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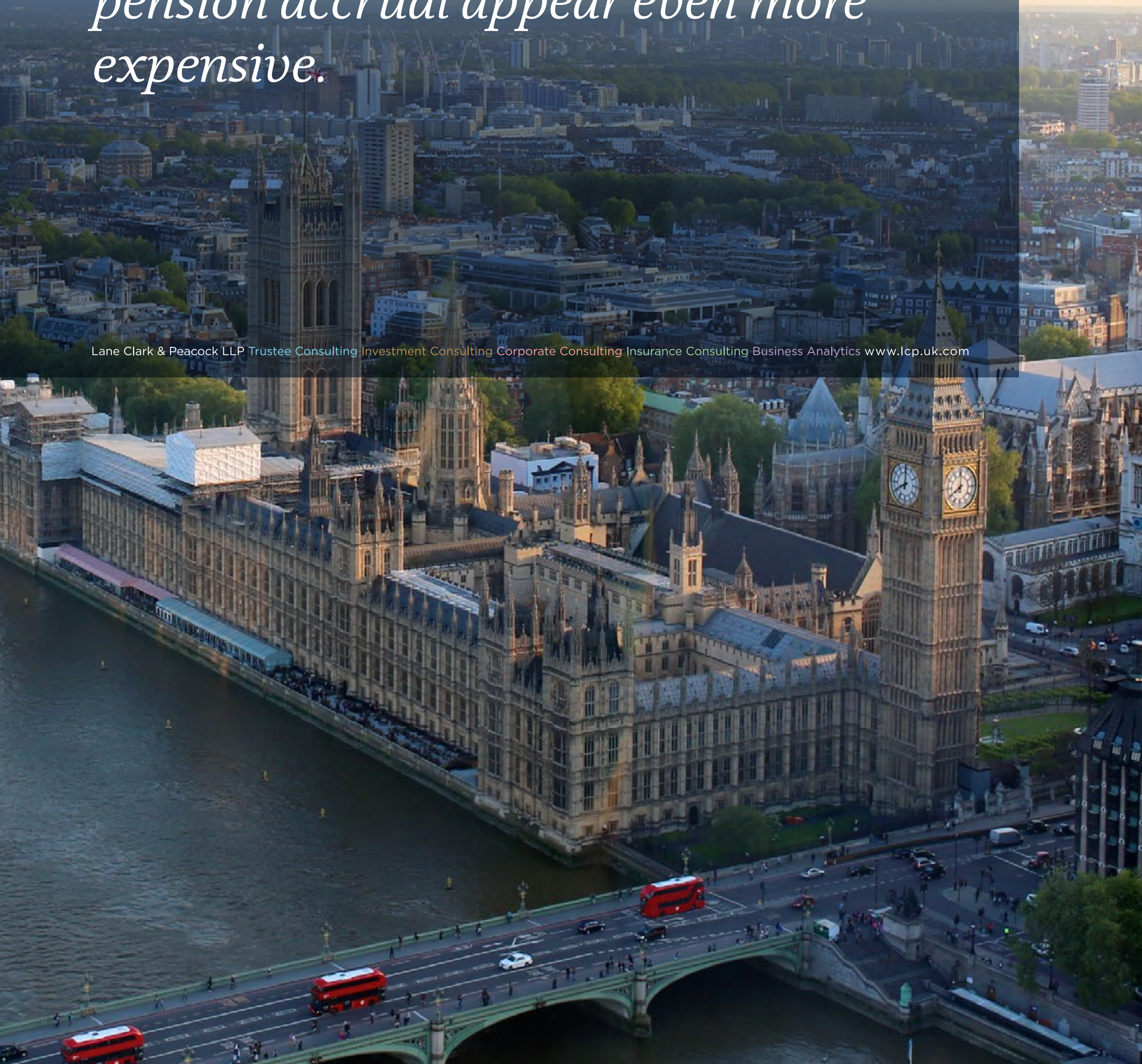
LCP ACCOUNTING FOR PENSIONS 2016

Our 23rd annual survey showed that many FTSE 100 pension funds rode out the Brexit vote reasonably well. But falling yields make defined benefit pension accrual appear even more expensive.



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LCP Accounting for Pensions 2016

Visit our dedicated report site www.lcp.uk.com/accountingforpensions for a video on key findings and our FTSE 100 at a glance infographic

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Welcome to our 23rd annual survey of FTSE 100 companies' pension disclosures.

Bob Scott
PARTNER, LCP

Without changes to legislation, many companies may soon look to close their defined benefit pension schemes for good.

Key Findings
WWW.LCP.UK.COM/AFP2016VIDEO

AT A GLANCE:
The state of FTSE 100 pensions

FTSE 100 overall (at 31 July 2016)

£628bn
Total UK IAS19 liabilities

£582bn
Total assets

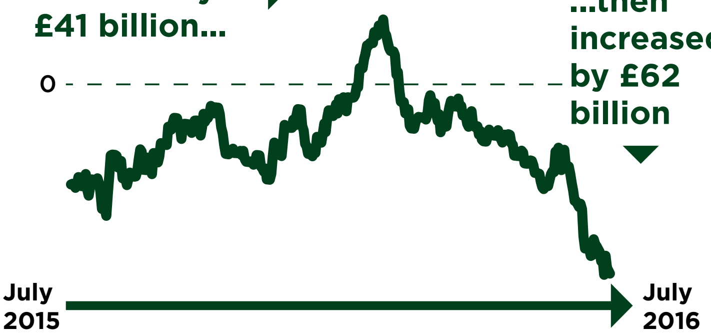
Defined benefit pension contributions

2013: £14.8bn

2014: £12.5bn

2015: £13.3bn

IAS19 deficit reduced by £41 billion...



...then increased by £62 billion

Costs of providing pensions

IAS19 cost of accrual in a typical 60ths final salary scheme

24% of salary 2009

50% of salary 2016

RPI to CPI

£30 billion - reduction in IAS19 liabilities if pension increases based on RPI were switched to CPI instead

Pension contributions

as a % of dividends distributed to shareholders – by sector

47% Industrials

34% Telecommunications

33% Consumer services

30% Utilities

21% Financials

Companies with large deficits may see regulatory pressure on their dividend policy in light of the Select Committee's report into BHS

£46 billion

The estimated net IAS19 deficit for FTSE 100 companies at 31 July 2016

See page 13
for a chart illustrating the change in IAS19 asset and liability values

The IAS19 cost of providing ongoing pension accrual has effectively doubled in the past seven years.

Impact of EU referendum on deficits mitigated by rise in asset values

- We estimate that at 31 July 2016 the combined FTSE 100 accounting deficit in respect of UK pension liabilities was £46 billion, compared to £25 billion a year earlier.
- Since February 2016, when we estimate there was a combined surplus, bond yields have reduced, with a sharp fall following the announcement that the UK would be leaving the EU. This has meant higher IAS19 liability values and a return to an overall deficit position.
- Nevertheless, the impact of "Brexit" on FTSE 100 companies' pension deficits has been offset by two main factors:
  - the depreciation of sterling has meant that assets and earnings in overseas currencies are worth more in pounds sterling; and
  - much of the impact of falling bond yields has been negated by interest rate hedging. This has meant that asset values have risen to offset the rise in IAS19 liability values.

The end for final salary accrual?

- Due to falling yields and rising longevity, the IAS19 cost of ongoing pension accrual has doubled over the last seven years, with a material increase since the EU referendum.
- Over the last year there have been relatively few pension scheme closures announced by FTSE 100 companies. **Legal & General** and **Marks & Spencer** were the only companies to announce they would be closing their schemes to future accrual, or proposing to do so, since last year's report.
- With 57 FTSE 100 companies continuing to provide some employees with defined benefit pension accrual, we expect to see many more pension scheme closures announced in the coming months and years – unless something is done to make pensions more affordable.

Company pensions under the spotlight

- The collapse of BHS and potential sale of Tata Steel UK, both with underfunded pension schemes, has highlighted the significance of pension liabilities and the impact that a large defined benefit scheme can have on a UK company.

Brexit, BHS and British Steel have highlighted the significance of corporate pension liabilities. Will the government act to provide a safety valve for stressed employers?

Do pension schemes get a fair share of available cash?

- In the case of BHS, questions have been raised over the level of dividend payments compared to pension contributions. This could lead to the Pensions Regulator taking a tougher line over recovery plans in future.

  Our survey has found that:

  - in 2015, FTSE 100 companies paid around five times as much in dividends as they did in contributions to their defined benefit pension schemes; and
  - the total IAS19 pension deficit for the 56 FTSE 100 companies that disclosed a deficit at their 2015 year-end was £42.3 billion. Those same companies paid dividends totalling £53.0 billion – some 25% higher.

FTSE 100 companies with IAS19 pension deficits paid out 25% more in dividends than their combined pension deficit.

Are indexation requirements unduly onerous?

- The Government recently consulted on different ways of improving the position of Tata Steel's pension scheme. The consultation focused on reducing the level of increases that the scheme would be obliged to provide.
- The Government has stated that it would not wish to set a precedent, but allowing companies to alter the increases applying in their pension scheme could significantly reduce costs. We estimate that the FTSE 100 IAS19 pension deficit would reduce by:
  - around £30 billion if all increases based on the Retail Prices Index (RPI) were changed to reflect the Consumer Prices Index (CPI); and
  - up to £100 billion if companies were permitted to provide only the minimum level of pension increase set out in legislation.

£30 billion

The reduction in pension liabilities if increases based on the Retail Prices Index (RPI) were changed to reflect the Consumer Prices Index (CPI).

Contributions rise again

- Companies paid £6.0 billion to fund DC pension benefits (compared to £5.3 billion in 2014). They also paid £13.3 billion into their DB pension schemes (up from £12.6 billion in 2014).
- The increasing cost of DB pension provision has meant that more contributions went towards additional pension accrual than in any year since 2009. This is despite the significant number of pension scheme closures and material reduction in the number of employees accruing defined benefit pensions over this period.
- In its 2015 accounts **RBS** announced that it would accelerate the payment of its agreed deficit contributions and has since made a £4.2 billion contribution to its main pension scheme. This is the largest ever contribution to a UK pension scheme, eclipsing by some way the £2 billion paid by **BT Group** in 2012.

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Bob Scott
Partner
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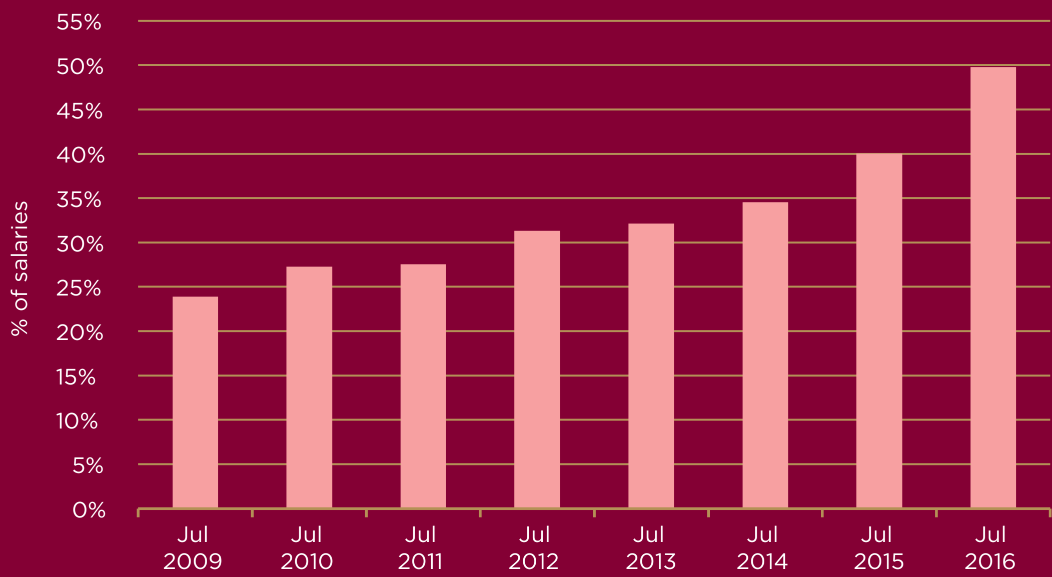
Falling bond yields make continuing DB accrual appear ever more expensive.

