing the discounted value of pension liabilities in the accounts when the reality is that companies' pension commitments have not got smaller. Either a change in the accounting standards or a correction in AA bond markets could see the impact of this "quirk" reversed, increasing liabilities significantly - possibly by as much as £100 billion for the FTSE100".

The other striking feature of the latest research from PCS is that pension schemes' flight out of equities into bonds continues and appears to be accelerating. The average pension scheme asset allocation to bonds has increased to 47% from 40%. This represents the largest 12-month shift in investment strategy for more than 20 years, and it comes on top of a very significant shift, from 34%, the previous year. Over just two years, therefore, bond holdings of FTSE 100 pension schemes have increased by more than a third.

Charles Cowling comments, "The massive shift of pension scheme assets out of equities and into bonds stems not only from the recent turmoil in markets but it is an inevitable consequence of successive Government legislation demanding more and more

guarantees and security from companies and their pension schemes. We commented earlier in the year that the "final final nail" has now been hammered into the final salary pension scheme coffin, and this latest research confirms this alarming conclusion. Companies are now preparing to close down pension schemes for good. We believe that within the next 2 to 3 years the large majority of pension assets will be in bonds as companies move towards the final end game of offloading pension liabilities and the winding-up of pension schemes".

The PCS report, *The FTSE 100 and Their Pension Disclosures*, 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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Enquiries:

Charles Cowling
Isabella Young

07920 834047
020 7558 3387/07920 586032

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