

The AVC Plan

THE AIRWAYS AND NEW AIRWAYS
PENSION SCHEMES (APS AND NAPS)

AVCs are additional voluntary contributions. The AVC Plan is a tax-efficient savings scheme for your retirement, with the proceeds being used to provide you with extra benefits.

What you can save

You can save virtually any amount you like. The minimum is 0.5% of your gross taxable pay – or if you save a fixed amount, £24 a year – and the maximum is 50% of your gross taxable pay (after reductions for your *SmartPension* contributions and/or BA's childcare scheme but before any reduction for *SmartAVCs*). If you are NOT making your normal Scheme contributions via BA's *SmartPension* arrangement, you will need to include your normal Scheme contributions within the 50% limit.

There are two ways to make AVC savings:

SmartAVCs

SmartAVCs is BA's salary sacrifice arrangement for AVCs. This works as follows:

- BA reduces your gross pay by exactly the same amount that you elect to save as a regular AVC through *SmartAVC*
- BA then makes regular payments to your AVC Plan on your behalf
- Both you and BA pay less National Insurance (NI) and BA passes most of its NI saving on to you by increasing your AVC amount, currently by 10%
- You must be making your APS/NAPS Scheme contributions through *SmartPension* to be able to save *SmartAVCs*

You can only start, change or stop *SmartAVCs* once a year, during September to be effective from 1 October. You can find the full terms and conditions for *SmartAVCs* in the *SmartAVCs* factsheet on the BA intranet.

EXAMPLE 1 - *SmartAVCs* of £100 a month

- If you want to save AVCs of £100, your monthly pay is reduced by £100, reducing the amount of NI you pay
- Automatic tax relief at 20% **£20**
- Actual cost to you **£80**
- BA pays your £100 AVC plus 10% **£110**
- So, the tax man has paid **£20** of your **£100** AVC for you and BA has added **£10** on top!

Normal (non-*Smart*) AVCs

Normal AVCs can be paid in addition to, or instead of, *SmartAVCs*, up to the maximum 50% limit. These work as follows:

- You have AVCs deducted directly from your pay
- You get automatic tax relief at your highest tax rate
- You do not qualify for NI savings on your Normal AVCs and do not benefit from the additional *SmartAVC* uplift from BA, which is currently 10% of any *SmartAVC* amount

You can change the rate of your Normal AVC payments or stop them at any time.

EXAMPLE 2 - normal AVCs of £100 a month

- If you want to save AVCs of £100 – this amount goes into your AVC Plan
- Automatic tax relief at 20% **£20**
- Actual cost to you **£80**
- So, the tax man has paid **£20** of your **£100** AVC for you!

HM Revenue & Customs (HMRC) have advised that to benefit from tax relief, AVCs must be collected directly from pay. We prefer, therefore, not to accept payment of AVCs by cheque.

THE AVC PLAN

EXAMPLE 3 - maximum *SmartAVCs*

Maximum AVCs (*SmartAVCs*, normal AVCs or a combination of both) are generally calculated as 50% of gross taxable pay (after reductions for your *SmartPension* contributions and/or BA's childcare scheme but before any reduction for *SmartAVCs*). Maximum AVCs will therefore be calculated as 50% of your total reduced gross pay figure:

Scheme member paying maximum *SmartAVCs*

<i>SmartPension</i> APS/NAPS contribution of (already sacrificed from pay)	£150
Remaining gross monthly salary	£2,850
<i>SmartAVCs</i> (sacrificed from pay) (i.e. 50% of gross salary after <i>SmartPension</i> deduction)	£1,425

Assuming you get automatic tax relief at 20%
The actual net cost to you would be **£1,140**
BA pays £1,567.50 into your AVC Plan for you.

So the tax man has paid **£285** of your **£1,425** AVC for you and BA has added **£142.50** on top!

If you want to pay more than 50% of your gross taxable pay to top up your pension, you can make your own arrangements to invest in alternative products available on the financial markets, such as Stakeholder Pensions, Free-Standing AVC and personal pension arrangements.