IAS19 cost of accrual in a typical 60ths final salary scheme



The IAS19 cost of ongoing pension accrual has effectively doubled in the last seven years.

2. Analysis of FTSE 100 accounting disclosures

2.1. Introduction

In this section we have analysed 87 FTSE 100 companies reporting in 2015. 13 companies have been excluded as they do not sponsor a material defined benefit pension scheme. A full list and summary details of the 87 companies' key pension disclosures are set out in appendix 1.

The information and conclusions of this report are based solely on detailed analysis of the information that companies have disclosed in their annual report and accounts and other publicly available information. We do not approach companies or their advisers for additional information or explanation.

We have concentrated on the financial position of the defined benefit schemes in which the companies' employees and former employees participate. Some companies offer post-retirement healthcare, which we have excluded from our analysis where possible.

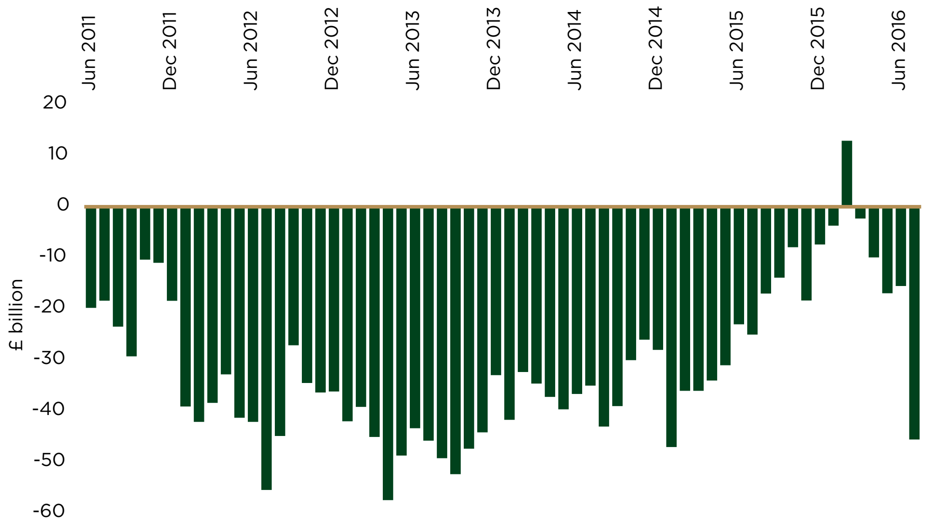
All of the companies analysed have reported under international accounting standards (IAS19 for pension costs) as currently required under EU regulations.

2.2. The FTSE 100 accounting deficit

We estimate that the combined FTSE 100 pension deficit in respect of UK pension liabilities was £46 billion at the end of July 2016, reflecting total IAS19 liabilities of £628 billion against assets of £582 billion.

The chart opposite shows how the accounting deficit has developed over the past five years. Our figures include unfunded pension promises but exclude, where possible, the overseas pension schemes sponsored by FTSE 100 companies and any employee benefits other than pensions. We have also excluded the impact of any adjustment arising from balance sheet asset limits or funding requirements.

Estimated IAS19 position for UK schemes of FTSE 100 companies



Overall, the total IAS19 deficit has increased by £21 billion from the position at 31 July 2015. This change reflects two distinct periods:

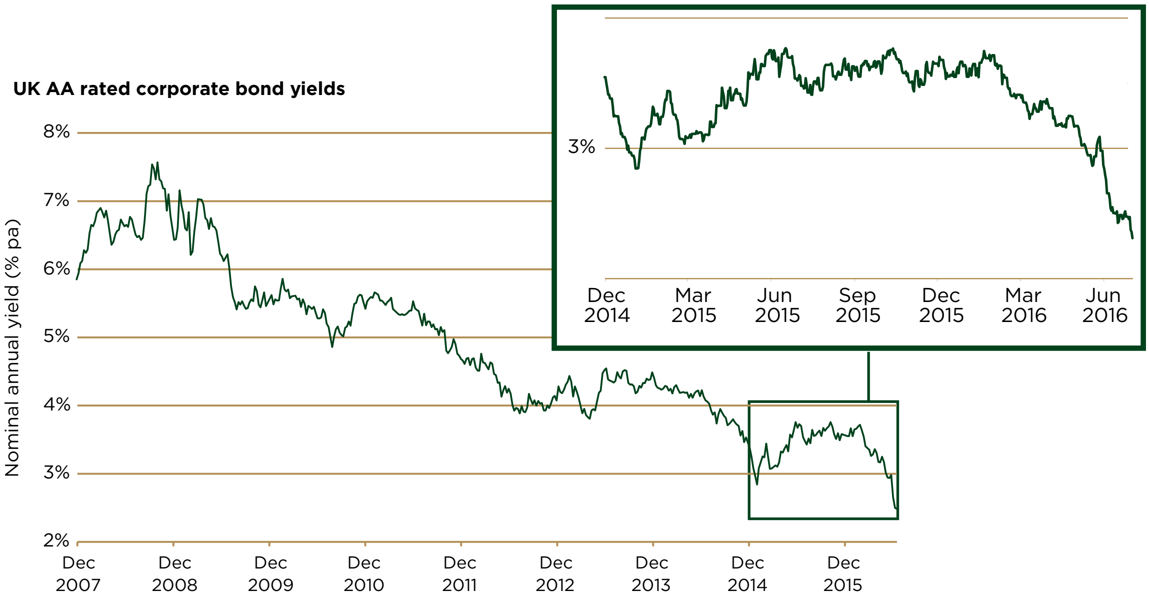
- from July 2015 to the end of February 2016 – when the net position moved into surplus for the first time in more than 7 years due to a fall in liability values; and
- from March 2016 onwards – when liability values increased again and earlier gains were more than offset.

FTSE 100 companies seem to have ridden out Brexit reasonably well, reflecting the level of protection that many put in place against falling interest rates.

Corporate bond yields

Under IAS19, pension liabilities are valued by reference to the yield available on high quality corporate bonds – all else being equal, this means that when yields fall, liability values increase and vice versa.

The chart below shows how UK corporate bond yields have varied since the start of 2008, just prior to the height of the UK "credit crunch".



Source: iBoxx

Since late 2008 – when the yield on the iBoxx AA over 15 year corporate bond index peaked at more than 7.5% pa – there has been a steady fall in yields, with the index hitting just under 3% pa in early 2015.

Although corporate bond yields rose during most of 2015 and early 2016, they began falling steadily in the run-up to the EU referendum on 23 June 2016, with a sudden drop in yields following the announcement of the result, and continued falls in July.

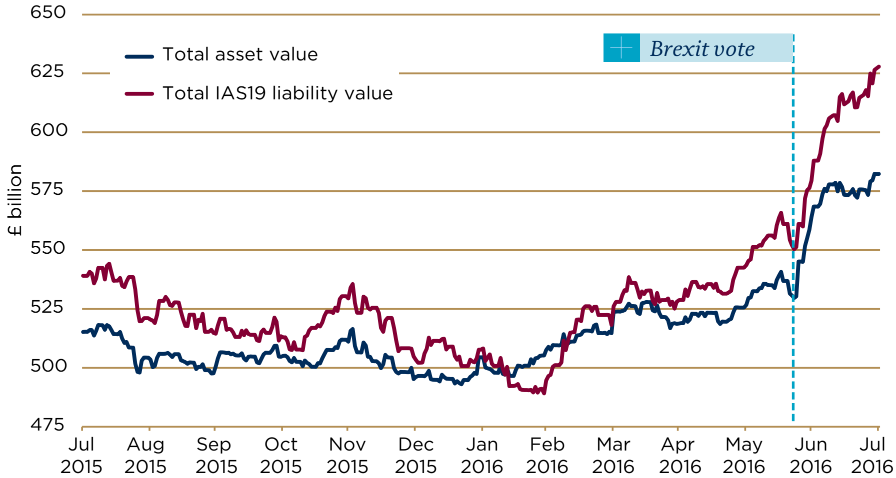
At 31 July 2016 the iBoxx AA over 15 year corporate bond index was at an all-time low of 2.30% pa, with IAS19 liability values having increased by 14% in just over a month. However, it has not all been bad news, with strong positive returns on most asset classes since the referendum mitigating some of the increase in liability values.

Given the magnitude of the reduction in corporate bond yields, and similar falls in government bond yields over the same period, it is fair to say that hedging of interest rate movements via direct (bond) investment or indirect ("LDI") investment has been the single most important strategic move that pension schemes have made in the past 10 years.

The EU referendum

The chart below illustrates the change in total FTSE 100 UK IAS19 asset and liability values over the last year, with the marked increase in both since the EU referendum clearly visible.

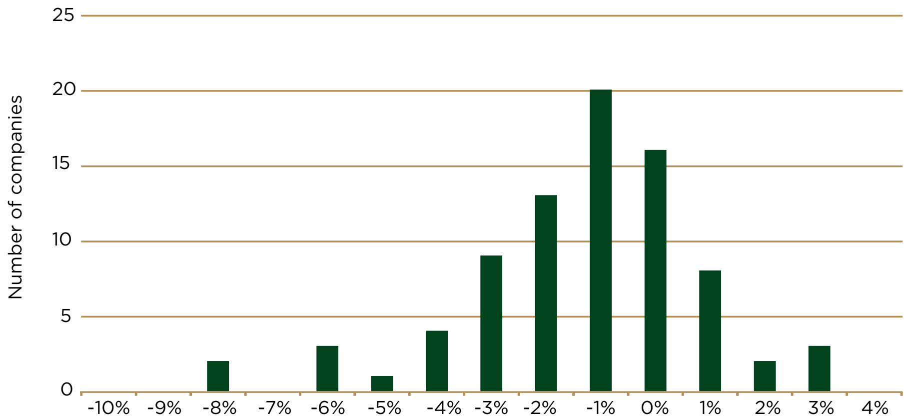
IAS19 value of pension scheme assets and liabilities



The impact for a particular company's pension scheme will have depended heavily on its investment strategy, with those that were more fully hedged against changes in long-term interest rates faring the best.

The chart below shows the estimated change in IAS19 funding level for the FTSE 100 companies with UK pension schemes over the two weeks following the referendum.

Change in IAS19 funding level

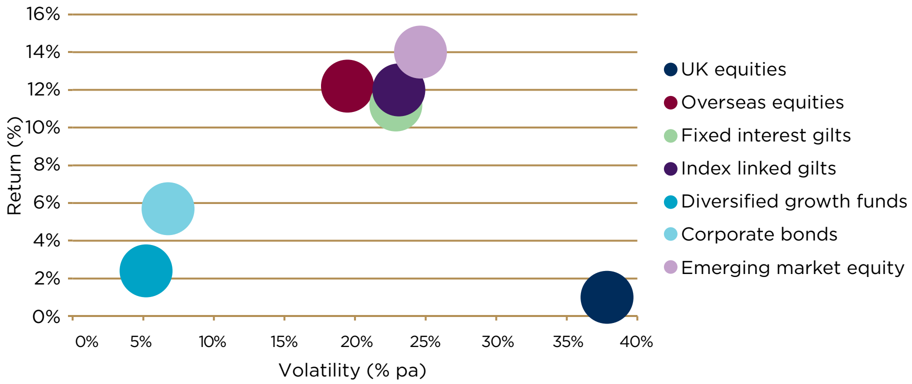


IAS19 liability values increased by between 8% and 12% for the majority of FTSE 100 companies, with asset values also going up, but generally by less, with the increase for most companies ranging between 5% and 12%. Overall, for most of the FTSE 100 this resulted in a change in IAS19 funding level of between +1% and -4% over the two week period.

As an example, we estimate that **BT Group**'s pension deficit would have increased by around £1.3 billion over this two week period, to over £9 billion.

