

# THE GREAT RAIL PENSIONS GAMBLE

**The Railways Pension Scheme is in trouble. The rail unions are threatening a national rail strike if a solution isn't found. Paul Coleman unravels the road to retirement from the railways**

Steve starts his shift at 6.30am. He's a platform host with three years service for Wagn on the Hertford Loop. 'I've been worried about my pension since First Capital Connect won the franchise,' says Steve.

Faithfully, Steve's paid £15 out of his £223 weekly pay to the West Anglia Great Northern Railway Section of the national Railways Pension Scheme (RPS). He's assumed his contributions will accrue and guarantee basic benefits of a lump sum of £8,721 and a yearly pension of £3,276. Steve, 38, is unmoved by the pension industry's comforting symbolism of umbrellas and sunsets. The front cover of his copy of *Review*, the glossy Railways Pension Scheme bulletin, blazes an image of an open road curving towards the horizon under a bright blue sky that is graced by fluffy, white clouds.

The three rail unions, in a rare joint campaign, warn the RPS' 344,633 members that menacing clouds are gathering over the final salary scheme and its defined benefits.

The Actuary valued the RPS and its 101 sections in 2004, just before the recovery of declining equity markets so shaken by 9/11. Seventy-four sections were in deficit. Only 24 enjoyed a surplus. The combined RPS net shortfall totalled £590m. The unions interpret this as a 'rupture' and a danger to the 95,000 rail staff who contribute to the RPS.

The 1994 Pensioners Section, comprising 163,931 members, most of who are from the former British Rail pension scheme, recorded a shortfall of £466m.

Network Rail, which has closed its RPS section to new employees until they have completed five years service, is one of the largest sections with 25,344 members. Figures from Watson Wyatt – the Actuary – show Network Rail section's funding level at 93.1 per cent. In real money, that's a deficit of over £144m.

The figures suggest that sections that are closed to new staff don't perform as well as those that remain open.

Melvin, 41, a Network Rail signaller manager and father of two with a large mortgage, started contributing to the RPS back in 1992. Some £187 is deducted from his monthly salary and paid to the Network Rail section. Currently, his contributions mean Melvin would have the option of a lump sum of £32,000 and a yearly pension of just shy of £5,000 if he retires at age 60.

'I get paid a decent salary but I often work long hours,' says Melvin. 'I wouldn't like to pay more for a pension that pays out less when I retire.'

Elsewhere, one third of sections are only 90-94 per cent funded, including Eurostar, Bombardier Transportation UK, Porterbrook, EWS, Balfour Beatty, Carillion Rail, Chiltern Rail and Central Trains.

Scott Wilson Railways, South West Trains, Amey Rail and GNER are in a worse state with less than 90 per cent of the funds they need to meet their members' pension requirements. Steve's 2,507 colleagues and pensioners are in a Wagn section that had a net loss of £20.8m in 2004.

Bluntly, the RPS is deemed as no longer

having enough in the kitty to pay the pensions and death benefits of all of its current or future retired rail staff, particularly as they – happily if unhelpfully – soldier on to a riper old age and claim their pensions longer. If no agreement on how to refund the deficits is reached by 30 June this year, then a default position could trigger a new higher contribution rate on 1 July for both employees and their companies.

The worry is that many employees might be asked to increase their RPS contributions by between six and 21 per cent, forcing some to take a long pensions holiday or abandon the scheme altogether, leaving a smaller number of members to bear the burden.

Somewhere in the bowels of Whitehall, a civil servant is thought to have written an authorised 'letter of comfort' stating that the shortfall can be paid back over 15 years. The letter is assuming mythical status.

Train driver Dave Tyson, a trustee director on the RPS since 2001, explains a Board of Trustees' working party is racking its brains for a solution. 'The Trustee Board try to do their best with investments to get the best returns for members and pensioners,' says Tyson, a driver since 1980 and a former Aslef executive member for over 10 years. 'The Railway Pension Scheme is still a good scheme with good benefits,' says the ex-Aslef president. 'But all pension schemes are facing difficulties.'

