first actuarial

Keep Calm and Carillion – The Company's Pension Schemes Are More Secure than They Look

First Actuarial's Catherine Lockyer sheds light on the doom and gloom surrounding Carillion's pension schemes

The recent collapse of the construction and public services contractor, Carillion plc, sent shockwaves through the British economy.

When the news broke in January, the future looked uncertain for the company's 20,000 UK employees. And as industrialists took the measure of the consequences for the country, other questions quickly emerged.

How would the Government deal with the huge infrastructure projects that Carillion had failed to complete? Who would manage the maintenance and service of hundreds of hospitals, schools and homes? And as for the thousands of smaller businesses providing services to Carillion – many of which were already struggling with 120 day invoice terms and now faced non-payment – what did the future hold for them?

But one area that should not be causing any additional worry is the future of the company's defined benefit pension schemes.

Safeguarding the Carillion pension empire

The company we came to know as Carillion was created in July 1999, following a demerger from Tarmac, through which it acquired a number of huge UK employers, including Mowlem and Alfred McAlpine. This gave the new company immediate responsibility for 13 defined benefit pension schemes.

Almost two decades later, 27,500 people continue to have benefits in schemes reliant on Carillion as sponsor, with close to half of these already receiving their pensions.

Commentators were not slow to point to problems with Carillion's pension schemes. The Guardian reported that MPs were accusing the company of trying to wriggle out of its pension obligations, for example. And The Economist asked whether pension protection was still viable, referring to 'a big hole'. All in all, the future of these schemes looked deeply uncertain, and this can only have added to the anxieties of Carillion's employees and pensioners.

The fantastic news, however, is that all of Carillion's pension scheme members have the security of the Pension Protection Fund (PPF). The PPF came into being in 2005 to pay compensation to members of eligible schemes, where companies have gone bust without enough funding in the pension scheme to cover future payments.

"One area that should not be causing any additional worry is the future of the company's defined benefit pension schemes."

It's time to take a more measured look at the prospects for Carillion pension scheme members.

Assessing the real impact on Carillion defined benefit pensions

If the outcome of work to be carried out by liquidators PwC over the coming months is that the Carillion-sponsored pension schemes enter the PPF, then members may unfortunately see some loss of value. There is a risk that future pension increases will be less than would otherwise have been expected. Those under pension age will see a 10% reduction in their pensions, and the largest pensions will be limited by a 'cap'. And of course, benefits will stop building up for the estimated 500 active members of those Carillion pension schemes that were still open to accrual.

None of this is good news for members of the pension schemes, and the impact should not be understated. However, the existence of a secure pension safety net ought to be seen by former Carillion employees as a source of calm and reassurance at a time of great uncertainty and worry.

Learning the lessons of recent pension collapses

Back in the early 1990s, members of Mirror Group pension schemes were not so fortunate. In 1991, the newspaper group itself hit the headlines when Robert Maxwell was revealed to have 'stolen' more than £400 million from 32,000 members. These were very different circumstances, and the Mirror Group and its pension scheme survived, but the stress caused to members who feared they would lose everything was enormous, and before the PPF was established, members had considerable cause for concern.

More recently, headlines concerning the fate of the BHS Pension Scheme, continued to feature members facing the loss of their entire retirement savings. However the PFF was by now in existence, waiting in the wings if needed.

Bringing us back up to date, we see what can happen when pension scheme members have only limited access to trustworthy information. At the beginning of this year we discovered that many members of the British Steel Pension Scheme had been persuaded to transfer huge sums of money into risky and dubious financial vehicles by disreputable financial advisers. As we wait to find out how many can seek redress for this blatant misselling, we can only speculate how many of them would have turned down such transfers had they fully appreciated what the PPF provides.

How much damage have irresponsible reporting and misleading information done to the confidence of UK pension scheme members over the years? Are Carillion members already easy prey for the unscrupulous advisers circling over them? Let's hope not, because there is more good news.

Finally some good news for Carillion pension scheme members

The PPF is in fact very well positioned to absorb the Carillion schemes. Pension industry estimates suggest that the combined shortfall in the schemes – calculating the potential impact according to the 'Section 179 basis' – could be as much as £0.9bn.

"How much damage have irresponsible reporting and misleading information done to the confidence of UK pension scheme members over the years?"

Substantial though that estimate is, the PPF is likely to be able to handle it, for three reasons at least:

- The actual impact on the PPF is likely to be lower than this, as the PPF doesn't fund itself on the same assumptions as Section 179.
- There may be some debt recovered by the liquidators to pass to the schemes.
- The PPF currently runs a surplus of £6bn, so it is able to take the strain of the Carillion shortfall in its entirety, along with any future company insolvencies that may occur. That is precisely what it is designed to do.

So, while the unfolding story of the collapse of Carillion will be distressing for many people, let's hope that the members of its defined benefit pension schemes in the UK are able to keep as calm as possible and carry on in the knowledge that their pension is very well protected.

Catherine Lockyer
Partner
Mobile 07429 170945
Catherine.lockyer@firstactuarial.co.uk

About us

First Actuarial LLP is a nationwide partnership with more than 250 staff covering five offices. Each office provides our full range of services.

We help you to run your pension scheme smoothly and effectively, at reasonable cost.

First Actuarial LLP
Mayesbrook House
Lawnswood Business Park
Leeds LS16 6QY

firstactuarial.co.uk

Basingstoke | Leeds | Manchester | Peterborough | Tonbridge

first actuarial