As noted above, each scheme's investment strategy will have been key during this period. The chart below illustrates the wide range of return on different asset classes, and high volatility of returns, over the two weeks following the Brexit vote. For overseas assets the returns shown are those that would be received by a UK investor without any currency hedging in place.

Range of return on different asset classes following Brexit vote



2.3. How have companies been managing their pension commitments?

Reductions in defined benefit pension provision

None of the FTSE 100 companies we have analysed provide traditional final salary pensions to new employees and only two continue to provide any form of defined benefit pension provision as standard to new recruits. These are **Diageo** and **Johnson Matthey**, which both provide cash balance schemes.

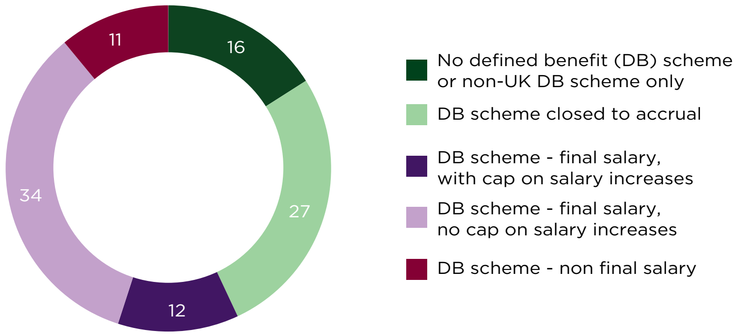
The following companies disclosed in their accounts that they had either closed their pension schemes to future accrual, or planned to do so in the near future:

- **Legal & General** stated that it had closed its two UK final salary pension schemes to future accrual on 31 December 2015.
- In its March 2016 accounts **Marks & Spencer** disclosed that it intends to close its pension scheme to future accrual with effect from April 2017.
- Last year we noted that **Tesco** had started consultation on the closure of its career average revalued earnings ("CARE") scheme to new entrants and to future accrual. The company reports in its February 2016 accounts that this went ahead in November 2015, resulting in a gain of £538 million.

In addition, **HSBC**, **Severn Trent** and **Standard Life** had all previously announced that they would close their defined benefit scheme to future accrual during 2015.

The chart below shows the numbers of companies providing continuing defined benefit pension provision, after allowing for the changes listed above. These changes will leave only 34 FTSE 100 companies providing traditional final salary pensions to any of their employees.

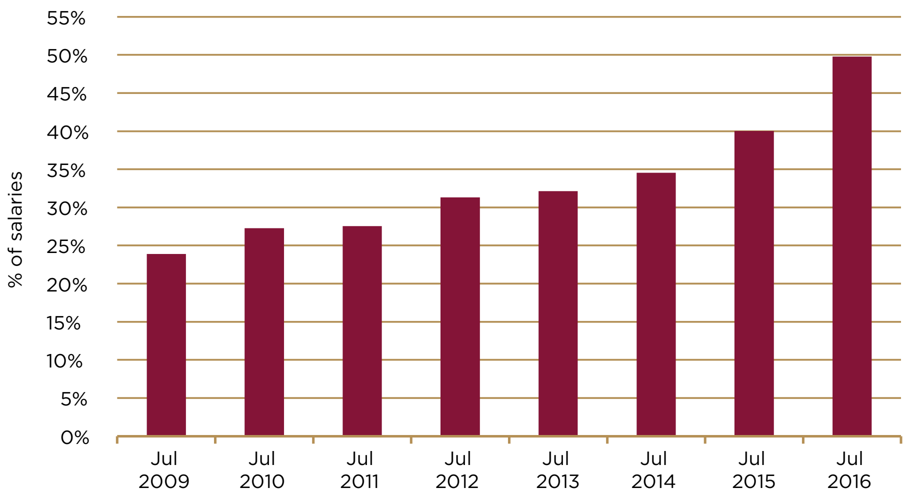
Number of FTSE 100 companies providing continuing defined benefit pension provision



Although the number of FTSE 100 companies announcing closures has recently fallen, we expect the long-term trend of closing to accrual to continue, particularly given the rising cost of providing defined benefit pensions following the fall in bond yields both in recent months and since 2008.

The chart below illustrates how the IAS19 cost of accrual in a typical 60ths final salary scheme would have risen due to changes in yields and longevity assumptions over the last seven years, with the cost doubling over this period.

IAS19 cost of accrual in a typical 60ths final salary scheme



With 57 FTSE 100 companies still providing some of their employees with some form of additional DB pension accrual – including capped final salary pensions, CARE pensions and cash balance benefits – we would expect the number of closures to rise over the next few years.

Liability management exercises

Many companies are now placing increased focus on managing their legacy pension arrangements and removing risk from their balance sheet.

One popular way of achieving this is to carry out a pension increase exchange ("PIE") exercise, where members of the pension scheme are given the option to exchange some or all of the future increases on their pension in return for a higher current level of pension. This reduces inflation risk and can result in a cost saving, if members accept a deal which is less than fair value. It can also make benefits easier and cheaper to insure.

Centrica, **GKN** and **Smith & Nephew** all disclosed carrying out a PIE exercise in the last year. **Smith & Nephew** also completed an enhanced transfer value exercise, with members given the option of a one-off enhancement to the amount of money payable in lieu of benefits in the company pension scheme.

De-risking of investment strategies

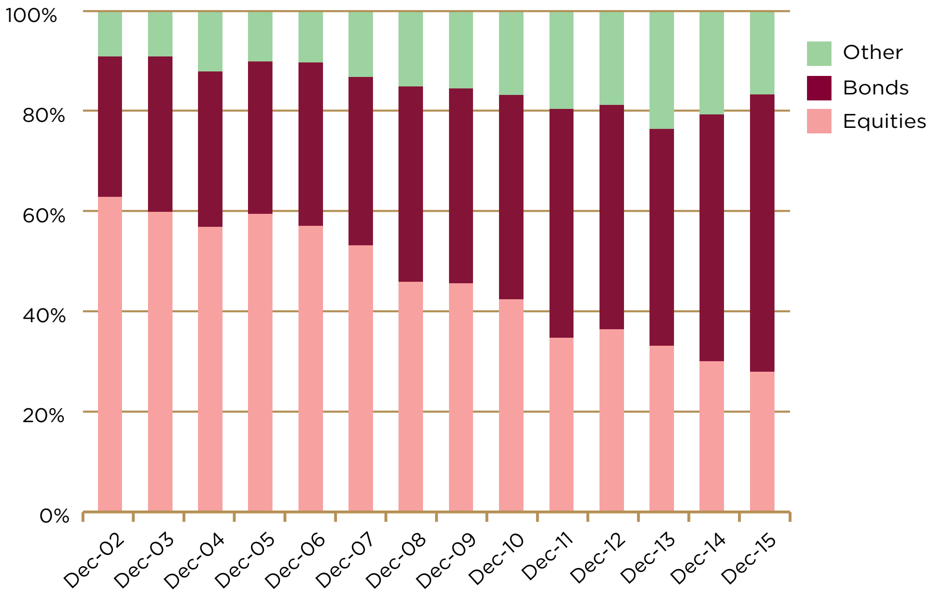
As pension schemes mature and the time horizon for payment of benefits decreases, companies and pension scheme trustees have typically looked to reduce the investment risks posed by the pension scheme.

This is of increasing importance as schemes close to future accrual and ongoing contributions reduce, as pensions and other benefits then need to be paid out of investment income or by realising assets.

The secondary annuity market may provide new opportunities for liability management from April 2017.

With increasingly complex investment strategies – some of which are not fully explained in accounting disclosures – it has become more difficult to split FTSE 100 pension scheme assets into bonds and equities. However, the general trend away from equities does appear to have continued with a modest movement of assets out of equities and into bonds and other asset classes during 2015. This is illustrated in the chart below.

Overall asset allocation for FTSE 100 companies with December year-ends



Although this shows that around 55% of pension scheme assets are now invested in bonds, many pension schemes have used derivatives to put in place additional hedging to protect their funding position against changes in interest rates.

For example, **RBS** disclosed that 59% of its main pension scheme's assets were invested in bonds, but then went on to explain that it had an additional £15.7 billion of interest rate hedging in place through the use of swaps. Not all companies provide this level of detail on their pension schemes' derivative strategies and so it is not always clear to a reader of the accounts what level of protection is in place.

2.4 Analysis of pension disclosures

The average pensions note runs to just over five pages, with most companies also having several paragraphs of pensions commentary in the main body of their reports. The longest disclosures were made by **BP**, with 11 pages of its 2015 report dedicated to pensions, whilst **BAE Systems** and **National Grid** both gave 10 pages of pensions information.

Funding levels

IAS19 takes a snapshot of the accounting surplus or deficit at the company's year-end and in most cases this is the number that appears on the balance sheet.

However, in some cases, complex rules under IAS19 can result in a restriction on the asset recognised on the balance sheet where a pension scheme is in surplus, or a higher liability being recognised as a result of the funding agreement in place with the pension scheme trustees.

Of the companies we have analysed, 21 were affected by this issue in 2015 compared with 19 in 2014. Notably, **RBS** announced in its 2015 accounts that it had changed its policy in this area and as a result disclosed an additional £3.0 billion liability on its balance sheet in respect of its main pension scheme.

This complexity aside, of the 87 FTSE 100 companies with material defined benefit pension schemes:

- 65 disclosed a larger surplus, or smaller deficit, than in 2014;
- 31 disclosed an accounting surplus, compared to 26 last year; and
- 31 reported being less than 90% funded on an accounting basis at their 2015 year-end, compared with 37 in 2014.

This general improvement in funding position reflects an increase in corporate bond yields (and a reduction in liability values) for companies reporting at 31 December 2015, and strong investment returns for many of the companies reporting at other dates.

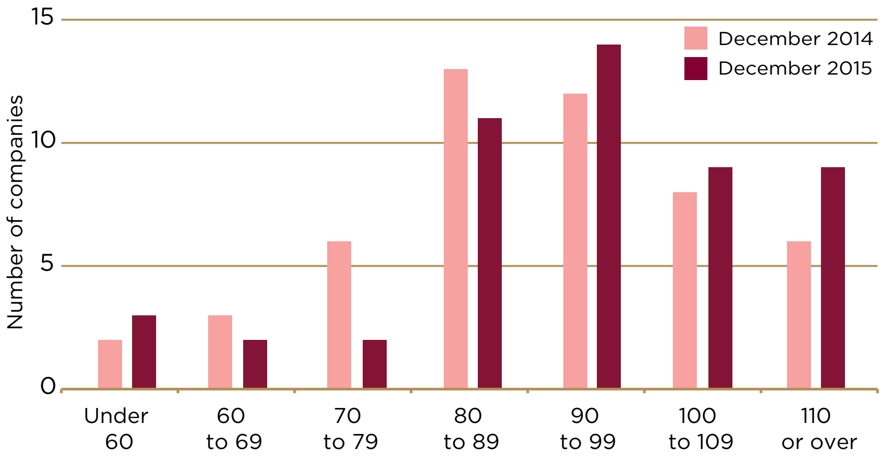
As was the case last year, **Royal Mail** disclosed the highest funding level – 193% as at 29 March 2015. The funding level increased materially following a decision in 2013 to change to the way in which accrued pensions increase, with the position improving further due to high levels of interest rate hedging in the main pension scheme's investment strategy.

As illustrated in section 2.2, the funding position is likely to have deteriorated for many companies since their 2015 year-end.

Changes over 2015

The chart below shows how worldwide funding levels have changed over the year for the 50 FTSE 100 companies in our report that have December 2015 year-ends.

