



Carillion's Demise Shines a Light on U.K. Pensions Shortfall

By **Lukanyo Mnyanda**

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Carillion Collapse Is Big Headache for U.K.'s May

Bloomberg's Robert Hutton explains why Carillion's collapse into liquidation is problem for Prime Minister May.

The collapse of [Carillion Plc](#) with more than half a billion pounds of unfunded pension commitments may increase pressure on some of the nation's biggest companies to plug their own funding gaps.

The construction giant employs almost 20,000 people in Britain and has a pensions shortfall of 587 million pounds (\$811 million). The government-backed Pension Protection Fund will probably now step in to help bridge the shortfall in the company's defined-benefit schemes, but under its rules, future pensioners face a 10 percent drop in payouts as well as a cap of about 35,000 pounds a year.

The issue of pension shortfalls is a political hot potato in the U.K. that flared up again last year when Toys "R" Us Inc. [Co](#)'s British unit avoided bankruptcy by agreeing to pump money into its retirement fund for workers. BT Group Plc [Co](#)'s shares tumbled last year after its pension deficit widened.

"Each time there's a high-profile case, it puts more pressure on politicians and the pension regulator to do something about it," said Jon Hatchett, head of corporate consulting at London-based pensions adviser Hymans

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Robertson.

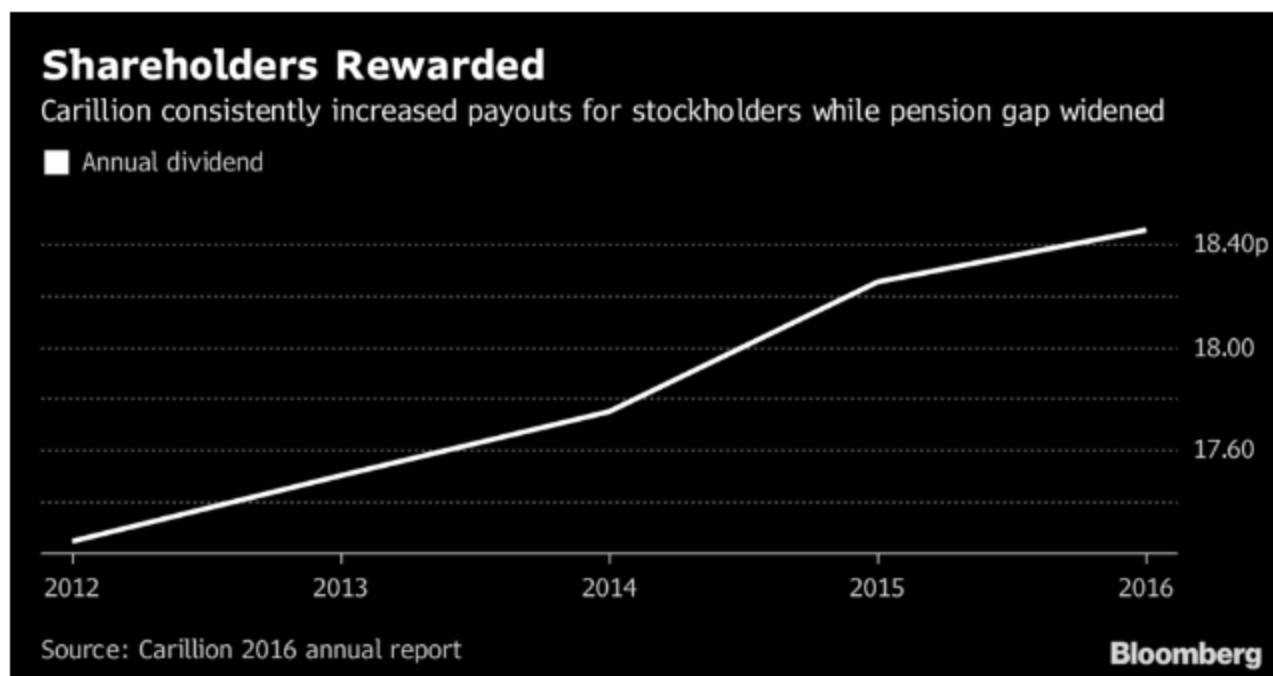
FTSE 350 companies have about 85 billion pounds in total unfunded pension commitments, according to Hymans Robertson. That figure reached a record-high of 165 billion pounds after the Brexit vote, but has since fallen amid an improvement in the shares and bonds that make up the bulk of retirement pots' investments.

'Increase Scrutiny'

"We've generally been heading toward calmer waters, with pension-scheme funding positions improving over 2017, but any high-profile corporate collapse is going to increase scrutiny," said [Graham McLean](#), head of scheme funding at consultants Willis Towers Watson Plc. This may "ratchet-up the tension between the contributions paid into pension schemes and distributions to shareholders."

Steve Webb, a former pensions minister who is now director of policy at insurer Royal London Group, questioned Carillion's policy of increasing shareholders' dividend payouts as its pension deficit widened. In its 2016 annual report, the company said it had increased its dividend in each of the 16 years since it was formed.

Separately, Carillion was [criticized](#) Monday by the Institute of Directors, which said there were signs that management relaxed clawback conditions for executive bonuses as the company ran into trouble.



"There's an argument that the balance between dividends and the pension scheme is wrong in some companies," said Webb. Regulators need to take a "tougher line" and challenge companies "more firmly."

Carillion's eligible pension schemes will probably enter an assessment period, where the PPF will decide on compensation, a spokeswoman for the fund said by email. The PPF has about 6 billion pounds in reserves and manages some 28 billion pounds of assets to help it generate a return.

While the PPF can fund the failure of a few large schemes, a pickup in bankruptcies could overwhelm it, particularly since the manufacturing companies most at risk from a so-called hard Brexit have a disproportionate number of defined-benefit plans, according to former pensions minister Ros Altmann.

“I don’t believe the government has considered the dangers of this to the wider corporate landscape,” Altmann said by email. “But perhaps the failure of Carillion will focus minds more carefully on the massive risks the U.K. and its pensioners might face.”

QUOTES FROM THIS ARTICLE

CLLN CARILLION PLC ▼ +null +null%	1417617D LIGHT Private Company	BT/A BT GROUP PLC 243.00 ▲ +0.00 +0.00%	WLTW WILLIS TOWERS WA 153.34 ▲ +0.40 +0.26%	0082977D LONDON GROUP/THE Private Company
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