The Annual Allowance (AA)

When considering the level of AVCs you may wish to pay you should be aware of the AA. This is set by HMRC and is currently £50,000 a year. An increase in pension value, including any AVCs, which exceeds £50,000 could trigger a tax charge. Further information can be found on our website [click on 'Simple English Guide'] and detailed information is available on the HMRC website, at:

<http://www.hmrc.gov.uk/pensionschemes/annual-allowance/index.htm>

What you get on retirement

The total money in your AVC Account can be put towards the maximum cash lump sum available at retirement. Currently, in most cases, your whole AVC Account can be taken as cash, up to 25% of the 'value' of your pension benefits or 25% of your available, standard LTA, if lower. For NAPS members BA may review the ability to take AVCs as cash in the future; however, any change would only affect future contributions.

If you wish, you can use your whole AVC Account to buy an extra pension from an insurance company of your choice instead of taking it as cash. APS members also have the option of purchasing their AVC pension from BA Pensions. AVC pensions can be purchased when you take your Scheme pension or at any date after that.

We cannot predict either the final amount of your AVC Account on retirement or the rates of pension that will apply then, but here's an example, based on standard assumptions set by the government.

EXAMPLE

Let's assume the following:

You pay *SmartAVCs* of £50 a month for 20 years
Your *SmartAVC*, including the BA uplift, currently 10% of your *SmartAVC*, is £55 a month
The rate of tax relief is 20%
Investment income is 6.5% a year
Future inflation stays at 2.5% a year

So, after the tax relief, the cost to you is £9,600
(or £7,200, if you're a 40% taxpayer).

Including BA's *SmartAVC* uplift the total paid into your AVC Plan is £13,200.

Your AVC Account on retirement is £20,160 approximately.

You can either take this back as part of any tax-free lump sum taken at retirement or you can use it to buy some extra pension.

On the other hand, if you only paid normal AVCs instead of *SmartAVCs*, the costs to you would be the same but your AVC Account on retirement would be approximately £18,330.

If you build up an AVC Account which is worth more than 25% of the combined value of your Scheme pension and your AVCs (or your available Lifetime Allowance, if lower - see next paragraph) the excess AVCs can only be used to buy extra pension.

THE AVC PLAN

Your Lifetime Allowance (LTA)

All members of UK Registered Pension Arrangements have an LTA, which is set by HMRC. You can build up pension benefits within your LTA – the value of any pension benefits which exceed your LTA at retirement will be subject to a Lifetime Allowance Charge. The 'value' of your Scheme pension benefits for LTA purposes is worked out as 20 times your annual rate of Scheme pension plus the cash value of your AVC Account (the total value of all benefits you have in any other UK Registered Pension arrangements, including any pensions already being paid to you, must be compared against the LTA when you retire). See our website for further details about how the LTA works.

Are there any disadvantages?

Whether to pay AVCs has to be your decision according to your personal preferences and circumstances. However, you should bear in mind that, unlike many other forms of saving, AVC money is locked-in until you come to draw your Scheme benefits.

You cannot therefore draw your AVC benefits before you take your Scheme pension – but you can choose to defer taking your AVC benefits to a later date than your Scheme pension.

You should also be aware that the AVC Plan detailed here includes the options and benefits available under the BA Schemes only. There are alternative types of pension arrangements available externally under which different benefits and options may be provided. For example, you can contribute to a Stakeholder pension, a personal pension, or a Free-standing AVC policy in addition to your Scheme pension. Individual advice about such arrangements cannot be provided for you by British Airways, the Scheme Administrators or the Scheme Trustees. If you are unsure about your position you should seek independent financial advice.

Choice of three investment funds

We have three AVC funds. You can be in one, two or three at the same time. Switches between funds must take place on the 1st day of the month. Instructions in writing must be received by the 20th of the month and will apply from the 1st of the next month.

