

## **Joint Rail Union Briefing**

### **The Railways Pension Scheme**

#### **1. The threat to rail workers pensions**

1.1 The old member contribution rate for the BR Pension Scheme prior to the surplus declared in 1988 was 10.56%. The valuations of the various sections of the Railway Pension Scheme (RPS) were declared late last year with the results showing around two thirds of sections had significant short falls that are much higher than at the last valuation in 2001.

1.2 Although the member contribution rate for three of the Train Operating Companies is lower than ten per cent, most are nearer 11 per cent and the highest 18.65 per cent. For Engineering/Infrastructure Sections the situation is even worse with default rates ranging between 11.02% and 21.12%. Alarmingly several have rates in excess of 14%.

1.3 The new rates will be introduced with effect from 1<sup>st</sup> July unless alternative arrangements are agreed.

#### **2. Reasons for the Pensions Shortfall**

2.1 Complexity and multitude of sections in the RPS (circa 100).

2.2. These deficits have arisen partly through poor financial returns, but also as a result of the Actuary changing mortality assumptions on the basis that pensioners are living for longer.

2.3. This is compounded by the Actuary also deciding that any deficits must be repaid within nine years rather than over a longer period.

2.4 Joint employer/employee contribution rates for sections where the employer has closed the scheme to new entrants are 3% to 4% higher than for open sections. This means that for individual workers in these schemes their actual contributions have increased by up to 40%!

#### **3. What this will mean for railworkers**

3.1 The rail unions are concerned that members will be unable, or unwilling, to pay ever higher contributions, as there is a finite limit to the increases individuals are able to absorb before deciding that the Scheme is unaffordable.

3.2 Each individual opting-out means deficits become the responsibility of fewer members, thus increasing contributions further for those who remain.

3.3 If those who opt-out are predominantly younger members, the average scheme age would rise, requiring additional increases to compensate for the Section's older age profile.

3.4 These events could result in an uncontrolled spiral of increased costs and reducing membership.

3.5 The unions are also aware that behind the scenes many employers are discussing closing the RPS and introducing inferior arrangements. They want people to work until 65, only have inflation proofing of 2.5% instead of full RPI, have pensions based on the career average earnings instead of being based on the final year's salary, and no ill-health benefits.

#### **4. Why rail companies and Government have a responsibility to act.**

4.1 Employees recruited since privatisation would not have realised contributions could continue to rise inexorably. Even those protected members who understood the possibility of fluctuating contributions would not have anticipated becoming responsible for deficits attributable to pensioners and deferred members arising from changed actuarial assumptions.

4.2 All the current railway employers have enjoyed surpluses built up during the latter BR years when thousands of railway staff left the industry in preparation for privatisation. It is totally unfair to expect existing members to pay higher contributions merely because the Actuary's assumptions have changed, or because the employer has taken a business decision to reduce employment costs by closing their Section to new employees.

4.3 Even worse is the fact that some members have been placed in closed Sections with higher contribution levels following reorganisation of franchises by the Government.

4.4 Professor Jean Shoal of Manchester University has calculated that since privatisation around £800m a year is taken out of the industry as returns to private lenders and investors. The rail unions believe that but for privatisation contributions would be kept to a realistic and affordable level.

#### **5. Solution to the pension crisis**

5.1 The rail unions are embarking on a major campaign in support of the RPS. We have four key demands.

- Cap employee contributions at 10.56%;
- Keep benefits at least at their current level;

- Streamline the scheme to have three active sections (Train Operating Section, Engineering & Infrastructure Section and an Omnibus Section); and
- Keep the scheme open to all employees.

5.2 We believe these are entirely reasonable demands. The employers could bear responsibility for any additional contributions and recoup any overpayments from future surpluses.

5.3 The Actuary has indicated that in future years his proposed contribution rates have a 70-75% chance of producing a surplus. Therefore, it is not unrealistic to expect the employer to take up a greater part of any current shortfall. Companies are also able to offset additional contributions against corporation tax.

5.4 The pensions system could be made more efficient and secure by the RPS reverting to being one fund rather than individual sections. As a means of moving towards that situation we are proposing one Section for the TOCs, one Section for Infrastructure/Engineering Companies and one Omnibus Section covering the remaining employers. The 1994 Pensioners Section – the section for pensioners at privatisation - would continue as at present.

## **6. Action required by the rail companies and Government**

6.1 Prior to Christmas a joint letter signed by the rail unions was sent to ATOC rather than contacting individual Train Operating Companies separately in the hope that they would agree to our proposals as a way forward and the best way of facilitating affordable pension provision within the railway industry.

6.2. ATOC has refused to meet us and similar joint letters were also sent to Network Rail and the Engineering companies. Responses received have been disappointing. It is clear the employers want to continue raking high profits out of the railway and anything which reduces those profits is of no interest.

6.3. There is also the difficulty that the length of franchises / contracts act as a disincentive for Train Operating Companies and other rail contractors from taking on the liability of additional contributions now and recoup any overpayments from future surpluses in the future. For example South West Trains franchise ends next year and this company has a £45m deficit in its scheme.

6.4. The Government, as ultimately being responsible for railway franchises, could take a role by providing comfort letters to the Actuary to allow for deficits to be repaid over a longer period than the five years currently being proposed. In addition, ensure an end to closed schemes and agreeing to proposals to streamline the current multitude of schemes into three active sections.