Dear Mr Field

Railways Pension Scheme

Thank you for your letter of 12 April and for welcoming me to my new role at The Pensions Regulator.

In your letter you ask about the extent of the deficit in the Railways Pension Scheme and TPR’s plans for working with rail firms and the Department for Transport (DfT) to address the shortfall. I hope that the following information will help explain how we have been working with the trustee and other parties to support them in providing a sustainable pension scheme going forward.

The Railways Pension Scheme is a large and complex scheme, set up in the 1990s following the privatisation of the railways, and comprises over 100 sections, 340,000 members and over £27bn of assets. It provides workplace pensions under both defined benefit and defined contribution arrangements. In this letter we have focused on the 27 sections of the pension scheme sponsored by train operating companies (TOCs) that are most relevant to your questions, however we also regulate the scheme more broadly.

We are pressing for change in how the funding of defined benefit pensions in the TOC sections is being managed. At present TPR is meeting in a monthly forum with not only the trustee, but also the Rail Delivery Group (which represents the TOCs), the DfT and all the relevant advisers, to identify a funding solution that delivers the best outcome for members. Our involvement has brought the parties to the table with an apparent willingness to respond. They are currently making good progress in these discussions and we expect them to reach an outcome in the coming months.

In respect of our earlier involvement with the scheme, in 2016 we commenced enforcement action in respect of one of the TOC sections to ensure that scheme funding requirements under Part 3 of the Pensions Act 2004 were being met. The outcome of our enforcement action would also set a marker for the approach to funding taken across TOC sections.

We put that enforcement action on hold in late 2017 following a constructive response from the trustee and TOCs to our concerns. They are now in the process of developing a funding framework for all 27 sections that meets our expectations and can address any future funding challenges. We are supportive of this work and have been clear on the direction it should take.
There are particular characteristics of the TOC sections which we do not normally find in defined benefit schemes which bring unique complexities and challenges to funding them. They include the following:

- Each TOC is a sponsoring employer of a section only for the period it operates a franchise, after which responsibility passes to the next franchise owner.

- Unusually, the scheme has a shared cost structure with a fixed ratio of contributions between employers (60%) and active members (40%), both for future accrual and deficit repair contributions. This means that if contributions are increased, for example to address a funding deficit, contributions that employers and active members pay both increase proportionately.

- While there is government involvement in the appointment of TOCs to franchises, the government is not the guarantor of the scheme. As such, we are required to regulate the scheme in the same way as any other private sector defined benefit scheme.

You asked specifically about the size of the deficit but, as you may be aware, these figures are not in the public domain although there has been some speculation in the media. We are therefore prevented by legislation from providing the Committee with the figures you have requested.

As with other defined benefit schemes, we expect the sections to be compliant with the scheme funding requirements under Part 3 of the Pensions Act 2004 and encourage them to be managed in line with our guidance. TPR’s latest Annual Funding Statement for defined benefit schemes is an example of how we continue to improve our guidance for those responsible for defined benefit schemes. We have been clearer in this statement on how schemes should approach forthcoming scheme valuations and, for the first time, we have included our expectations on investment strategies.

I hope that this information is useful to you and the members of your Committee.

Yours sincerely

Charles Counsell
Chief Executive