

# Growing deficits in British company pension funds are a 'beast that cannot be tamed'

## Construction Services Group DS Smith has been revealed as the most vulnerable to adverse pension movements

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Ballooning pension fund deficits in many British companies were likened to "the beast that cannot be tamed" and many midcap stocks appeared even more vulnerable than blue chips, according to a new study.

DS Smith, the packaging group and a member of the FTSE 250, was revealed as the most vulnerable to adverse pension movements, by one measure — the size of its pension deficit as a percentage of its total market value.

Interserve, the construction services group, WS Atkins, the project consultants, and Go-Ahead Group, the transport operator, also appeared exposed on this measure.

All four had larger proportionate deficits than either BT or British Airways, two FTSE 100 companies regarded as particularly vulnerable because of their past pension promises.

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Barclays Capital, which produced the study, warned that pension funding levels were often far worse than published numbers and that sponsoring employers would have to make higher

contributions for years.

One unfortunate side effect of quantitative easing, the Bank of England's attempt to loosen monetary policy further, was that it was pushing down bond yields — which had the effect of boosting pension fund liabilities.

Yields spiked higher in December, enabling companies with December year ends to report relatively healthy pension positions, BarCap said.

"However, since then, and particularly as a result of quantitative easing, this situation has reversed sharply. Companies are now reporting, and we believe will continue to report, worsening pension deficits while QE continues to keep bond yields low."

According to other pension consultants, companies with a March year-end have been hit by plunging bond yields and the nadir of global equity markets.

Those with a March strike date for their triennial funding reviews could be especially hard hit, as future funding requirements will be based on the health of their schemes at that time.

Scores of companies are now planning to close their schemes for existing members, having already closed them to new recruits. A recent Watson Wyatt poll of large private-sector employers suggested that a million people currently accruing benefits will be disadvantaged over the next three years.

But even this may not really help sponsoring employers, BarCap said. The high cost of closure, governance complexity and long-term nature of pensions meant that the short-term benefit would be minimal.

DS Smith had no immediate comment on the research. In June, it revealed that its pension deficit had risen by £83.5 million to £138 million. The fund was closed to new members in April 2005. It halved the dividend and injected £15.6 million into the scheme last year.

BarCap also conducted the same analysis on large European companies: Bank of Ireland, Swiss Life, Allied Irish Banks and Lufthansa, the German airline, were revealed as having the largest deficits relative to their market values.

BarCap emphasised that its analyses were no more than a static indicator of whether pension deficits could be material, adding that pension risk could not be judged solely on the reported deficit.

A study by KPMG last week found that FTSE 100 companies were set to spend as much plugging pension deficits this year as they set aside to meet future benefits for current staff.

The research said that a tipping point would come during the coming 12 months in which the cost of trying to close the funding shortfalls of the companies' defined benefit schemes would be equal to the money they set aside to cover new pension benefits earned by workers.