JAGGER & ASSOCIATES

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The misery faced by some pension funds due in part to inconsistencies in the way the MFR is calculated is well known, in particular for those liabilities deemed to be matched by UK Equities.

However, what may not yet be appreciated is the scale of the damage that is set to be inflicted by the current wave of high-profile dividend decisions.

On its own, British Telecom accounts for over 4% of the dividends paid in the All Share index, and as such its recently proposed nil dividend this year will reduce the reported funding level for equity-backed liabilities by that amount. The possible reduction by Royal & Sun Alliance (which accounts for 1.5% of dividends paid) would just exacerbate matters - to have changes in reported funding levels by possibly 5.5% simply due to two companies' decisions is ludicrous.

For those who are interested, the next "2 to watch" from a dividend perspective are Lloyds TSB (next results due in July), and BAT (also due in July), both major stocks with dividend yields higher than BT's. Any material reduction in their dividends would feed through to further deterioration in reported funding levels, even though nothing would have changed from the perspective of the pension scheme itself.

The cumulative inconsistency in the MFR equity calculation since December 1997 is now 19%, in part from the dividend effects of the Vodafone Mannesmann deal, but it is clear that the developments at BT and elsewhere will just continue to make things worse.

What is required as a matter of urgency once the new government is elected is a piece of suspension legislation, followed by an admittedly temporary "fix", whilst the wider review in progress continues.

We need to ensure that no more schemes or sponsoring companies are deemed insolvent simply because of actuarial sums which with the wisdom of hindsight were poorly constructed.

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