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## British Airways alarms experts with change to pension guarantees

Ros Altmann, a former government advisor on pensions, was concerned about the precedent that might be set by the BA deal

Graeme Wearden  
guardian.co.uk, Friday 17 July 2009 16.37 BST



British Airways chief executive Willie Walsh: Company is taking action to 'strengthen our position within the industry.' Photograph: Andy Rain/EPA

British Airways has alarmed pensions experts by persuading the trustees of its retirement fund to surrender bank guarantees that would have paid out £330m if the company went bust.

The trustees have agreed to waive their rights to the guarantees to ensure BA's long-term future. Unless the deal is blocked by the Pensions Regulator, cash-strapped BA will be able to use the funds to keep itself running through the ongoing crisis in the aviation industry.

BA had been expected to launch a major cash call after suffering a £401m loss last year, but the changes to its pension guarantees were a surprise. The UK flag carrier also launched a £300m convertible bond on Friday, and chief executive Willie Walsh claimed this put BA in a much stronger position to ride out the most difficult conditions it has ever faced.

"Pensioners should be pleased about this deal," said Walsh.

But Ros Altmann, a former government advisor on pensions, was concerned about the precedent that might be set by the BA deal, particularly at a time of rising pension deficits and as more companies are struggling because of the recession. BA's pension deficit is estimated at around £3bn - twice the company's market value.

Altmann also said she was concerned that the taxpayer-funded Pension Protection Fund would have to pick up the pieces if BA fails to survive the recession.

The PPF has been created to pay compensation to people whose defined benefit pension schemes are left in deficit when the company sponsoring them goes bust.

"I'm concerned about this deal, and its impact on the PPF. Other companies in similar difficulties might be tempted to try and do the same," said Altmann.

The pension trustees faced a difficult choice between handing BA much-needed extra cash, and preserving as many assets as possible for pensioners in the event of the company's collapse. They have effectively gambled that the £300m will help the airline survive.

A spokesman for the BA pension fund trustees said they had consulted widely before taking the decision. "They came to the conclusion that it was much better that BA had the liquidity it needs so it can keep running and satisfying its obligations to the pension scheme," he said.

But Altmann, who argues that BA is already technically insolvent as it could not repay its pensions deficit now, is not impressed by this logic.

"Any company approaching bankruptcy could use this argument, that if the pension funds let them use certain assets, then they'll keep operating. But if that's what tips a company into bankruptcy then it's clearly not strong enough to survive," she said.

The Pensions Regulator is understood to be examining the terms of the deal, but it is unclear whether it is materially significant enough for the watchdog to be able to veto it.

It is understood that the pension trustees have been told that BA will agree new guarantees for the older of its two pension schemes, whose members have mostly retired, but nothing has yet been agreed. There are no plans for extra protection for the newer scheme, which combines a final salary payout with personal contributions.

BA admitted that it expects to have lost £100m in the three months to the end of July. That follows its record £401m loss in the last financial year.

"It's always disappointing to make a loss, but this is better than the market expected," said Walsh.

Its £300m convertible bond, which is subject to a shareholder vote, was oversubscribed. "We're very happy with the level of interest," said BA's chief financial officer, Keith Williams.

BA has indicated that the bonds will be convertible into between 15% and 20% of its share capital in 2014.

Convertible bonds dilute existing investors' holdings less than a rights issue. They also incur a lower rate of interest than other types of borrowing.

The scale of BA's recent losses and the state of the wider airline market has sparked speculation over its future. BA insists that it is taking action to remain competitive. One example cited by Walsh at BA's annual general meeting on Tuesday was the decision to [pull business class seats out of its planes](#).

The airline [faces a battle with unions over its plans to cut 3,700 jobs](#).

Walsh pointed out that the airline has already reached deals with pilots and engineers, and said he was "solely focused" on finding agreement with other groups such as cabin crews.

"Talks are ongoing. I expect they'll continue for a number of weeks and I remain very positive," said Walsh, who rejected the suggestion there was a risk of industrial action.

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## Comments in chronological order (Total 50 comments)

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**BristolBoy**

17 Jul 2009, 8:20AM

Sounds like the company might go under anyway, then what'll happen to the pensioner's money?

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**mahavati**

17 Jul 2009, 8:51AM

I'm afraid this is reminiscent of the Maxwell Communications affair. When captain Bob had run out of options he began to raid his pensioners with disastrous consequences. You get a feeling that BA is a company rapidly running out of room for manoeuvre. But they are a massive size, surely they can cut their services to suit the demand. It may cost thousands more jobs but at least the company would survive. The trouble is I don't know to what extent they bought into the government's projections for air traffic growth and what commitments they have made to buy aircraft and landing slots, etc.. They may be experiencing the perfect storm, all geared up and dependent on unbroken growth and expansion and this tsunami of a recession comes along and completely destroys their plans and expectations.

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**MrsSpoon**

17 Jul 2009, 8:51AM

You think shareholders are worried about whether pensioners get paid? They're more interested in their returns not about whether some old chap who's worked hard all his life gets a pension or not.