However, Bob Crow, Gerry Doherty and Keith Norman – the rail union general secretaries – blame the companies that make up the RPS, accusing their shareholders of trousering pension fund surpluses when equity markets were bullish, surpluses that ought to have been held in reserve for rainy bear market days. No companies were mentioned by name and no figures were produced.

The RMT also alleges some companies are paying lawyers to find ways that they could legally cut pension benefits and, according to the RMT, 'implement massive hikes in employee



**Bob Crow: 'Pension scheme should provide protection from abject poverty in retirement'.**



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contributions'. Staff might end up paying more for less.

There's also disquiet over some sections investing a Cash Plus Pooled Fund worth £460m – about 3.5 per cent of the RPS' total assets – in controversial hedge funds. The investments are monitored by Railpen Investments, the company that advises the RPS trustees and manages the selected external fund managers in the equity marketplace.

Hedge funds are renowned for diversifying investment portfolios, an attractive feature for hard-pressed pension funds seeking new sources of return. However, hedge funds lack transparency, remain unregulated and are deemed high-risk. 'Railpen is looking for safety-first, not stellar returns,' said Chris Hitchen, Railpen's chief executive.

'The last all-out strike on the railways must've been the General Strike in 1926,' the RMT's Bob Crow told a gaggle of journalists at Congress House. 'Ask our union president, he was around then!' The hacks laughed, jotting down the threat of the first national strike on the railways since 1962 – Crow's rail history is a bit rusty – when rail staff opposed Beeching's proposal to cut the number of workshops.

The unions' joint demands involve capping employee contributions at 10.56 per cent and keeping pension benefits at their current levels.

They also want the RPS' 101 sections to be streamlined into three sections that are open to new members. Train operating companies would combine into one section but the Association of Train Operating Companies is dismissive. 'Frankly, Atoc isn't able to negotiate on behalf of train operators in relation to their pension schemes,' says an Atoc spokesman. 'GNER and Chris Garnett wouldn't thank us if we did. They're private companies at the end of the day.'

Even Atoc staff get older and need a pension. They face a 1.5 per cent rise in their pension contributions to 12.5 per cent, a £300 increase over the year. The Atoc Limited section's deficit funding level is 91.3 per cent.

It's partly the RPS' complexity – a consequence of privatisation – that also upsets Crow and company, not least because of duplicated administrative costs. Steve is one of 1,100 working members of the Wagn section that spent a cool £85,000 on administrative fees in 2004.

Dave Tyson reckons Steve shouldn't worry as

his contract and pension entitlements will be transferred from Wagn to First Capital Connect under the Transfer of Undertaking, Protection of Employment Regulations (TUPE) 1981. However, Tyson finds it impossible to defend the fact that Steve's pension contributions to the RPS will continue to be managed by a Wagn section. He points to Arriva Trains Wales that has its own section plus four separate 'ex-sections'. 'It's a crazy mini-version of the Railway Pension Scheme!'

There's no doubt that the RPS shares common problems with many occupational pension schemes in other industries. Indeed, the RPS shapes up well in comparison to some other industry schemes. Equally, there's no doubt that the problems and cost implications caused by its complexity, for instance, put the RPS in a league of its own.

Staff think it's a complex scheme that adds complications to an already baffling world of pensions. The RPS' cast of thousands beavering away in section pension committees, both company and union reps, might agree.

Rail companies regard it as an expensive weight on their efforts to run efficient businesses that can guarantee jobs. The unions believe that allowing such a strong private sector influence over the RPS is akin to leaving Dracula in charge of the blood bank.

The Railways Pensions Scheme ought to be an instrument that rail staff of all grades can trust to guarantee them, as Crow says, 'protection from abject poverty in retirement when they should be enjoying themselves'.

Ironically, since the Actuary's troublesome valuation, stronger investment returns from a recovering equity market saw the RPS increase the value of its assets by over £1,076m. Of course, it could've gone the other way but that's the gamble. The roll of the dice. The RPS is not a rock; neither is it an umbrella nor an open road. It takes its chances on a regulated open market, where the rules of the game don't prioritise right and wrong, but throw up confusion, intrigue and profit or loss.