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## **Pension fund deficits hit £195bn**

**The collective deficit of the UK's final salary pension schemes shot up in December to £195bn, according to the official pension scheme safety net.**

The Pension Protection Fund (PPF) said the deficit rose by 43% from the £136bn recorded at the end of November.

A year ago the 7,800 mainly private sector schemes measured by the PPF had a surplus of nearly £12bn.

The value of scheme assets rose in December but were outstripped by a rise in the cost of paying for the pensions.

"During the month of December 2008 there was a 3.6% increase in assets due to rising UK and global equities," said the PPF.

"Meanwhile, lower gilt yields in general led to an increase in liabilities of approximately 10%."

### **Share slump**

The funding of pension schemes is very volatile.

Only 823 schemes - 11% of the total - were still in surplus last month.

But as recently as March 2008 nearly 3,000 schemes had been in surplus.

The deterioration in their finances since then has been largely due to the international credit crunch, the worldwide economic slowdown and the accompanying slump in share prices.

This has gone alongside poorer return on bonds, which are used to calculate the value of the assets that pension schemes need to be able pay pensions in the future.

"Over the year to December 2008, the FTSE All Share Index fell by 32.8% and 10-year gilt yields were down by 116 basis points," said the PPF.

### **Growing risk**

The growing deficit of final salary schemes is becoming yet another financial headache for UK employers as the economy goes into recession.

Whenever a scheme is revalued by its actuaries and revealed to be in deficit, the employer is obliged to put in place a plan to restock the fund with extra payments, to bring it back into surplus, typically within 10 years.

Last month both the PPF and Pensions Regulator warned that final salary schemes were becoming riskier.

They pointed to both the declining value of scheme assets and the increasing possibility that more firms will go bust in the next year or so, leaving a hole in their pension funds.

## **£30,000 a year lost**

A decade ago, David Mellalieu expected to retire on an annual pension of more than £50,000 — but has since lost 65% of that.

The former executive of Turner & Newall (T&N), once the biggest asbestos producer, has been caught out by the Pension Protection Fund's cap on compensation.

It pays a maximum of almost £28,000 a year, but this falls the further you are from your scheme's retirement age.

Mellalieu, 59, took early retirement in 1999 but two years later T&N went bankrupt.

Then Mellalieu's pension was protected by the 1995 Pensions Act, which unlike the PPF gave precedence to those who had retired, irrespective of whether they had reached the scheme's normal retirement age and there was no cap on benefits.

The 2004 Pensions Act introduced the PPF and when the T&N pension scheme went into it, Mellalieu's pension fell from £51,000 a year to £18,000.

"The PPF rules are punitive on those who took early retirement. This was beyond my control and six years after retirement my wife and I are made to suffer," he said.

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