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Letters

Time for more realism from pension fund trustees

From Mr Paul Jayson.

Sir, Your article "Pension trustees warned of employers going under" (October 21) is just the tip of the iceberg. Pension liabilities and costs are recognised in the accounts of the employer company based on the yield on "high-quality corporate bonds". However, what is meant by this is not well defined.

As the article rightly explains, the current financial crisis has led to a general increase in yields on corporate debt as measured by various indices, but this is mainly due to the dominance of companies in the financial sector on those indices. Taking account of these higher yields has led to a reduction in the assessed value of pension liabilities.

Pension schemes' finances are looking rosy even when the stock market has reduced dramatically and sponsoring employers are struggling. However, stripping out the effect of the financial sector leads to a very different picture, and I would argue that a more realistic position should be shown in the employer's accounts to reflect this risk/exposure.

Trustees, advised by their actuaries, are hopefully taking a more realistic view when it comes to funding their schemes and agreeing realistic contribution schedules from their sponsors, taking account of what can be afforded on a prudent basis.

Meanwhile, the new powers of the Pensions Regulator to impose a contribution demand where an employer's actions (or failure to act) is held to have had a materially detrimental effect on the pension scheme serves as a stark reminder that employers need to take their pension schemes very much into account when running their businesses.

It is not clear how giving employers a false sense of security about their pension scheme's liabilities helps them act responsibly.

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Rising risk of default pushed up the typical yield of such bonds from 6.5% to 7.3% last month, but Deloitte is advising its clients to calculate their liabilities using a discount rate of around 5.7%.

Consultancy firm Watson Wyatt recently estimated that FTSE-100 companies had a surplus of £12bn at the end of September, but only because they were including what it called "significantly higher AA-rated corporate bond yields that have made liabilities appear smaller".

Robbins added that the recent sharp fall in markets had sliced around 20% off the value of pension assets.

"UK pension schemes are addicted to equities, with around 60% of their assets in equities, and that is too high," he said. "Pension scheme deficits could have been anywhere between £100bn and £200bn, but it came back quite a bit on Monday.

"Even with that recovery, deficits would still be as high as £100bn."

The Pension Protection Fund warned last week that the recent sell-off had increased its potential liabilities by 50% in the space of a few days.

Paul Hamilton, at consul-tant Barnett Waddingham, commented: "The PPF potentially

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