I'm sure the companies which run equity release schemes will be rubbing their hands in glee.

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**edgeofdrabness**

17 Jul 2009, 8:54AM

"Sounds like the company might go under anyway, then what'll happen to the pensioner's money?"

Certainly does sound as though they're in a bit of a hole.

When the company (and also the pension fund) goes under, in theory the Pension Protection Fund kicks in.

What kind of person is going to invest in an airline at the moment? Particularly in an airline that's as London-dependent as BA.

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**Keela**

17 Jul 2009, 8:55AM

Correct me if this has already happened, but BA should be cutting the number of flights they have (not just to Australia) world wide. There is no point removing business seats if they are still flying planes half full.

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**outkast**

17 Jul 2009, 9:02AM

could that end up as another fraud?typical BA

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**GolemXIV**

17 Jul 2009, 9:03AM

The entire air travel system is in trouble.

BA is not alone among airlines. Most of the US airlines are similarly in financial trouble.

BAA is going bankrupt. Their parent company, Spanish construction company Ferrovial, bought BAA with debt. Now BAA are saddled them with 10B pounds of debt and their bonds are rated as junk. Which means their chances of raising more debt are zilch.

The next chapter in the air travel crash will be the jet leasing companies. The biggest are ILFC which is owned by AIG the insolvent US insurance company and GECAS owned by GE also in the US.

AIG has been trying very hard to sell ILFC to raise desperately needed cash to save itself.

BUT FAILED. No buyer wanted it. I wonder why?

GE is one of the quiet disasters waiting to happen. Their finance arm is in trouble and loosing lots of money on debt write offs. What has kept them back from the cliff's edge is military spending. But that won't be enough to save them. The short sellers went after them once already. They'll have at them again.

As the air travel continues at this reduced level and even shrinks further airlines will not renew leases on aircraft. Then the leasing companies will go down.

Green shoots anyone?

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**Getridofem**

17 Jul 2009, 9:11AM

Pension fund money ought to be absolutely protected. If BA is insolvent then it ought to close down its operations and let this bloody awful government deal with the aftermath.

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**Halo572**

17 Jul 2009, 9:13AM

Didn't Robert Maxwell raid the pension pot?

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**toekneenose**

17 Jul 2009, 9:17AM

So BA has lost £100 million in the two months between May and July - at that rate this extra £600 million should last them a year if there is no serious upturn in the economy. And then what?

"Hanging on in there and just hoping for old high-roller times to return is the road to oblivion." Sounds like Mr Walsh is heading down that road, and taking the hard-working wage-reduced future pensioners with him.

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**theolderb**

17 Jul 2009, 9:17AM

It would be funny, if... BA makes their pension fund a set-aside guarantee specifically against 'going bust'. Then, when that seems to be a distinct possibility, is allowed by the

Trustees of that fund allow them to renege? Which is the stranger? BA's action, or that of the Trustees?

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**frugalbear**

17 Jul 2009, 9:18AM

Ditching Willie Walsh will safeguard the 'normal' salary of up to 700 employees. No cash settlement, give him 3 million air miles. Clearing the rest of the Board and replacing them with execs from McDonalds will return the business to profit. And improve the catering too.

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**Idopas**

17 Jul 2009, 9:25AM

**MrsSpoon**

17 Jul 09, 8:51am (29 minutes ago)

You think shareholders are worried about whether pensioners get paid? They're more interested in their returns not about whether some old chap who's worked hard all his life gets a pension or not.

How do you think the company got started, so it could employ people and pay them to work in it and then have a pension scheme? Answer; shareholders putting money in.

This country is pretty unknowledgeable about these things. I couldnt have started my company without some cash, I didnt have a lot of it. So a couple of friends and family put in, they became shareholders. They are not rich, they are not evil bastards.

However as the money they put in were savings that could have gone on their pensions or old age provision, I think the least they bloody deserve is a return, dont you?

Would you rather people rather put their money in banks, rather than investing in companies that provide jobs and a decent economy that pays a good tax take for services?

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**Eachran**

17 Jul 2009, 9:37AM

Warren Buffet has been reported as saying that he has always wanted to own an airline but fortunately his colleagues always managed to shake him out of his dreamworld.

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**UrsusMaximus**

17 Jul 2009, 9:41AM

@Hal0572

Didn't Robert Maxwell raid the pension pot?

Mr Walsh would do well to avoid yachts.

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**CaptainBFart**

17 Jul 2009, 9:46AM

So *that's* why private companies are making such a fuss about public sector pensions.

Nail the public sector workers and it will give them legitimacy for their actions in destroying their own workers' pensions.

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**frugalbear**

17 Jul 2009, 9:53AM

@ Idopas:

As I recall The BA we know today got started when Thatcher decided to flog off yet another state owned asset to whoever wanted a piece of the action.

You'll remember of course the big pay-out all British taxpayers received from the sale.