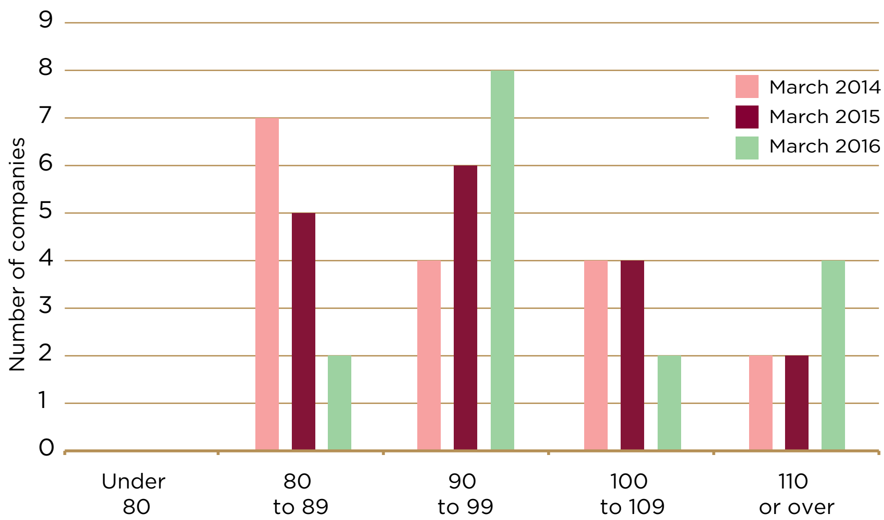
Ratio of assets to IAS19 liabilities at 31 December (%)



The average reported IAS19 funding level for companies with December year-ends was 94% in 2015, representing an increase from 91% in 2014.

We have shown a similar chart for those companies with March year-ends below.

Ratio of assets to IAS19 liabilities at 31 March (%)

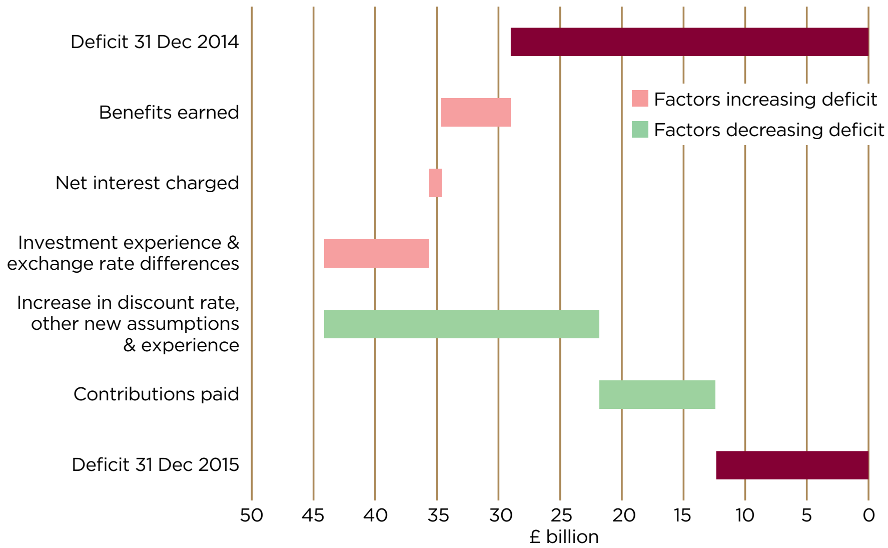


The average reported IAS19 funding level for these companies was 106% at March 2016 compared with 101% in 2015 and 100% in 2014.

Sources of deficits and surpluses

For the 50 companies with December year-ends, worldwide IAS19 deficits decreased by £16.7 billion over 2015. This is illustrated in the chart below.

Reasons for change in total IAS19 deficit for companies with December year-ends



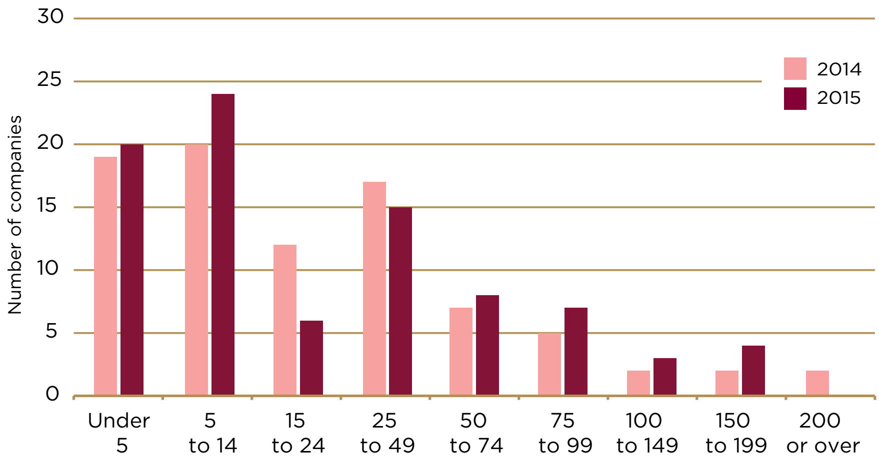
Our analysis shows that contributions paid (£9.4 billion) more than covered the net IAS19 value of benefits earned over the year (£5.6 billion) and the total net interest charge (£1.0 billion). In addition to this, decreases in IAS19 liability values (£22.3 billion) caused by higher corporate bond yields were partially offset by poor investment returns (£8.5 billion).

Overall, this has led to a decrease in IAS19 deficits of £16.7 billion for these companies.

Companies with large deficits may see regulatory pressure on their dividend policy in light of the Select Committee's report into BHS.

Pension schemes in relation to their sponsoring companies
The chart below shows the size of accounting liabilities relative to companies' market capitalisations. The average FTSE 100 company's pension liability was 34% of its market capitalisation, which is a slight decrease from last year.

Accounting liabilities as a proportion of market capitalisation (%)



Pension schemes continue to pose a very significant risk for certain companies. For example **BAE Systems** had pension liabilities of more than 180% of its market capitalisation at its 2015 year-end, and the deficit in its pension scheme was over 34% of the value of the company.

On average, IAS19 pension scheme deficits were 4% of market capitalisation, compared to 5% in 2014.

We have highlighted the 10 companies with the largest liabilities and largest deficits compared to market capitalisation in appendix 2.

With material falls in the share price of companies in certain sectors following the EU referendum, and with marked increases in liability values, the analysis above is likely to look much less favourable at the time of publishing this report.

What have companies done to tackle their deficits?

FTSE 100 companies paid contributions totalling £13.3 billion to their defined benefit schemes in 2015.

This follows £12.5 billion of contributions paid in 2014, £14.8 billion paid in 2013 and £16.8 billion paid in 2012.

The chart below shows how company payments, including those to defined contribution pension schemes, have changed since 2007.

Employer contributions to pension schemes

Less than half of the FTSE 100 paid higher contributions during 2015 than in 2014, although a few companies, for example **BT Group**, **Barclays** and **Vodafone** paid significantly more this year, with **BT Group** almost doubling its contributions to over £1bn and **Vodafone** paying around 8 times more this year than last year.

The six companies that paid the highest contributions are shown in appendix 2. **BT Group** and **RBS** both paid more than £1 billion into their schemes over their 2015 accounting year. Two companies, **Royal Dutch Shell** and **RBS**, paid more than £1 billion in 2014.

In its 2015 accounts, **RBS** disclosed that it had agreed to accelerate payment of future deficit contributions to its main pension scheme, with a £4.2 billion deficit payment due to be made by March 2016. This is the largest ever one-off payment to a UK pension scheme, dwarfing the previous highest contribution of £2 billion paid by **BT Group** in 2012.

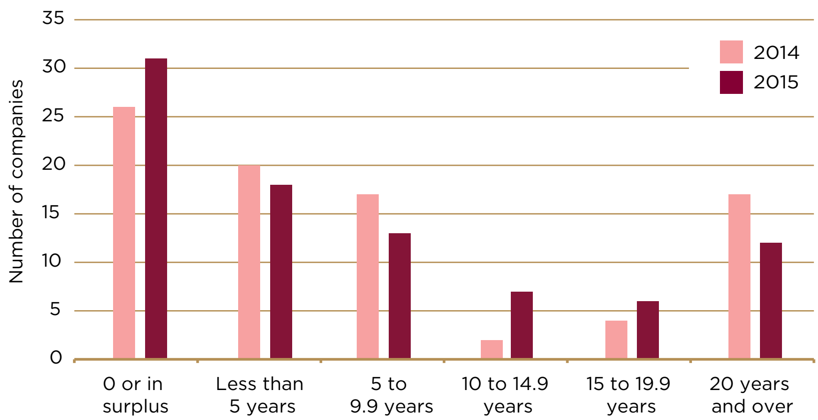
Most companies pay contributions at a rate greater than the IAS19 value of benefits earned over the year. If IAS19 assumptions were borne out in reality, this excess would reduce the IAS19 deficit.

14 companies paid contributions that were less than or equal to the IAS19 value of benefits promised over the year. These were:

- **Ashtead Group**, **Experian**, **Inmarsat**, **Next**, **Royal Mail** and **Standard Life**, which all disclosed an IAS19 surplus; and
- **Associated British Foods**, **BP**, **British Land Co**, **Mondi Group**, **Royal Dutch Shell**, **SAB Miller**, **Sage Group** and **Tesco**, which all disclosed an IAS19 deficit.

The chart below shows the length of time it would take for companies to remove their IAS19 deficit based on the contributions paid during 2015 and with no allowance for investment outperformance over the IAS19 discount rate.

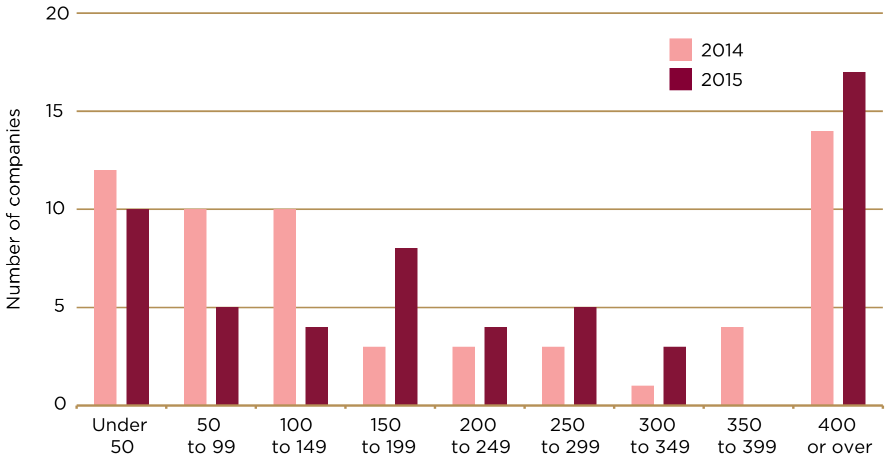
Expected time to pay off IAS19 deficits



Pension schemes versus shareholders

The following chart shows how pension deficits compare to dividends paid. Of the 56 FTSE 100 companies that disclosed a pension deficit in 2015, 15 disclosed a deficit that was greater than or equal to the dividends paid to their shareholders in 2015. However, in 29 cases, the 2015 dividend was more than double the deficit at the 2015 financial year-end, suggesting that these companies could pay off their pension scheme deficit relatively easily if they wanted to. The total deficit for these 56 companies was £42.3bn, around 20% lower than the total dividends paid of £53.0 billion.

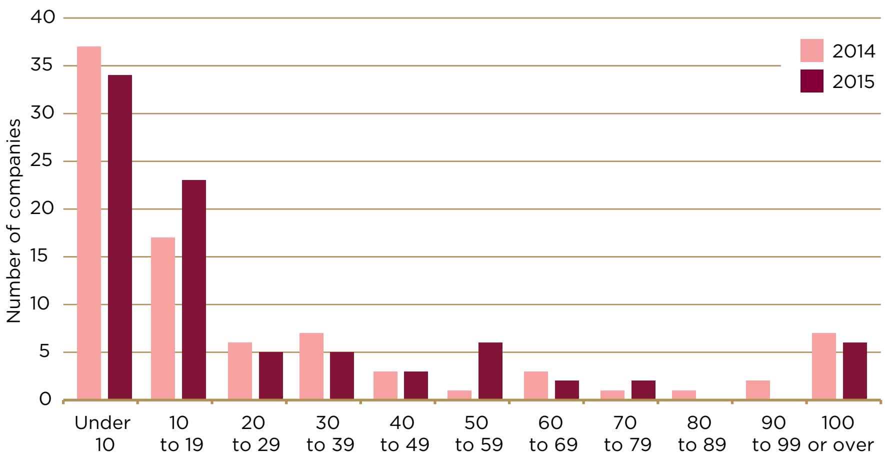
Percentage of IAS19 deficit that could be paid off with one year's declared dividends (%)



The chart below shows the company contributions paid over the 2015 and 2014 accounting years as a percentage of dividends distributed over these periods and therefore illustrates the amount of cash paid to the pension scheme in preference to the shareholders. This is an area that has come under more scrutiny following the collapse of BHS.

