



## PENSION CAPITAL STRATEGIES

### **2008 WAS THE WORST EVER YEAR FOR THE FTSE 100 INDEX. IT MAY NOT LOOK SUCH A BAD YEAR FOR THEIR PENSION SCHEMES, BUT THERE ARE LONG TERM CONCERNS, WARNS PENSION CAPITAL STRATEGIES**

**London, 2 February 2009** – Pension Capital Strategies Limited (PCS) has today published its latest report on the pension schemes of the FTSE 100 as at 31 December 2008 and can reveal that its estimate of the total surplus in the pension schemes of the FTSE100 amounts to £12 billion at 31 December 2008. This compares with an £8 billion deficit at the end of 2007.

This analysis would suggest that pension schemes have enjoyed a good 2008, but Charles Cowling, Managing Director, PCS, warns otherwise "Pension funding positions in company accounts have improved in 2008, largely due to deficiencies in the accounting rules, as significant asset losses in pension schemes have been matched by reductions in the accounting value of pension liabilities. "

Under the accounting rules the value of a company's pension liabilities is linked to the value of AA bonds. As AA bonds have fallen in value in the credit crunch, so have the accounting value of pension liabilities.

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

There has been a noticeable growth in the number of FTSE 100 companies where the pension scheme now represents a material risk to the business. At 31 December, 2008 13 FTSE 100 companies had total pension liabilities greater than their equity market value. For British Airways, Invensys, BT, Lloyds TSB and HBOS (now the Lloyds Banking Group), total pension liabilities are more than double their equity market value. Since 31 December, both Royal Bank of Scotland and Barclays have also seen the significance of the relative size of their pension liabilities grow considerably.

The importance of this was highlighted by a recent warning from Moody's on the impact of pension liabilities on credit ratings.

PCS estimates that at 31 December 2008 if pension liabilities had been valued on more "normal" levels of credit spreads (with AA bond discount rates at gilts + 80 to 100bps), then the total deficit in the pension schemes of the FTSE100 would amount to ~£100 billion. On average companies would see a 30% increase in their pension liabilities. This would have a major impact on those companies with the largest pension schemes relative to the size of the company. Those most affected / at risk can be seen in the table below:

	<b>Company size at 31 December, 2008</b>	<b>30% increase in pension liabilities as a proportion of Company equity</b>
	<b>(£m)</b>	<b>value*</b>
British Airways	2,073	196%
Invensys	1,390	106%
BT	10,468	99%
Lloyds TSB	7,526	67%
HBOS	3,731	61%
Royal Bank of Scotland	19,491	42%
Barclays	12,842	41%
Marks & Spencer	3,386	40%
FirstGroup	2,091	40%
BAE Systems	13,287	39%
<b>Totals</b>	<b>76,285</b>	<b>58%</b>

\* based on latest reported pension liabilities and Company equity value at 31 December, 2008

Charles Cowling concludes, "The companies in the above table can ill afford to see a dramatic revaluation of their pension liabilities. Moreover the position has worsened since 31 December, particularly for the major banks. With the risks represented by their pension schemes becoming ever more significant, it is not surprising that many companies are looking at strategies for exiting their pension liabilities. We believe that over the next five years the large majority of private sector companies will have closed their final salary schemes to all employees and implemented strategies aimed at getting rid of their historic pension liabilities which are now causing them so much pain. "

The full report, produced in association with **Numis Securities**, is available for free download at [http://www.pensionstrategies.co.uk/media\\_and\\_research/latest\\_research.htm](http://www.pensionstrategies.co.uk/media_and_research/latest_research.htm).

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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)