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Market rally fails to lift worst-hit pension funds

By Ellen Kelleher
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The recent rise in share prices has failed to shrink the deficit of private companies' defined benefit pension schemes. The combined pension deficit of the 200 largest schemes offered by unlisted employers remained at £73bn this month, according to Aon Consulting – about equal to June's figure, but more than nine times the £8bn shortfall reported in April.

Actuaries attribute the deficit to lower corporate bond yields. If the yields on these bonds fall further, deficits could grow by another £40bn, according to Aon.

"Equity market gains have not been substantial enough to offset the falls in corporate bond yields, meaning that liabilities have been growing faster than assets can recover, therefore pushing up deficits," warned Sarah Abraham, an Aon actuary.

"As the economy recovers, employers will have to hope that equity values rise faster than corporate bond yields fall or they may need to prepare themselves for some of the worst year-end accounting results on record."

Concerns over deficits are likely to encourage those enrolled in defined-benefit schemes to consider transferring their funds into a self-invested personal pension (Sipp) as the maximum payout awarded under the government's pension protection fund to those 65 or over is less than £30,000.

News of the setbacks for company pensions followed a report by the retirement planning website howmuchdoineedtoire.co.uk showing that a number of large pension funds marketed by prominent banks and life insurers offer minimal long-term returns.

Three of the 10 worst performers are balanced funds, which have seen a surge in interest from cautious investors looking for stable returns.

The Abbey Equity fund lost 6.6 per cent of its value in the last decade; the Friends Provident UK equity fund is down 5.28 per cent, and Lloyds TSB's balanced managed fund returned only 10.24 per cent over the period, according to Morningstar. In contrast, the FTSE 250 gained 74.7 per cent in the last 10 years.

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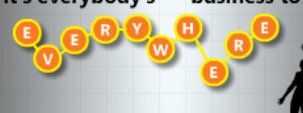


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