In 2015, six companies paid more contributions to their pension schemes than they distributed in dividends, compared to seven in 2014.

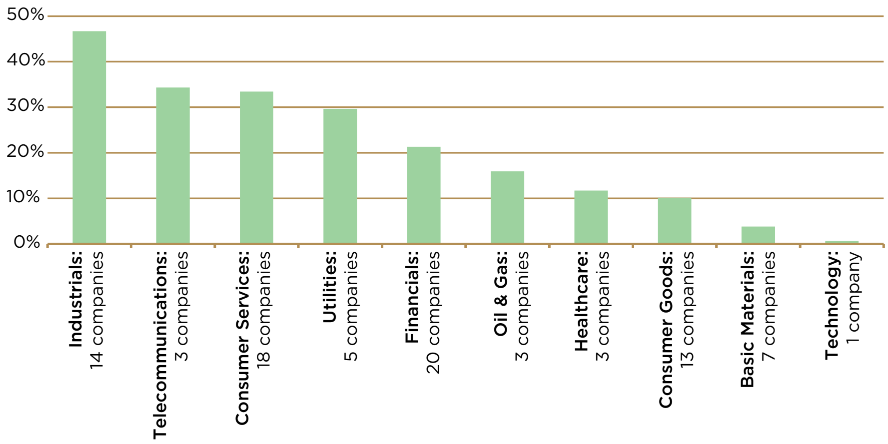
Contributions paid as a proportion of dividends paid (%)



In 2015, FTSE 100 companies paid pension contributions of 19% of the dividends distributed to shareholders, compared to 18% in 2014.

The chart below shows how this breaks down across different sectors. In allocating companies to different sectors we have followed the Industry Classification Benchmark published by FTSE, with each company's allocation shown in appendix 1.

Pension contributions paid as a proportion of dividends split by industry sector



Key assumptions

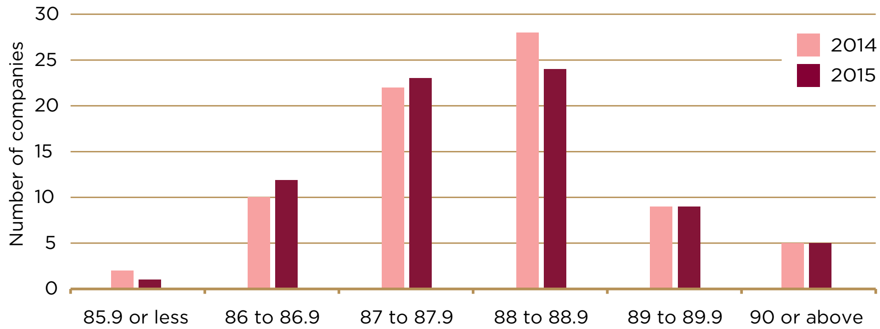
We consider below the various assumptions used to place a value on pension benefits under IAS19. Where a company operates pension schemes in more than one country, we have considered the assumptions used for the UK if separately given. Where a company has disclosed a range of assumptions, we have taken the mid-point.

Life expectancy

Under the IAS19 accounting standard, companies are required to disclose any "significant actuarial assumptions" and we would generally expect this to include mortality. 74 of 87 companies have provided sufficient information in their 2015 accounts for us to derive basic mortality statistics – specifically the life expectancy for a man at age 65 in the UK. This compares with 78 out of 87 in 2014. Of the remaining 13, all but **BHP Billiton** and **Old Mutual**, which both have relatively immaterial pension schemes, have provided either non-UK life expectancies, a range of life expectancies, or narrative description of their mortality assumptions.

The following charts show the range of life expectancies assumed under IAS19 by FTSE 100 companies for males aged 65 on the balance sheet date.

Life expectancy assumptions reported in 2015
Average assumed age at death for UK males aged 65 on the accounting date



The average assumed age at death was 88.1 years, which is the same as in these companies' 2014 accounts.

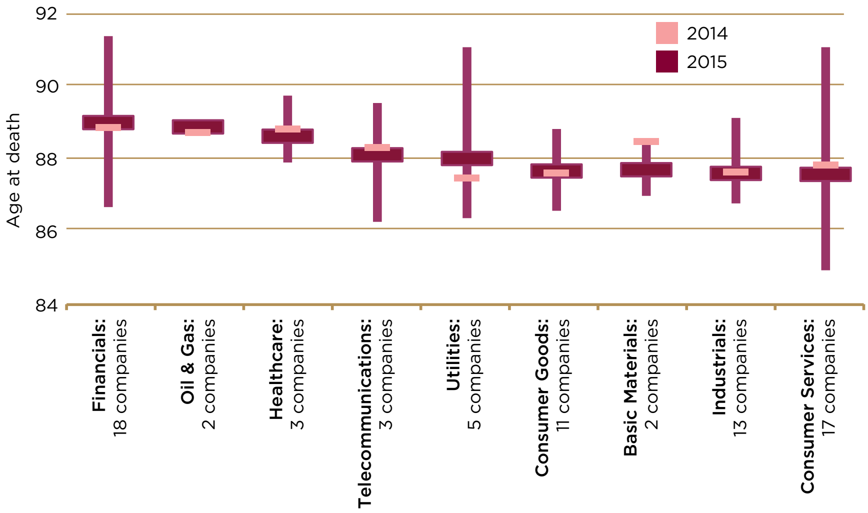
In the last couple of years we have noted that the rate of increase in assumed life expectancy has been slowing and this trend has continued in 2015. Although 38 companies disclosed higher life expectancy assumptions in 2015, adding 0.9 years on average, 17 companies disclosed lower life expectancy assumptions for some or all of their membership. For example, **RELX Group** reduced its average assumed age at death for a 60 year old UK male by 4 years, from 90 in 2014 to 86 in 2015.

Land Securities assumed the longest life expectancy, stating in its 2015 accounts that male pensioners currently aged 60 will live on average to age 91.3.

Research has shown that two of the main factors influencing life expectancies are socio-economic group and income. In this respect it is interesting to analyse the FTSE 100 companies' assumed life expectancies by the sector in which the company operates.

In the chart below the horizontal bars show the average assumed age at death for a UK male aged 65 for each sector. The vertical lines show the extent of the variation within each sector, which in most cases increases the greater the number of companies within the sector.

Life expectancy assumptions reported in 2015 split by sector
UK males aged 65 on accounting date



This chart shows that the highest average assumed life expectancies are found in the financials, oil & gas and healthcare sectors, as last year. The lowest average assumed life expectancy was found in the consumer services sector, although this sector also had the widest range of assumptions.

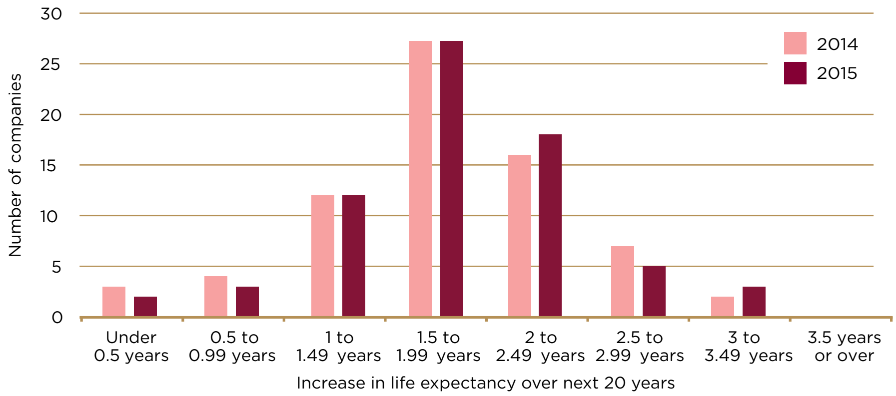
The basic materials sector saw the biggest change, with the average assumed age at death decreasing from 88.5 to 87.7.

Future improvements in life expectancy

As well as setting assumptions to estimate how long current pensioners will live on average, companies must also decide how life expectancies for future pensioners will change as a result of improvements in mortality. The allowance for future improvements can have a significant impact on the IAS19 value of pension scheme liabilities, and hence deficits.

70 companies disclosed enough information in their accounts to analyse how their allowance for future improvements in mortality has changed compared to 2014. The chart below shows the allowance that these companies have made for increases to longevity over a period of 20 years.

Additional life expectancy improvements reported in 2015
Improvements for UK male members aged 65 now versus aged 65 in 2035



On average, these companies assumed that UK pensioners retiring at age 65 in 20 years' time will live for 1.8 years longer than a pensioner retiring today. This compares to 1.7 years for these companies in 2014.

Overall, these companies increased their average assumption for the age at death of a 65 year old in 2035 by 0.1 years, from 89.8 years in their 2014 accounts to 89.9 years in 2015.

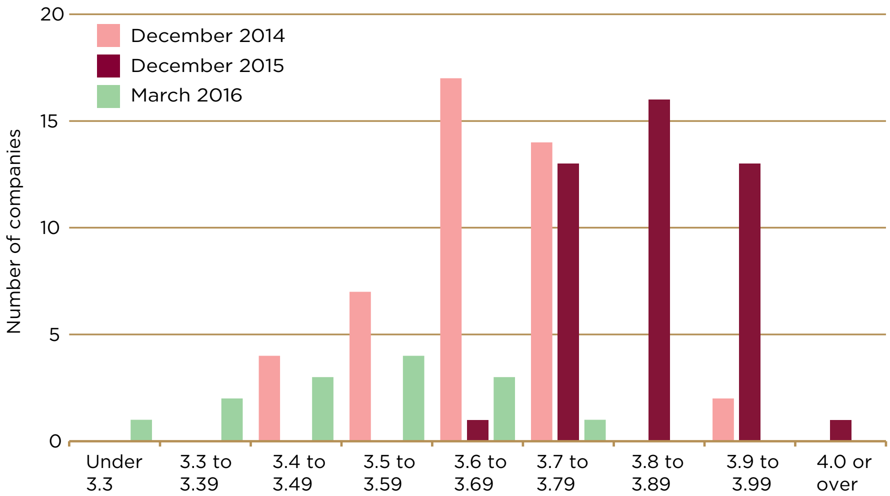
Discount rates and inflation

The discount rate is used to calculate a present value of the projected pension benefits. A lower discount rate means a higher IAS19 value of pension liabilities and vice versa.

The typical FTSE 100 company has pension liabilities that are linked to price inflation. A decrease in the price inflation assumption will lead to a lower level of projected benefit payments, and hence a lower IAS19 value being placed on those benefits, all other things being equal.

We have analysed the discount rates used by 44 companies and the RPI inflation assumption of 38 companies with a December year-end, together with the assumption for CPI inflation disclosed by 18 of these companies. Similarly, we have analysed the discount rates used by 14 companies and the RPI inflation assumption of 14 companies with a March 2016 year-end, together with the assumption for CPI inflation disclosed by 8 of these companies. The results are summarised in the charts below.

Discount rates used in December 2014, December 2015 and March 2016 (% pa)



Discount rates

Under IAS19, the discount rate should be based on "high quality" corporate bonds and the duration of the corporate bonds should be consistent with the estimated duration of the pension obligations.