No neither do I

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**blocktopper**

17 Jul 2009, 10:11AM

The solution to this type of crisis is simple. Raid the taxpayer and pension funds. Do not put your own or the shareholders money at risk. In fact rob from anywhere possible.

Just be sure that the lies and spin are good enough to give you time to escape.

Why not in fact get a corrupt government to build extra facilities. This will provide a neat smokescreen.

For example, how about another airport never mind a measly terminal? How about another war? You can then slip out the back way claiming you had no idea about any recession.

You could claim that the government should have known about this. Also, as everyone knows, employees should not be surprised when bosses steal their money. Surely this is known by everyone when they start any employment.

I am certain that the staff who work for Idopas and the shareholders are well aware of this and had it clearly pointed out to them by way of a legal document.

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17 Jul 2009, 10:27AM

Funny how the Asian and Arab airlines have a booming industry - and yes I can travel to Pisa, just south of France in northern Italy, by BA for the price some orientals are going to Singapore for - so where is the money going for those extra thousands of miles within the BA accountancy system?

I smell a Mandleson-Maxwell-Brown doing money transfers into private coffers somewhere, hidden from our view, before they pull the final plug on the British post industrial economy that has also gone Far-East.

Remember when the conversion of pension funds was a prisonable offence for the fellow trustee's - funny how Brown and co have let it happen under their own noses and 'cannot smell the coffee' of deception and fraud.

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17 Jul 2009, 10:32AM

IDOPAS

The reasons for shareholders investing in a company and employees investing in a pension fund are poles apart.

Share buyers are well aware at the outset that shares go up as well as down.

Employees who contribute to final salary schemes do ( or did ) so because they were given cast iron guarantees that if they paid in , they got paid out.

You'll find no clause in the BA pension fund handbook which informs its members that when the company hits a storm, the trustees will sanction a raid on their piggy bank.

The trustees have been hoodwinked. At the current rate of BA losses £300m is no more than a sticking plaster on a gaping wound.

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17 Jul 2009, 10:37AM

Maxwell stole from the pension funds, he didn't ask permission.

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17 Jul 2009, 10:53AM

Billybolton

17 Jul 09, 10:32am (16 minutes ago)

IDOPAS

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The trustees have been hoodwinked. At the current rate of BA losses £300m is no more than a sticking plaster on a gaping wound.

Exactly what I was just thinking Billy. Shareholders understand the risks when they invest in a company. Hence why in most documentation you see caveats which say things like prices may fall as well as rise. Pension funds should be fully protected.

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**teingreen**

17 Jul 2009, 11:02AM

@Billybolton - good post.

Yet again we have the rich ripping off the poor and vulnerable. When is any government going to get a grip!?

BA have been badly managed by overpaid CEO's for years - they have no crisis management plans, nothing set aside for economic downturns - and yet they paid massive salaries to senior executives who have been lauded as "the best in the business" - makes any sane human being want to weep! No wonder this industry spawned the likes of Norman Tebbit they're just run by incompetents and tunnel visioned bullies.

As for shareholders, when did they ever have a cohesive voice or the ability to unite and take collective action. As others have already pointed out all shareholders want is an easy ride and money for nothing - they're just as greedy and craven as the dopes that run these businesses.

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**dh48**

17 Jul 2009, 11:03AM

I may be wrong, but wasn't it Richard Branson who replied to the question 'How can I become a millionaire?' stated 'Start off as a billionaire - and then buy an airline'.

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**AllTheFacts**

17 Jul 2009, 11:12AM

Why are we not asking why the shareholders - particularly the *institutional shareholders*, many of which are pension funds themselves - did not take a keener interest in the way that 'their company' was being run? Because they focused only on the dividend and the share price and not the long term sustainability of the company, that's why. This is a clear corruption of the notion of shareholder value.

"There is no such thing to my mind ... as an innocent stockholder. He may be innocent in fact, but socially he cannot be held innocent. He accepts the benefits of the system. It is his business and his obligation to see that those who represent him carry out a policy which is consistent with public welfare."

-Supreme Court Justice Louis D Brandeis

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**TheOtherAndyGoram**

17 Jul 2009, 11:51AM

@Idopas

No .. the value of shares CAN fall as well as rise. Your post seems to deny that the investors are taking a gamble.

They get returns in the good times, they take a hit in the bad times. Them's the risk you take.

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**falkenberg**

17 Jul 2009, 12:06PM

If BA does go down, I bet a certain Willy Walsh will not have any fears for his future, financially speaking.

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**EuroJohn**

17 Jul 2009, 12:16PM

BA's problems are in large part down to the almost comically incompetent Rod Eddington, CEO before the hapless Willy Walsh. Surely we all know how the Senior Executives merry-go-round money scam works now? We have a bunch of unremarkable apparachiks who are supremely self-regarding of each other's actually incredibly limited abilities. By perpetrating the con of their having unique talents and being from a limited pool, they secure huge rewards of which they are utterly undeserving; with the connivance of other overpaid representatives from institutional shareholders they all