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BP — Is your pension safe?

We answer your questions on the impact of BP's troubles on your pension fund



(Jeff Blackler/Rex Features)

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The financial impact of BP's Gulf of Mexico oil spill is set to hit millions of pension fund investors in the UK. Almost every pension investor has a stake in BP's fortunes, as the oil giant accounts for £1 of every £7 of dividend income paid out by the companies in the FTSE 100 index of leading shares. There is a real threat that the BP dividend will be cut or even passed.

On top of that, the fall of about 40 per cent in BP's share price since oil started spilling into the Gulf of Mexico on April 20 will have slashed billions of pounds off the value of UK investors' pension pots. In total more than £55 billion has been wiped off BP's market value.

So what does this mean for the ordinary UK pension investor?

I am in a final-salary scheme. Will I be affected?

No. You are in the fortunate position that your pension benefits are guaranteed and depend on your salary and length of service in the company.

However, Laith Khalaf, a pensions analyst for Hargreaves Lansdown, the independent financial adviser, says: "The companies who provide these benefits could be squeezed by a cut in BP's dividend and a fall in its share price."

I am in a money-purchase scheme. How will this affect me?

People in money-purchase schemes will feel the pain much more directly because the size of their eventual pension is dependent on the investment performance of their pension fund.

Most pension funds tend to have about 8 per cent of their UK equity holdings in BP because until recently it represented about 8 per cent of the FTSE 100 index of leading shares.

I know my pension fund holds BP shares. Will I have suffered a drop in the value of my pension pot?

You could have suffered from a fall in the value of your pension pot if it held a substantial chunk of BP shares. However, the impact of any fall in BP shares will be diluted by a number of factors.

First, even if your pension fund had 8 per cent of its UK shareholdings in BP, that still leaves 92 per cent in other stocks. Second, pension funds invest not only in the UK stock market but also in Europe, the United States and the rest of the world, adding an extra element of dilution. Finally, pension funds

normally have holdings in other assets, such as bonds, property and cash, thus ensuring that no one single investment can have too much of an effect on the fund's overall performance.

Is this what people mean by diversification?

Yes. It may sound like a boring technical word but in times such as this, diversification really comes into its own.

I am retiring and taking my pension in a few weeks' time. How will the problems with BP shares affect me?

Probably very little if at all. Mr Khalaf says: "Most pension funds adopt an investment policy known as 'lifestyling'. This means that the pension fund managers move money progressively away from risky assets, such as shares, and into safer options, such as bonds and cash, as investors approach retirement age. When very close to retirement age, many members of pension funds will find they have no money at all in shares and are thus not exposed at all to the fluctuations of the stock market.

Does this apply to all pension funds?

No, you would need to check what the position is with your own particular fund. Even if they do not do it automatically, most pension fund managers will offer their members the lifestyle option. Those nearing retirement would be well advised to consider taking it if they have not done so already.

I am retiring in a year's time. Will I be hit if BP cuts its dividend payment?

Such a dividend cut might have some effect, but, given all the dilution factors mentioned above, it would be a very modest effect. It is also possible that any cut in the BP dividend would be more than offset by a rise in the value of BP shares if they bounce back from their present low point.

I am a member of the BP pension scheme. How will I be affected by the problems with BP shares?

The short answer: not at all. The BP pension fund must be one of the few in the country that does not invest in BP shares.

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