



PENSION CAPITAL STRATEGIES

IN THE WORST EVER YEAR FOR THE FTSE 100 INDEX, 2008 WAS NOT AS BAD FOR THEIR PENSION SCHEMES, BUT THERE ARE LONG TERM CONCERNS, SAYS PENSION CAPITAL STRATEGIES

London, 2 January, 2009 – Pension Capital Strategies Limited (PCS) has updated its regular analysis of the pension schemes of the FTSE 100 to the end of 2008 and can reveal that its latest estimate of the total surplus in the pension schemes of the FTSE 100 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 against being complacent, "In the last few months 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 under the accounting rules the value of the pension liabilities is linked to the value of AA bonds. As AA bonds have fallen in value 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.

"It has been a 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 many 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 the dramatic market conditions. Even with the recent move to lower risk investment strategies, pension schemes are seeing ever-increasing volatility in funding levels".

"Perhaps the biggest concern though is how the general economic difficulties are going to affect sponsors of pension schemes. Many trustees will be nervous about their sponsoring employer getting into difficulty - and if a company is getting into difficulty then now will not be a good time for the Board to receive a request from the Trustees for additional funding. However with a large increase in the number of insolvencies predicted in 2009, it is inevitable that there will be many pension schemes winding-up with deficits and members losing benefits. Inevitably too, many of these pension schemes will end up in the Pension Protection Fund (PPF)."

Charles Cowling concludes, "There must be a long term concern that as private sector schemes are closed and wound up, the burden of the PPF will fall on fewer and fewer schemes and employers. If the liabilities of the PPF do grow significantly over the next few years, we may see many trustees and employers rushing for exit strategies to avoid paying for all those schemes that have failed."

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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