THE EBF (EQUITY BIASED FUND)

Interest in the EBF is calculated on a monthly basis. The interest rate consists of two parts, the **Guarantee Component** and the **Bonus Component**.

Interest is added to EBF accounts monthly at the rate of 1/12 of the total of the annual Guarantee Component and 1/12 of the annual Bonus Component. **The total return for 2010/11 was 3.437% on money invested for the whole year.**

The total return over the five years to 31 March 2011 was 45.58%.

Guarantee Component - this can fluctuate each month. It is the interest that would have accumulated in a Seven-Days-Notice Local Authority Deposit Account during the previous month.

For the year 2010/11 the annual rate for each month's Guaranteed Component varied between 0.325% and 0.425%.

Bonus Component - this rate is usually declared by the end of April each year, is effective from 1 April, and remains the same for the whole of the Scheme year. The Bonus Component is calculated by the Schemes' Actuary. It is based on an investment portfolio equivalent to the NAPS asset allocation as this is a reasonable reflection of a long-term investment strategy for AVCs. When determining the Bonus Component the Actuary compares the actual rate of return achieved by the portfolio in recent years to the Guarantee Component and then calculates a weighted average return in excess of the Guarantee Component. An allowance is then made to the Bonus Component to allow for the cost of the guarantee. It is possible for the Bonus Component to be zero.

For the year 2010/11 the Bonus Component was 3.0%.

The Actuary has declared that the Bonus Component for the year 2011/12 is 4.3%.

THE MPF (MIXED PORTFOLIO FUND)

This fund is rather like a unit trust. You buy units, the value of which depends on the value of the MPF investment fund (mainly made up of UK and overseas stocks and shares). The value of the units can go up or down.

When the MPF was launched in October 1986, one unit was worth £10. By March 2011 this had risen to £108.82. The total return over the five years to 31 March 2011 was 23.81%.

THE SGF (SHORT-DATED GILTS FUND)

Interest is credited each year on 1 April. The rates of interest depend on the returns from government fixed-interest securities ('gilts') with less than five years to maturity.

The interest rate for the year to 31 March 2011 was 1.85. The total return over the five years to 31 March 2011 was 18.86%.

Returns are always positive and the value of your SGF Account cannot go down.

PLEASE REMEMBER THAT, IN ALL THREE AVC FUNDS, THE RETURNS VARY FROM YEAR TO YEAR AND PAST PERFORMANCE IS NOT NECESSARILY A RELIABLE GUIDE TO FUTURE PERFORMANCE. THE CURRENT RATES OF RETURN ARE PUBLISHED REGULARLY ON WWW.MYBAPENSION.COM

Fees and charges

Charges may apply only to transactions involving the MPF. This is because dealing in the MPF investments incurs costs for the Schemes. However, since 1st November 1996 British Airways has paid the expense charges for MPF contributors. As a result the Trustees have set to zero the charges that would normally be paid by contributors when purchasing and redeeming MPF units.

No charges are incurred in the EBF or SGF.

Currently, whichever fund you invest in, the whole of your AVC payments are invested on your behalf.

What happens if I leave?

By the way, if you leave service early without drawing your Scheme pension straightaway, you cannot pay any more AVCs but your AVC Account will continue to grow with any investment returns until you draw it. You can also continue to switch your AVC Account balance between funds. If, on leaving service, you transfer your Scheme pension rights to another pension arrangement, the AVCs must go too.

What happens to my AVCs if I die?

If you die in service, or die before you have taken your AVC benefits, your AVC Account is paid out as an additional lump sum death benefit.

THIS LEAFLET IS NOT A FULL DESCRIPTION OF THE AVC PLAN. DETAILS ARE SHOWN IN THE TRUST DEEDS AND RULES OF APS AND NAPS AND ANNOUNCEMENTS ISSUED FROM TIME TO TIME (ALL AVAILABLE ON OUR WEBSITE). YOU WILL AUTOMATICALLY GET A YEARLY STATEMENT TO SHOW HOW YOUR AVC ACCOUNT STANDS.