THE WALL STREET JOURNAL.
WSJ.com

HEARD ON THE STREET | NOVEMBER 14, 2008

Pension Pain at BT Group May Spread

By SEAN WALTERS

Call it the revenge of the Old World. On top of a recession hammering earnings, Europe's companies could face bigger payments to plug pension deficits than standard accounting measures suggest. No wonder BT Group is proposing radical changes like raising the retirement age from 60 to 65.

According to the U.K. telco's accounts, its pension plan, with assets of more than £34 billion ($51 billion), had a £900 million pretax surplus at the end of September.

But the plan's liabilities are discounted against a benchmark of AA-rated corporate-bond yields. As those rose to 7.25% in September from 6.85% in March, it helped reduce the plan's £33.4 billion liabilities by about £1 billion.

However, BT faces a triennial pension-fund valuation at year end -- where the actuaries don't use the corporate-bond benchmark. They typically discount liabilities using a lower modified risk-free rate, which Merrill Lynch estimates at around 0.5% above U.K. government-bond yields, currently 4.75%. If there is a deficit on that basis, trustees can claim top-up payments.

Under that scenario, and assuming Sept. 30 asset values, the implied deficit for BT could hit £5 billion. That would mean a £500 million annual cash call to plug the gap over 10 years. Admittedly, the calculation doesn't incorporate any changes to BT's pension conditions to reduce liabilities. But it also ignores any hit to the fund's assets from October's market wipeout.

Other companies in the spotlight on pension deficits include British Airways, Grupo Ferrovial and ITV. Without a sharp bounce in the price of equities and other assets, expect more retirement conditions to be rewritten as companies scramble to avoid pension-related cash calls.

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