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Don't panic about oil spill seeping into pension pots

Concerns have been raised about the very future of BP and the knock-on effect on our pension funds. But don't panic just yet, says personal finance editor Adam Aiken

The BP oil disaster in the gulf of Mexico is a tragedy on a huge scale. The environmental impact will be felt for years – perhaps decades – while the livelihoods of hundreds of thousands of people could be affected for a long time to come.

The most important thing is plugging the damn hole, as US president Barack Obama, bluntly put it, but the clean-up efforts will then continue in earnest for a long while afterwards.

There is also the longer-term impact on the future of oil drilling in the Gulf of Mexico and elsewhere. An then there's the effect on BP and the company's very future.

There might not be many people who have much sympathy for the oil company at the moment, and understandably so. But more of us than we might realise could be affected by the demise – whether temporary or permanent – of BP.

The past few days have seen the death knell for BP sounded by some analysts. It's impossible to say for sure what will happen – history is littered with corpses of corporate giants once considered to be unsinkable. Events at Enron and Lehman Brothers bear no relation to what is happening to BP, but they are good examples of how businesses that were one day part of the fabric of the global economy were consigned to the corporate dustbin the next.

As with BP, there was little sympathy for Enron or Lehman when it all went pear-shaped. But it

wasn't just the guys at the top who lost everything – tens of thousands of lower-paid staff lost their jobs, and in many cases lost a lot more thanks to the stock holdings they had built up in their employer.

Should the worst happen to BP, it could all be repeated. But unlike with Enron or Lehman, there would be a far bigger effect on the British public should BP fail. It's all to do with our pension schemes.

Millions of people in the UK save into pensions. For most of us, the growth of our pension pots depends on how the money is invested.

The vast majority of the money in those funds is invested in shares, and that's why BP's fate will impact upon many people who may not even have been near a BP filling station.

BP makes up about 7pc of the FTSE 100, meaning that any movement in its share price can have a huge effect on our investments. In other words, it's not just those people who have directly bought BP shares who stand to lose if the company's share price collapses. Millions more will suffer because of their pension pots, and that's why the company's fate is so intrinsically linked to the financial planning of many of the nation's savers.

As **Carl Lamb, of financial advice firm Almary Green**, pointed out yesterday, "many investors will feel the impact of the current fall in BP share values following the disastrous oil leak in

the Gulf of Mexico – perhaps without knowing it”.

As well as the share price, there is also the issue of dividends – the annual payouts to shareholders from company profits.

Traditionally, BP has made generous dividend payments. Last year, for example, it paid out £10bn to shareholders, accounting for £1 out of every £7 paid out in dividends by FTSE 100 companies. That in itself has made BP shares particularly popular with many pension funds.

However, the dividend might be safe because the costs of the disaster are likely to be spread over many years.

It’s all about context. The damage in the Gulf of Mexico might actually be appalling, but the bill (financially, at least) looks affordable for BP.

The company admitted this week that the cost of the disaster had already reached nearly \$1bn, and potential criminal charges and civil lawsuits could quickly see that figure dwarfed. But we’re talking about a business that recently reported profits of \$6.1bn for the first quarter of this year alone.

BP might be in an oily mess up to its eyeballs, but that doesn’t mean it’s fatally wounded.

As with Enron and Lehman, its name is going to have negative connotations for a long time to come. But its general business hasn’t been blown to pieces. The crumbling share price – it has already lost a third of its value – could make it a target for a takeover bid, but takeover bids themselves can help to boost the price of shares.

As investors in UK banks have found over the past few years, a dramatic fall in share prices can lead to winners as well as losers. One man’s loss is another man’s opportunity. And, of course, pension investments are designed to be long-term plans that can cope with the ups

and downs. As ever, speak to an adviser if you’re concerned about your investments. There’s never a bad time to keep an eye on your pension pot, and now is as good a time as ever to re-evaluate your position.

But while none of us knows what’s going to happen in the future, take some of the Armageddon warnings with a pinch of salt. We’re not all doomed just yet.