

# Special Report:

## UK alone in pension fund slump, says OECD

### **Britain is the only country in the Western world to have seen an increase in the deficits faced by its biggest pension funds, it has emerged.**

Sharp increases in share prices have improved the outlook for pension funds in every major developed nation apart from the UK, according to research from the Organisation for Economic Co-operation and Development.

The news coincides with figures which reveal that the deficits in Britain's largest privately-sponsored defined benefit schemes have soared by £15bn to £77bn, wiping out almost all the gains achieved by market increases the previous month.

It underlines the challenges facing Britain's long-term savings industry, even as Britain attempts to rebalance away from its reliance on debt and to encourage saving.

OECD research has shown that the average level of pension deficits for defined benefit, or final salary, schemes, throughout the developed world improved from 24pc of their total obligations in December 2008 to 18pc this June. However, the UK alone saw its comparable deficit increase from 9pc last December to 13pc in June 2009.

The deterioration is largely an unhappy consequence of quantitative easing (QE). Pension funds' deficits depend on two factors: the value of their assets, much of which are equities, but also the potential amounts they will have to pay out when people retire in the future. These future liabilities have been pushed higher as QE has depressed yields on gilts and other bonds.

However, it is not merely QE that is depressing pension fund balance sheets. According to research published today by Aon Consulting, the deficits of 200 major final salary schemes in the UK rose from £62bn to £77bn in October, with an increase in inflation expectations to blame.

Sarah Abraham, consultant and actuary at Aon Consulting, said: "Many investors believe that the Government will be unable to deliver its annual inflation target of 2pc. This increases pension scheme deficits because most pension schemes promise to pay benefits that are linked to inflation. The position is very volatile because if this lack of confidence in achieving inflation targets worsens, then pension schemes can expect deficits to increase further.

"On the other hand, if the market had confidence that inflation will remain under 2pc, pension scheme deficits would decrease by £60bn."

Article adapted from original, first published by Edmund Conway, The Daily Telegraph, 01 Nov 2009