Telstra dusts $1.2bn on pension liabilities

Telstra's public relations team are probably hoping the noise from Sol Trujillo's departure will distract investors enough to stop them looking too closely at its financial statements. Buried on page 76 of the half-yearly results announcement, however, is the fact that Telstra's pension scheme has lost a fortune.

A relic from the days of government ownership, Telstra is one of the few Australian companies to maintain a defined benefit scheme – where employees are guaranteed a fixed pension or payout on retirement.

The portfolio Telstra had set aside to meet this liability lost $314m since 30 June last year and, to make matters worse, the bean counters have decided the assumptions about how much they originally needed to fund their future obligations were too optimistic – at the new assumed rates of return Telstra needs to put aside an additional $758m. Throw in the extra contributions tax they'll need to pay and the total hit to shareholders is $1.2bn.

So why did the half-year profit look so healthy? The accounting standards dictate that these losses never show up in the profit and loss statement but get deducted straight from shareholders' equity. Rest assured if you're a Telstra shareholder, you're $1.2bn out of pocket.