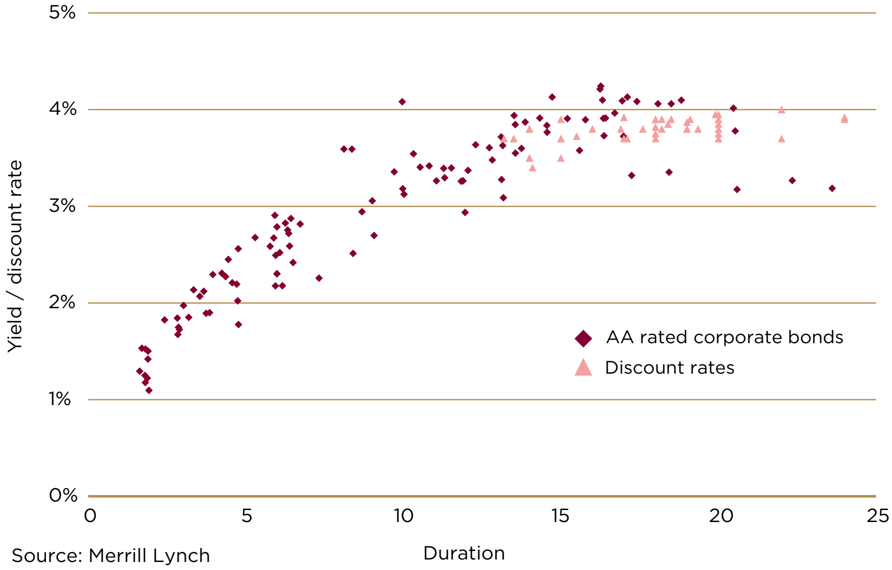
The yields on high quality corporate bonds, and hence the discount rates, will fluctuate from day to day in line with market conditions.

The average discount rate increased over the year to December 2015, from 3.6% pa in December 2014 to 3.8% pa in December 2015. The average discount rate used by FTSE 100 companies with a March 2016 year-end was lower at 3.5% pa. The spread of discount rates used by FTSE 100 companies with a December 2015 year-end has decreased compared to December 2014, with a 0.4% spread of rates compared to a 0.5% spread last year.

InterContinental Hotels Group, **CRH** and **London Stock Exchange Group** disclosed the highest discount rate for a FTSE 100 company with a December year-end in their 2015 accounts (4.0% pa in 2015 compared to 3.7% pa in 2014 for **InterContinental Hotels Group** and **London Stock Exchange Group** and 3.5% pa for **CRH**). **Rolls Royce** adopted the lowest discount rate of 3.6% pa.

IAS19 requires companies to disclose the duration of their pensions liabilities. Using this information we have compared the discount rates used against the duration of the scheme, as shown in the chart below.

Discount rates by duration used at 31 December 2015



Source: Merrill Lynch

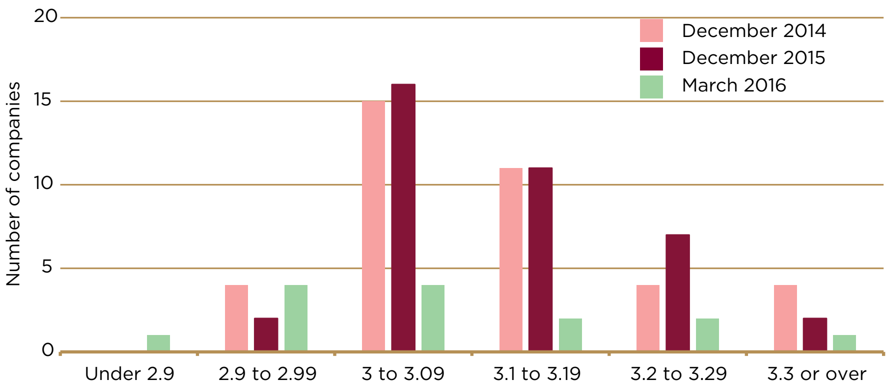
Most companies use the same assumptions to value both past service and future service benefits. However, **BP**, **GKN** and **ITV** all disclosed the use of different assumptions to calculate the "service cost" item in their accounts, which represents the value of pension benefits accrued over the accounting year. On average, 0.25% pa was added to the discount rate, resulting in a lower service cost and higher profits, than would otherwise have been the case.

In current market conditions, the use of a higher rate can be justified on the basis that corporate bond yields generally increase as the term of the bond increases (illustrated in the chart above), and the duration of future service liabilities accruing for active members will be longer than the duration of the liabilities already accrued.

Inflation - RPI assumptions

The chart below shows long-term inflation assumptions as measured by the Retail Prices Index (RPI). The average RPI assumption of 3.1% pa in December 2015 was unchanged from December 2014. In March 2016 the average RPI assumption was slightly lower at 3.0% pa.

RPI inflation used in December 2014, December 2015 and March 2016 (% pa)



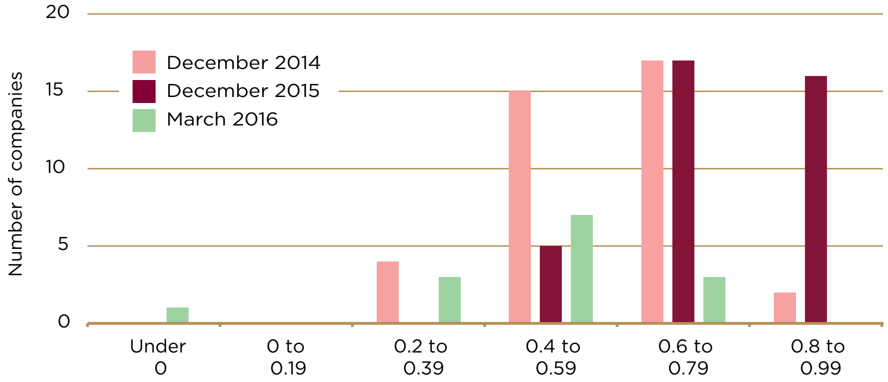
For December 2015 year-ends the highest RPI inflation assumption was 3.30% pa, adopted by both **Schroders** and **Reckitt Benckiser Group**. At the other extreme **International Airlines Group** and **Lloyds Banking Group**, which both reported at the same date, adopted assumptions of 2.93% pa and 2.99% pa respectively. The December 2015 RPI inflation assumptions had a similar spread to those used in 2014.

The Bank of England publishes statistics for future price inflation implied by gilt spot rates. These showed that long-term RPI inflation implied by 20 year gilt spot rates was around 3.4% pa at the end of December 2015. This suggests that, in order to justify an assumption much lower than this for future RPI inflation, companies may be allowing for a significant "inflation risk premium". This represents the theoretical return that investors are willing to forgo when investing in index-linked gilts, in return for the inflation protection that these assets provide.

In practice, it is the discount rate net of assumed future price inflation which is the key assumption.

The chart overleaf shows the difference between the discount rate and the assumption for RPI inflation (the net discount rate) for companies reporting as at 31 December 2014, 31 December 2015 and 31 March 2016. It shows that the net discount rate has increased since December 2014, from an average of 0.5% pa to 0.7% pa at 31 December 2015. In March 2016 this had decreased again to 0.4% pa.

Discount rates in excess of RPI inflation used in December 2014, December 2015 and March 2016 (% pa)



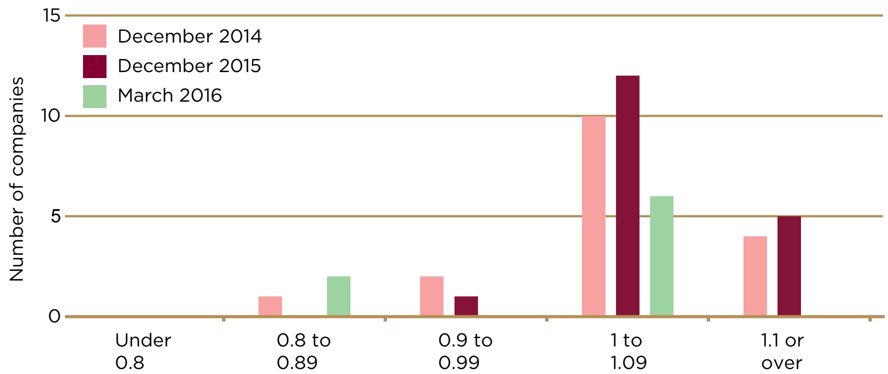
Inflation - CPI assumptions

Since 2010 the statutory minimum increases that pension schemes must provide has been linked to the Consumer Prices Index ("CPI") rather than RPI. Historically CPI has generally increased at a lower rate than RPI and is expected to do so in the future due to the different ways in which the two inflation indices are constructed.

In practice the inflation measure applying in a particular pension scheme depends on the wording of the scheme rules and their interaction with the relevant legislation setting out minimum increases. Many companies have determined that some of the benefits in their pension scheme should increase in line with CPI inflation.

As no significant market in CPI linked securities currently exists, market practice is to derive an assumption for future CPI inflation by deducting a margin from the assumed future level of RPI inflation. The chart below shows the range of margins used by companies in their December 2014, December 2015 and March 2016 year-end accounts, where such information was available.

Difference in RPI and CPI inflation assumptions used in December 2014, December 2015 and March 2016 (% pa)



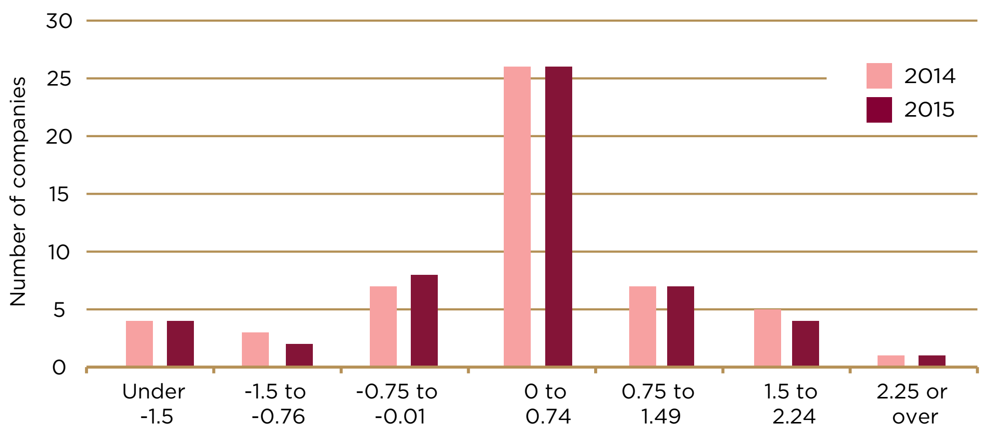
At 31 December 2015 the average margin was 1.0% pa which is unchanged from 31 December 2014 but higher than the average of 0.9% pa at 31 December 2013. At 31 December 2015, **Aviva**, **Persimmon**, **Schroders**, **Rolls Royce** and **RSA** used a long-term CPI inflation assumption of 1.1% pa below their RPI inflation assumption, the largest margin at that accounting date.

Increases in pensionable pay

For schemes that still relate benefits to pay close to retirement, the assumed rate of growth in pensionable pay affects the disclosed IAS19 liability and the cost of benefits being earned. A lower assumption produces a lower projected pension and hence lower pension liabilities as well as a lower charge to operating income.

The average assumption for increases in pensionable pay (in excess of the RPI inflation assumption) has remained unchanged from 0.1% in 2014. In recent years a number of companies have introduced caps on or even frozen increases in pensionable salary and as a result disclosed a salary increase assumption lower than RPI inflation.

Pensionable pay growth rates used in excess of RPI inflation (% pa)



As the number of active members in final salary pension schemes has reduced, the assumption for salary growth has become less significant.

APPENDICES

Nick Bunch
Partner
LCP

The 56 companies reporting a pension deficit paid out 25% more in dividends than their combined deficit.

