

#### Half of pension schemes 'to shut'

About half the final-salary pension schemes in the private sector will have closed to existing employees within the next three years, a survey suggests.

Actuarial firm Watson Wyatt surveyed more than 250 employers, many of them large, in July about their intentions.

While about 75% of all final-salary schemes are shut to new recruits, only about 9% are closed to current staff.

But this year has seen a flurry of employers closing their pension schemes to all further contributions.

Watson Wyatt said that if its prediction of many more closures was borne out, about one million people currently paying into a final-salary scheme would be forced to join an alternative pension plan by 2012.

"When employers are cutting jobs and freezing pay, pension arrangements will inevitably be put under the microscope," said Rash Bhabra of Watson Wyatt.

"At the same time, companies are confronting much bigger deficits.

"These trends also get their own sense of momentum as companies benchmark themselves against their competitors," he added.

#### Epidemic

Mr Bhabra said the number of pension schemes closing to existing staff could soon accelerate rapidly.

With ballooning deficits putting pressure on the finances of both employers and pension schemes, there have been a number of high-profile closures announced or suggested this year.

Among them have been Barclays, Dairy Crest, Fujitsu, IBM and Morrisons.

The giant Royal Mail scheme is also under potential threat of closure because of its huge deficit.

The overall situation has become worse because of falling share prices and the rising cost of paying for pensions in the future.

According to the latest calculation by the Pension Protection Fund (PPF) the collective deficit of the UK's 7,400 private sector schemes currently stands at £158bn, compared with a deficit of just £19bn in July 2008.

Last week, accountancy firm KPMG predicted that nearly a quarter of the biggest companies on the UK stock market would be unable to pay off their pension deficits from their spare cash.

#### Less generous

Watson Wyatt said that the number of schemes still open to new joiners would dwindle to just 2% by 2012.

And most of those firms who expected keep their schemes open to current staff would make them less generous.

"When defined-benefit schemes began to close to new entrants, existing members thought they would be unaffected as long as they stayed with the same employer," said Mr Bhabra.

"Those still in defined-benefit schemes have been protected from the recent stock market downturn, but even they are now going to have to live in a world where it is not the employer's problem if the money that was put aside will not buy the pension it was supposed to," he added.



Pension scheme closures have led to protests at some employers

**'Tipping point' for pension plans**

Nearly a quarter of the biggest companies on the UK stock market will be unable to pay off their pension deficits, a report says.

The accountancy firm KPMG says 22% of the firms in the FTSE 100 share index will not have enough spare cash to make the necessary payments.

It says this will prompt many more big firms to close their final-salary schemes to existing members of staff.

Their pension scheme finances are now at a "tipping point", KPMG says.

As an illustration of the burden of making the extra cash payments, KPMG calculates that FTSE 100 firms are now paying as much into their schemes to pay off past deficits as they are paying in contributions for current staff.

See the state of the UK's private sector final salary schemes

Mike Smedley, pensions partner at KPMG, predicted that within five years, £4 out of every £5 being paid in would be to clear past deficits.

"It is unprecedented for companies to be spending as much or more on their defined-benefit pension benefits for previous employees than for current staff," Mr Smedley said.

"This is likely to result in more and more companies opting to close defined-benefit schemes altogether," he added.

**Closing schemes**

The rising cost of financing traditional final-salary pension schemes has prompted more firms to close them this year to existing staff, not just to new recruits.

Among the companies doing so, or thinking of doing so, have been Barclays, Morrisons, Fujitsu, IBM and Dairy Crest.

The unresolved crisis in funding at the Royal Mail pension scheme has led to suggestions from senior management there that they too may close the scheme to all the UK's postal staff.

According to KPMG, the combined pension deficit of the FTSE 100 index firms stood at £80bn at the end of June this year, compared with just £20bn at the end of 2007. "Just under a quarter of the FTSE 100 are now not able to pay their pension deficits over any reasonable timeframe purely from discretionary cash flow," KPMG's report says.

"Over 2008, significant falls in world stock markets contributed to increases in pension deficits. At the same time the economic downturn has seen revenues and company asset values fall," the report pointed out.

**Ballooning deficits**

Under laws supervised by the Pensions Regulator, pension scheme trustees and employers have to agree a plan for the employer to pay off any deficit in its pension fund, usually within 10 years.

But some employers who have done this have still found that their deficits have continued to rise.

Billions of extra pounds have been pumped into company pension funds in the past few years to pay off deficits, but poor investment returns and rising longevity have caused them to balloon further.

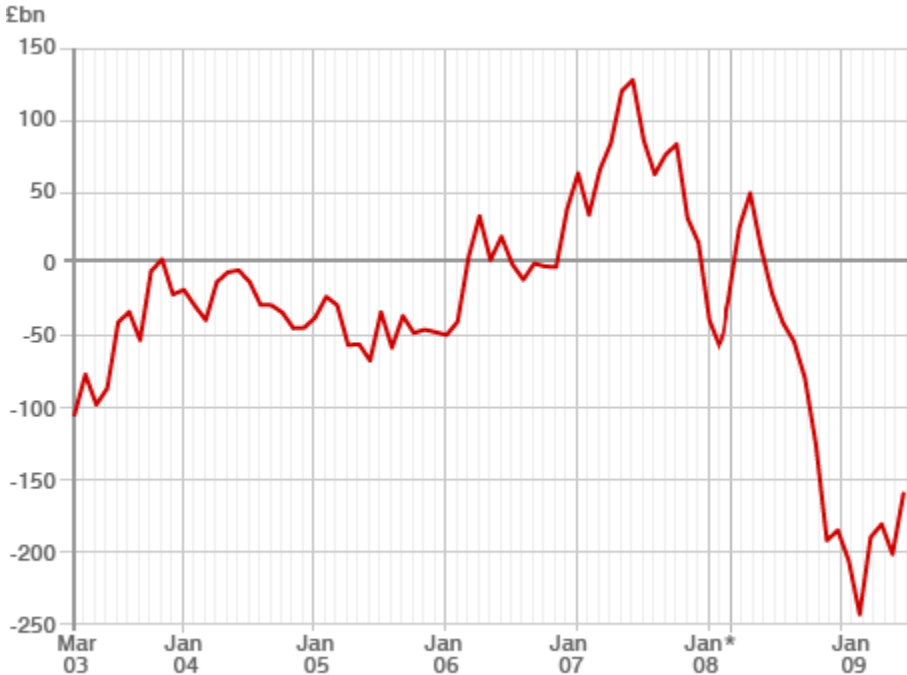
This problem was highlighted recently by both BT, whose pension deficit has doubled to £8bn in just three months, and BAE Systems, whose deficit rose by £1bn to £3.1bn in the first half of 2009.

The Pension Protection Fund recently estimated that the collective deficit of all the UK's 6,400 final salary schemes stood at £158bn.

Closing a scheme to existing staff does not necessarily resolve the employers' pension funding problem.

Deficits can still arise in the future if subsequent scheme valuations reveal that the value of its accumulated assets have fallen, or if members of the scheme are living longer than previously estimated.

**Surplus/deficit of the UK's private sector final salary pension schemes**



\*Figures from 31 March 08 are based on new actuarial assumptions

SOURCE: Pension Protection Fund



Pension scheme closures have been highly controversial among employees

“ Just under a quarter of the FTSE 100 are now not able to pay their pension deficits over any reasonable timeframe ”

KPMG

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