British Airways won't rule out pension closure

British Airways has not ruled out following Barclays lead and closing its final salary pension scheme to 100,000 existing members in what would amount to a highly controversial move by the airline.

By Alistair Osborne and Jamie Dunkley
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British Airways

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The UK flag-carrier admitted on Thursday that all options to tackle its pension deficit would be reviewed at the completion of the current triennial actuarial review. Early conclusions from the review, which began in April, are expected in the autumn.

Asked if BA could follow Barclays and close its scheme to existing members, a spokesman for the airline said: "When the actuarial review is completed, we will have discussions with the trustees. We expect then to discuss with the trustees how the schemes should be funded in the light of the valuation findings. We will explore all options as part of a funding review."

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He stressed that closing the scheme was not under active consideration, saying: "It is premature to suggest that we would go down any particular route."

BA estimated at the time of its full-year results last month that, on an accounting basis, its two final salary schemes – the Airways Pension Scheme and the New Airways Pension Scheme – had a £2.9bn deficit, up £1.2bn from previous estimates.

The carrier is currently contributing around £320m a year to the two schemes – a sum that has grown with the fall in equity markets.

Concerns over the pension liability on BA's balance sheet – and the demands it could potentially make on cash-flows – have been a major stumbling block in the carrier's all-share merger talks with Spain's Iberia. The Spanish airline has even requested a post-deal adjustment mechanism to protect it from any increase in the deficit.

While closing the scheme to existing members would remove a major millstone, any move would risk a bruising confrontation with the workforce.

Most of the 30,000 people in the APS are retired but around half of the 70,000 in NAPS still work for the airline.

BA closed its final salary scheme to new members in 2003.

John Ralfe, an independent pensions consultant, has warned that more companies are likely to close their final salary schemes this year as deficits become more of a burden on their balance sheets.

"We have entered the third phase in the long death of defined-benefit pension schemes," he said. "By the end of the year, news of a FTSE-100 company closing its final salary scheme will not be news."

Other FTSE companies with large pension deficits, including BAE and BT, said they had no current plans to review their scheme arrangements.

BAE, which has a deficit of about £3.3bn, said the Pension Regulator had accepted its plan to fund its pensions and clear its deficit and would not carry out another review until 2011.

BT, which pension experts fear has a deficit of up to £11bn, added that it had held a review last year. This resulted in the company reducing contributions to its existing final salary schemes as of April.

Ros Altman, a pensions consultant, said: "Just five years ago, around 40pc of companies still offered final salary pensions to new employees. Now there are just four FTSE 100 firms who do so – Shell, Tesco, Cadbury and Diageo.

"The huge deficits to be announced in coming months will lead to a torrent of new closures, as private sector companies try to cope with the costs of making up past deficits and hope to avoid the pain of increasing liabilities in future."