Appendix 1: FTSE 100 accounting disclosure listing

This table shows the key disclosures made by the companies in the FTSE 100 as at 31 December 2015 that reported IAS19 figures in their 2015 accounts. The source of the data is each company's annual report and accounts for the accounting period ending in 2015. The market value of assets and surplus/(deficit) figures exclude post retirement medical benefits where possible and relate to the worldwide position of each company, not just the UK schemes. Figures shown are before deferred tax and before any balance sheet asset limits have been applied. All figures are rounded to the nearest million pounds. The discount rate and price inflation assumptions refer to those disclosed for the companies' main UK schemes where available. "ND" means no UK specific figures were disclosed.

			2015	Surplus/(Deficit)					2014	Surplus/(Deficit)				
Company	Sector	Year-end	Market value of assets £m	Total £m	Funded schemes £m	Discount rate % pa	RPI Inflation[1] % pa	Disclosed mortality?[2]	Market value of assets £m	Total £m	Funded schemes £m	Discount rate % pa	RPI Inflation[1] % pa	Disclosed mortality?[2]
3i	Financials	Mar	1,056	190	190	3.30	3.10	Y	899	197	197	4.50	3.40	Y
Aberdeen Asset Management	Financials	Sep	210	21	21	3.90	3.10	Y	192	0	0	4.00	3.20	Y
Anglo American	Basic Materials	Dec	3,435	90	200	3.90	3.10	Y	3,601	(159)	(19)	3.60	3.10	Y
Ashtead Group	Industrials	Apr	93	3	3	3.50	3.30	Y	84	6	6	4.30	3.50	Y
Associated British Foods	Consumer Goods	Sep	3,634	(10)	63	3.80	3.30	Y	3,485	(31)	46	4.10	3.40	Y
AstraZeneca	Healthcare	Dec	6,358	(1,118)	(776)	3.80	3.00	Y	6,778	(1,870)	(1,493)	3.50	3.10	Y
Aviva[3]	Financials	Dec	16,707	2,383	2,503	3.75	3.15	Y	15,474	2,304	2,424	3.70	3.10	Y
Babcock International Group	Industrials	Mar	3,938	(169)	(169)	3.40	2.90	Y	3,220	(268)	(268)	4.50	ND	Y
BAE Systems[4]	Industrials	Dec	23,661	(4,522)	(4,332)	3.90	3.20	Y	23,675	(5,387)	(5,208)	3.60	3.20	Y
Barclays	Financials	Dec	28,752	473	718	3.82	3.05	Y	28,874	(1,518)	(1,232)	3.67	3.05	Y
Barratt Developments	Consumer Goods	Jun	373	5	5	3.80	3.30	Y	330	3	3	4.30	3.30	Y
Berkeley Group Holdings	Consumer Goods	Apr	18	2	2	3.50	3.30	Y	16	1	1	4.30	3.40	Y
BG Group	Oil & Gas	Dec	1,518	93	141	3.80	3.10	Y	1,285	(165)	(117)	3.70	3.10	Y
BHP Billiton	Basic Materials	Jun	526	(102)	(29)	ND	ND	N	778	(48)	13	ND	ND	N
BP	Oil & Gas	Dec	28,612	(4,215)	1,435	3.90	3.00	Y	28,143	(5,507)	(883)	3.60	3.00	Y
British American Tobacco	Consumer Goods	Dec	6,076	(144)	132	3.80	3.10	Y	6,253	(628)	(341)	3.40	3.00	Y
British Land Co	Financials	Mar	139	(6)	(6)	3.10	3.30	Y	131	6	6	4.40	3.70	Y
BT Group	Telecommunications	Mar	43,627	(7,583)	(7,503)	3.25	2.85	Y	40,113	(7,022)	(6,953)	4.25	3.25	Y
Bunzl	Industrials	Dec	377	(40)	(22)	3.90	ND	Y	366	(70)	(52)	3.70	ND	Y
Capita	Industrials	Dec	955	(188)	(188)	3.90	3.00	Y	940	(193)	(193)	3.75	3.00	Y
Carnival	Consumer Services	Nov	405	19	19	3.60	3.15	Y	374	7	7	3.85	3.20	Y
Centrica	Utilities	Dec	6,642	(119)	(69)	3.90	3.00	Y	6,444	62	111	3.90	3.00	Y
Coca-Cola HBC	Consumer Goods	Dec	282	(86)	(13)	ND	ND	N	267	(112)	(28)	ND	ND	N
Compass Group	Consumer Services	Sep	2,522	(9)	183	3.80	3.10	Y	2,307	(170)	21	4.00	3.20	Y
CRH	Industrials	Dec	1,761	(421)	(330)	3.95	3.00	N	1,594	(541)	(495)	3.50	3.00	Y
DCC	Industrials	Mar	85	(10)	(10)	3.35	3.10	Y	104	(16)	(16)	4.50	3.50	Y
Diageo	Consumer Goods	Jun	7,883	(257)	(9)	3.80	3.20	Y	7,480	(473)	(235)	4.20	3.30	Y

Appendix 1: FTSE 100 accounting disclosure listing

			2015	Surplus/(Deficit)					2014	Surplus/(Deficit)				
Company	Sector	Year-end	Market value of assets £m	Total £m	Funded schemes £m	Discount rate % pa	RPI Inflation[1] % pa	Disclosed mortality?[2]	Market value of assets £m	Total £m	Funded schemes £m	Discount rate % pa	RPI Inflation[1] % pa	Disclosed mortality?[2]
Direct Line Insurance Group	Financials	Dec	85	13	13	3.80	3.20	Y	83	4	4	3.40	3.10	Y
Dixons Carphone[5]	Consumer Services	May	945	(486)	(486)	3.50	3.10	Y						
Experian	Industrials	Mar	739	4	39	3.30	2.90	Y	665	14	45	4.30	3.30	Y
Fresnillo	Basic Materials	Dec	12	(10)	(4)	ND	ND	N	13	(9)	(3)	ND	ND	N
GKN	Consumer Goods	Dec	2,560	(1,482)	(977)	3.80	3.10	Y	2,627	(1,631)	(1,067)	3.53	3.08	Y
GlaxoSmithKline	Healthcare	Dec	16,126	(1,584)	(1,017)	3.80	3.10	Y	16,112	(1,689)	(1,238)	3.60	3.00	Y
Glencore Xstrata	Basic Materials	Dec	2,081	(235)	(235)	ND	ND	N	2,342	(340)	(340)	ND	ND	N
Hammerson	Financials	Dec	63	(38)	(26)	3.80	3.10	Y	62	(40)	(28)	3.60	3.10	Y
HSBC Holdings	Financials	Dec	27,961	2,091	2,091	3.70	3.20	Y	28,777	1,773	1,773	3.70	3.20	Y
Imperial Tobacco Group	Consumer Goods	Sep	3,533	(403)	79	3.70	3.00	Y	3,094	(474)	28	4.00	3.20	Y
Inmarsat	Telecommunications	Dec	87	12	12	3.92	ND	Y	86	11	11	3.74	ND	Y
InterContinental Hotels Group	Consumer Services	Dec	82	(73)	(20)	4.00	3.20	Y	112	(71)	(15)	3.70	3.30	Y
International Airlines Group	Consumer Services	Dec	20,690	491	548	3.73	2.93	Y	21,195	38	115	3.63	2.90	Y
Intertek Group	Industrials	Dec	121	(27)	(27)	3.70	ND	Y	120	(25)	(25)	3.60	ND	Y
ITV	Consumer Services	Dec	3,270	(176)	(130)	3.90	3.05	Y	3,341	(346)	(298)	3.60	3.03	Y
Johnson Matthey	Basic Materials	Mar	1,829	(136)	(136)	3.40	3.10	Y	1,456	(117)	(117)	4.60	3.40	Y
Kingfisher	Consumer Services	Jan	2,815	112	112	3.00	2.80	Y	2,127	(100)	(100)	4.40	3.30	Y
Land Securities Group	Financials	Mar	227	7	7	3.10	3.20	Y	196	2	2	4.25	3.60	Y
Legal & General Group[3]	Financials	Dec	1,932	(385)	(385)	3.80	3.00	Y	1,910	(494)	(494)	3.60	3.10	Y
Lloyds Banking Group	Financials	Dec	37,639	736	736	3.87	2.99	Y	38,133	890	890	3.67	2.95	Y
London Stock Exchange Group	Financials	Dec	494	(15)	(15)	3.95	3.10	Y	507	(24)	(24)	3.70	3.10	Y
Marks & Spencer Group	Consumer Services	Mar	8,597	460	461	3.10	3.10	Y	6,729	200	201	4.45	3.40	Y
Merlin Entertainments	Consumer Services	Dec	28	(5)	(5)	3.90	3.20	Y	28	(5)	(5)	3.90	3.20	Y
Mondi Group	Basic Materials	Dec	100	(118)	(20)	ND	ND	N	110	(148)	(36)	ND	ND	N
National Grid	Utilities	Mar	24,505	(1,675)	(1,375)	3.30	2.90	Y	21,638	(1,276)	(1,028)	4.30	3.30	Y
Next	Consumer Services	Jan	775	38	50	3.18	2.98	Y	668	70	80	4.28	3.38	Y
Old Mutual	Financials	Dec	616	125	125	ND	ND	N	621	107	107	ND	ND	N

Appendix 1: FTSE 100 accounting disclosure listing

Company	Sector	Year-end	2015 Market value of assets £m	2015 Surplus/(Deficit) Total £m	2015 Surplus/(Deficit) Funded schemes £m	2015 Discount rate % pa	2015 RPI Inflation[1] % pa	2015 Disclosed mortality?[2]	2014 Market value of assets £m	2014 Surplus/(Deficit) Total £m	2014 Surplus/(Deficit) Funded schemes £m	2014 Discount rate % pa	2014 RPI Inflation[1] % pa	2014 Disclosed mortality?[2]
Pearson	Consumer Services	Dec	2,938	297	315	3.70	3.10	Y	2,878	135	158	3.60	3.00	Y
Persimmon	Consumer Goods	Dec	512	18	18	3.70	3.00	Y	506	(1)	(1)	3.60	3.10	Y
Provident Financial	Financials	Dec	666	62	62	3.75	3.00	Y	700	56	56	3.70	3.10	Y
Prudential[3]	Financials	Dec	7,819	961	961	3.80	3.00	N	8,067	755	755	3.50	3.00	N
RBS	Financials	Dec	34,708	(444)	(444)	3.90	3.00	Y	34,359	(2,284)	(2,284)	3.70	3.00	Y
Reckitt Benckiser Group	Consumer Goods	Dec	1,676	(72)	52	3.80	3.30	Y	1,650	(167)	(43)	3.50	3.30	Y
RELX Group	Consumer Services	Dec	3,660	(384)	(189)	3.85	3.05	Y	4,345	(632)	(439)	3.75	2.90	Y
Rio Tinto	Basic Materials	Dec	8,916	(1,058)	(524)	3.70	3.00	N	9,755	(1,688)	(1,058)	3.40	3.00	N
Rolls-Royce Holdings	Industrials	Dec	12,554	349	990	3.60	3.20	Y	12,934	978	1,664	3.60	3.20	Y
Royal Dutch Shell	Oil & Gas	Dec	54,841	(2,881)	168	ND	ND	N	55,416	(6,740)	(3,519)	ND	ND	N
Royal Mail	Industrials	Mar	6,619	3,194	3,194	3.50	3.10	Y	3,833	1,736	1,736	4.50	3.40	Y
RSA Insurance Group	Financials	Dec	7,193	67	163	3.81	3.02	Y	7,500	(98)	34	3.70	3.00	Y
SABMiller	Consumer Goods	Mar	306	(48)	35	ND	ND	N	287	(49)	44	ND	ND	N
Sage Group (The)	Technology	Sep	18	(19)	(19)	ND	ND	N	17	(14)	(14)	ND	ND	N
Sainsbury (J)	Consumer Services	Mar	6,988	(708)	(692)	3.50	3.00	Y	6,131	(737)	(724)	4.25	3.40	Y
Schroders	Financials	Dec	937	115	115	3.80	3.30	Y	988	104	104	3.60	3.30	Y
Severn Trent	Utilities	Mar	2,087	(469)	(459)	3.30	3.00	Y	1,824	(348)	(339)	4.40	3.30	Y
Smith & Nephew	Healthcare	Dec	912	(95)	(66)	3.80	3.10	Y	904	(115)	(85)	3.70	3.00	Y
Smiths Group	Industrials	Jul	4,017	(89)	7	3.50	3.20	Y	3,800	(224)	(135)	4.00	3.30	Y
Sports Direct International	Consumer Services	Apr	60	(15)	(15)	3.30	3.20	Y	49	(15)	(15)	4.30	3.40	Y
SSE	Utilities	Mar	3,751	(458)	(458)	3.30	3.20	Y	3,257	(437)	(437)	4.30	3.60	Y
Standard Chartered	Financials	Dec	1,576	(260)	(138)	3.70	ND	Y	1,691	(234)	(108)	3.60	ND	Y
Standard Life	Financials	Dec	3,996	1,378	1,386	3.70	3.15	Y	4,266	1,029	1,110	3.60	3.35	Y
Taylor Wimpey	Consumer Goods	Dec	1,889	(177)	(177)	3.70	ND	Y	2,004	(182)	(182)	3.50	ND	Y
Tesco	Consumer Services	Feb	9,677	(4,842)	(4,708)	3.70	3.10	Y	8,124	(3,193)	(3,082)	4.70	3.30	Y
Travis Perkins	Industrials	Dec	1,161	(1)	(1)	3.85	3.20	Y	1,140	(96)	(96)	3.70	3.10	Y
TUI Group	Consumer Services	Sep	1,704	(837)	(303)	3.80	ND	N	1,544	(994)	(424)	3.90	ND	Y

