



PENSION CAPITAL STRATEGIES

ACCOUNTANCY QUIRKS REVEAL £18BN PENSION SURPLUS BUT HIDE LONGER TERM INVESTMENT CONCERNS, SAYS PENSION CAPITAL STRATEGIES

London, 1 October 2008 – Pension Capital Strategies Limited (PCS) has updated its regular analysis of the pension schemes of the FTSE 100 to the end of the third quarter of 2008 and can reveal that its latest estimate of the total surplus in the pension schemes of the FTSE100 amounts to £18 billion at 30 September 2008. This compares with a £2 billion deficit 12 months ago and a deficit of £8 billion at the end of June.

This analysis would suggest that pension schemes have enjoyed a good third quarter in 2008, but Charles Cowling, Managing Director, PCS, warns against being complacent. "In the last few days and weeks we have seen unprecedented conditions in financial markets. The fact that accounting rules may show a positive impact on pension schemes from this market turbulence does not mean that these are easy times for pension schemes.

"We have seen an improvement in pension surpluses because the accounting value of the pension liabilities has fallen even more than the pension scheme assets. But this is because the under accounting rules the value of the liabilities is linked to the value of high quality (AA) corporate bonds. A large number of AA bonds are in the banking and financial sector and have been hit hard by the recent dramatic problems."

Charles Cowling continues, "The fact that AA bonds of banks and other financial institutions have fallen sharply is not a good reason to regard your pension liabilities as suddenly being a lot lower. It is just a quirk of the accounting rules that is hiding the problems that many pension schemes currently face.

"It has been a very difficult time for pension schemes. In the last year we have seen one of the largest ever shifts by pension schemes into lower risk investments (bonds now make up 40% of pension scheme assets and that percentage is rising). But much of the good risk management work that has been done by companies and trustees has been

undone by these dramatic markets. Even with the recent move to lower risk investment strategies, pension schemes are seeing ever-increasing volatility in funding levels".

Moreover, PCS has seen evidence that the growing trend by companies and pension schemes to consider buyout solutions (offloading pension liabilities altogether, typically with an insurance company), has also been hit by the problems in financial markets.

Charles Cowling concludes, "We are aware of a number of large buyout deals that have been cancelled or postponed in the last few weeks. We believe this is largely because of the difficult financial conditions – a buyout deal that might have been attractive if the pension scheme had a surplus may become far less attractive if the pension scheme is in deficit. However, we also believe that the recent trauma in markets has shaken the confidence of some trustees. Where once trustees would not have questioned the strength and stability of our banks and insurance companies, now they are beginning to ask some very difficult questions.

"On the surface, therefore, pension scheme funding problems may be hidden by deficient accounting rules. But the task of de-risking UK pension schemes continues to be very challenging. Moreover, unless there is a significant improvement in markets we expect pension risk and funding problems to become more apparent in coming months, possibly straining both shareholders' funds and the Pension Protection Fund (PPF)".

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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