BA pension deficit 'dwarfs market value'

Offloading British Airways' ballooning pension deficit would cost the airline at least £6bn, almost four times the carrier's current market value, a leading pensions expert has warned.

By Alistair Osborne
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A British Airways Airbus A321 jet takes off at London's Heathrow Airport. Photo: AP

John Ralfe, an independent pensions consultant, said the buy-out value of the deficit put at risk the airline's plans for an all-share merger with Spain's Iberia.

"If I was advising Iberia, I would be telling them not to look at the number in the accounts – which can be fudged – but how much it would cost BA to sell its pension liability to an insurance company," Mr Ralfe said. "It would be several times its market cap." BA is currently valued at about £1.6bn.

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Mr Ralfe stressed his figures were based not on his own calculations, but those of the trustees of BA's two final-salary pension schemes – the New Airways Pension Scheme (NAPS) and the Airways Pension Scheme (APS).

"The annual reports for the two schemes to March 31, 2007, show a £5bn deficit in NAPS on a buy-out basis and a £1bn deficit in APS. Given the fall in asset prices since then, the total deficit will now be significantly worse."

In September, the trustees disclosed that the total deficit in the two schemes on a continual funding basis was £1.74bn. However, that calculation is at the mercy of such things as asset values and calculations of pensioners' longevity. "That figure doesn't remove the problem for BA," Mr Ralfe said.

The impact of the deficit on BA's negotiations with Iberia is only one headache for chief executive Willie Walsh who will this week unveil the airline's half-year results, expected to show that profits have plunged amid the global slump.