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Company	Sector	Year-end	2015 Market value of assets £m	2015 Surplus/(Deficit) Total £m	2015 Surplus/(Deficit) Funded schemes £m	2015 Discount rate % pa	2015 RPI Inflation[1] % pa	2015 Disclosed mortality?[2]	2014 Market value of assets £m	2014 Surplus/(Deficit) Total £m	2014 Surplus/(Deficit) Funded schemes £m	2014 Discount rate % pa	2014 RPI Inflation[1] % pa	2014 Disclosed mortality?[2]
Unilever	Consumer Goods	Dec	15,273	(1,285)	(460)	3.70	3.00	Y	15,902	(2,310)	(1,419)	3.50	2.90	Y
United Utilities Group	Utilities	Mar	3,134	79	79	3.10	3.00	Y	2,377	(177)	(177)	4.30	3.30	Y
Vodafone Group	Telecommunications	Mar	4,956	(398)	(332)	3.00	3.00	Y	3,842	(549)	(483)	4.20	3.20	Y
Whitbread	Consumer Services	Feb	1,894	(554)	(554)	3.30	2.90	Y	1,571	(534)	(534)	4.30	3.25	Y
Wolseley	Industrials	Jul	1,477	(15)	27	3.60	3.20	Y	1,384	7	56	4.30	3.30	Y
WPP	Consumer Services	Dec	814	(226)	(62)	3.70	ND	Y	850	(295)	(132)	3.40	ND	Y

Notes:

1 We have listed RPI as the measure of inflation and excluded CPI where it could be identified in the accounts.

2 This column indicates companies that disclosed sufficient information to calculate their assumption for life expectancy for a male pensioner in the UK.

3 Aviva, Legal & General and Prudential hold group insurance policies that are not recognised under IAS19 in respect of some of their obligations. We have included the disclosed value of these policies in the figures stated above, as follows: Aviva £546m (2014: £0m), Legal & General: £746m (2014: £723m) and Prudential: £202m (2014: £263m).

4 The figures for BAE Systems exclude £1,053m of its 2015 deficit (£1,444m in 2014) which is allocated to equity accounted investments and other participating employers.

5 Dixons Carphone acquired its defined benefit pension scheme during its 2015 accounting year. No figures are therefore shown for 2014.

The 2015 figures are as at the end of the accounting periods ending in 2015. The 2014 figures are as at the start of the accounting period. All figures shown above were taken from IAS19 disclosures. Figures have been converted to pounds sterling where a company has reported figures in its accounts in a different currency.

Traditionally, some companies with overseas pension plans do not fund them via an external scheme, instead backing the pension plan with company assets, which may result in a larger deficit being disclosed. Where disclosed, the surplus/(deficit) attributable to funded schemes is also shown above.

The discount rates and inflation assumptions refer to those disclosed for the companies' main UK scheme(s). Where a company has disclosed a range of assumptions, we have taken the mid-point. Where a company operates pension schemes in more than one country, we have considered the assumptions used for the UK if separately given. "ND" means no UK figures were disclosed.

We have excluded from our survey the following 13 companies who had no evidence of significant defined benefit provision: Admiral Group, Antofagasta, ARM Holdings, Burberry Group, Easyjet, Hargreaves Lansdown, Hikma Pharmaceuticals, Intu Properties, Randgold Resources, Shire, Sky, St James's Place and Worldpay.

The following five companies have entered the FTSE 100 index since 31 December 2015 and hence are not included in our survey: Informa, Mediclinic International, Morrison (Wm) Supermarkets, Paddy Power Betfair and Rexam. The following five companies have exited the FTSE 100 index since 31 December 2015: Aberdeen Asset Management, BG Group, Inmarsat, Smiths Group and Sports Direct International.

These tables show the key results of analysis of the disclosures made by the companies in the FTSE 100 as at 31 December 2015 that were reported in their 2015 accounts.

The figures relate to the worldwide position of each company (not just the UK disclosure) but exclude healthcare and defined contribution pension arrangements where possible. The source of the data is each company's annual report and accounts for the accounting period ending in 2015. The surplus/(deficit) figures are before allowing for deferred tax and before any balance sheet asset limit has been applied.

Traditionally, some companies with overseas pension schemes do not fund them via an external scheme, instead backing the pension scheme with company assets, which may result in a larger deficit being disclosed.

The source of market capitalisation figures is the FTSE All-Share Index Series reports as at the companies' year-ends (where available).

All figures shown here have been calculated using unrounded numbers. Therefore, some metrics shown may differ to those calculated using the rounded numbers.

Largest IAS19 liabilities

Company	2015 Liabilities £m	2014 Liabilities £m
Royal Dutch Shell	57,723	62,156
BT Group	51,210	47,135
Lloyds Banking Group	36,903	37,243
RBS	35,152	36,643
BP	32,827	33,650
BAE Systems[1]	29,236	30,506
Barclays	28,279	30,392
National Grid	26,180	22,914
HSBC Holdings	25,870	27,004
International Airlines Group	20,199	21,157

Largest IAS19 deficits

Company	2015 Deficit £m	2014 Deficit £m
BT Group	7,583	7,022
Tesco	4,842	3,193
BAE Systems[2]	4,522	5,387
BP	4,215	5,507
Royal Dutch Shell	2,881	6,740
National Grid	1,675	1,276
GlaxoSmithKline	1,584	1,689
GKN	1,482	1,631
Unilever	1,285	2,310
AstraZeneca	1,118	1,870

Largest IAS19 liabilities compared to market capitalisation				
Company	Liabilities £m	Market cap £m	2015 Liabilities/ Market cap %	2014 Liabilities/ Market cap %
BAE Systems[1]	29,236	15,802	185	204
RSA Insurance Group	7,126	4,332	164	174
International Airlines Group	20,199	12,430	163	214
Sainsbury (J)	7,696	4,946	156	115
BT Group	51,210	36,657	140	158
Rolls-Royce Holdings	11,564	10,572	109	73
RBS[3]	35,152	34,954	101	146
Smiths Group	4,106	4,426	93	80
Marks & Spencer Group	8,137	8,803	92	89
Babcock International Group	4,107	4,944	83	72

Largest IAS19 deficit compared to market capitalisation				
Company	Deficit £m	Market cap £m	2015 Deficit/ Market cap %	2014 Deficit/ Market cap %
BAE Systems[2]	4,522	15,802	29	36
GKN	1,482	5,285	28	29
Tesco	4,842	19,934	24	12
BT Group	7,583	36,657	21	23
Sainsbury (J)	708	4,946	14	12
TUI Group	837	7,139	12	23
Dixons Carphone	486	4,852	10	n/a
Severn Trent	469	4,902	10	8
BP	4,215	64,560	7	7
Whitbread	554	9,475	6	7

Highest funding level				
Company	Assets £m	Liabilities £m	2015 Assets/ Liabilities %	2014 Assets/ Liabilities %
Royal Mail	6,619	3,425	193	183
Standard Life	3,996	2,618	153	132
Old Mutual	616	491	125	121
3i	1,056	866	122	128
Direct Line Insurance Group	85	72	118	104
Aviva	16,707	14,324	117	117
Inmarsat	87	75	116	114
Schroders	937	821	114	112
Prudential[4]	7,819	6,858	114	110
Pearson	2,938	2,641	111	105

Largest service cost[5]		
Company	**2015 Service cost £m**	**2014 Service cost £m**
Royal Dutch Shell	1,214	1,120
BP	696	565
Tesco	631	542
Royal Mail	508	448
RBS	368	359
BAE Systems	363	318
GlaxoSmithKline	325	272
Lloyds Banking Group	314	297
BT Group	249	272
HSBC Holdings	248	304

Largest employer contributions		
Company	**2015 Contributions £m**	**2014 Contributions £m**
RBS	1,060	1,065
BT Group	1,054	553
Royal Dutch Shell	848	1,113
BP	694	760
Barclays	689	347
Tesco	576	535
BAE Systems[6]	536	640
International Airlines Group	499	483
GlaxoSmithKline	462	323
HSBC Holdings	428	410

Highest employer contributions compared to dividends paid[7]				
Company	**Contributions £m**	**Dividends £m**	**2015 Contributions /Dividends %**	**2014 Contributions /Dividends %**
International Airlines Group	499	119	420	no dividends
RBS	1,060	416	255	278
Royal Mail	409	201	203	no dividends
RSA Insurance Group	113	68	166	760
BT Group	1,054	924	114	71
BAE Systems[6]	536	695	77	98
Babcock International Group	88	117	75	96
Tesco	576	914	63	45
Whitbread	81	131	62	114
Centrica	224	387	58	22

Largest employer contributions compared to service cost[5]				
Company	Contributions £m	Service cost £m	2015 Contributions less service cost £m	2014 Contributions less service cost £m
Barclays	689	-131	820	28
BT Group	1,054	249	805	281
RBS	1,060	368	692	706
Vodafone Group	404	37	367	449
International Airlines Group	499	193	306	318
BAE Systems[6]	536	363	173	322
BG Group	252	0	252	25
Aviva	240	-1	241	391
National Grid	384	156	228	259
British American Tobacco	262	77	185	163

Highest equity allocation		
Company	2015 Equity allocation %	2014 Equity allocation %
Merlin Entertainments	82	82
Ashtead Group	70	70
Tesco	62	60
BP	56	63
GlaxoSmithKline	54	53
Travis Perkins	53	53
Wolseley	53	59
Next	51	51
Whitbread	51	56
Persimmon	49	48

1 The liability figures for BAE Systems include liabilities allocated to equity accounted investments and other participating employers.

2 The deficit figures for BAE Systems exclude £1,053m of its 2015 deficit (2014: £1,444m) which is allocated to equity accounted investments and other participating employers.

3 The market capitalisation for RBS does not include non voting B shares held by the government.

4 Prudential holds group insurance policies, which are not recognised under IAS19, in respect of some of its obligations. We have included the disclosed value of these policies in the figures stated above, which was £202m for 2015 (2014: £263m).

5 The service cost (representing the value of benefits earned over the accounting period) includes the value of any past service benefits awarded to members during the year.

6 The figures for BAE Systems do not include contributions by the employer in respect of employee salary sacrifice arrangements.

7 Sports Direct International did not pay a dividend in 2014 or 2015 but contributed £3m (2014: £3m) to its pension scheme.

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LCP Accounting for Pensions 2016

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