BRITISH AIRWAYS PENSIONS



In Focus

A message from the Chairman of APS

This is my first In Focus since becoming Chairman of the Trustees. For all in the pensions industry the Government's programme of reforms has meant significant change for all schemes and APS is no exception. There have been not only changes to Inland Revenue rules and the way they are administered, but also to Scheme governance and the legislation on funding and investment. Pages 1-3 look in detail at these changes and describe how they will affect you and your Scheme.

Work has already begun to prepare for next year's Scheme valuation which will be the first under the requirements of the new Pensions Act. The Act introduces significant changes to the scheme funding process and these are described on page 2.

Investment conditions continued to improve over the year and the value of the Scheme's assets has increased. Whilst these improvements are welcome we will not know how they have impacted on the underlying funding levels of the Scheme or the Company's required level of contribution until the results of next year's actuarial valuation are known. You can find out more about investment on page 3.

During the year Mr Peter Holloway and Mr Graham Tomlin retired as Trustees and we welcome Mr Paul Douglas and Mr Stuart Scott as their successors. Mr Mervyn Walker retired as Chairman with my own appointment becoming effective from 1 April 2005. Following a ballot among the employed membership Mr Tom Mitchell was reappointed for a further three year term of office as a member elected Trustee starting on 1 October 2004. On behalf of the Trustees I would like to thank all those retiring during the year for their hard work and considered contributions to the Scheme during their terms of office. Particular recognition is due to Mervyn Walker who steered the Trustees through significant organisational change during the splitting of the APS and NAPS Trustee boards and the considerable work generated firstly as a result of the Myners report on Institutional Investment and later on, by the new pensions legislation.

Finally, in the short time since I took office I have been impressed with the thorough and constructive approach taken both by the Trustees and also their staff responsible for the Scheme's administration and investments. The management of such a large scheme is a demanding and onerous responsibility and I do commend the hard work put in by all of these people into looking after your pension.

As always, we welcome your views, so please get in touch (our contact details are on the back page).

Roger Maynard
Chairman of Trustees
August 2005

Simplification, security, choice

The aim of recent Government reforms is to simplify pensions for all, to encourage saving for retirement and also to make sure benefits are secure. A number of the changes are already in place. Others will come in to effect over the next few years, many at the start of the next tax year on 6 April 2006. These changes won't affect the level of your BA pension in any way however, for interest we describe them briefly below and you will be particularly interested in the section on security on page 2.

Maximum benefits

From 6 April 2006 (which the legislation refers to as 'A day') the existing limits on maximum pension benefits will be replaced with one simple limit for all. The tax free cash limit will also be changed to allow 25% of the capital value of all benefits as tax free cash. As a pensioner this will not affect you unless you have benefits in other arrangements which you haven't drawn yet (but not including dependant pensions or the state pension). If you do have benefits elsewhere which you are due to draw after 6 April 2006, these benefits will be subject to the new limits and your provider should be contacting you with further information.

Simplification, security, choice continued

Other changes

There are other changes due to be introduced by the new legislation such as allowing individuals to be a member of as many schemes as they wish, at the same time, changing the limit on pension contributions and changing the minimum retirement age to 55 from 6 April 2010. These have all been designed to encourage individuals to save for their retirement. They will not affect your BA pension in anyway.

Protection for pension scheme members

The Pensions Act 2004 contains several measures that aim to provide greater protection for members of pension schemes. These include:

- The introduction of a new regulator, known as The Pensions Regulator (TPR) to replace the Occupational Pensions Regulatory Authority (Opra)
- The introduction of the Pension Protection Fund (PPF)
- A written Statement of Funding Principles (SFP) which will specify how the scheme specific Statutory Funding Objective (SFO) will be met
- A minimum knowledge requirement for occupational pension scheme trustees

The Pensions Regulator (TPR)

TPR will build on Opra's work in making sure schemes comply with pension legislation. The objectives of TPR are to protect members' benefits, to promote good administration and to attempt to pre-empt situations which may lead to compensation being payable from the Pension Protection Fund (PPF) - see below. TPR has been given significant powers to achieve its objectives and will be able to gather information, enter business premises and issue improvement notices, wind up schemes where appropriate, and appoint, suspend or prohibit trustees in a wider range of circumstances than Opra.

Pension Protection Fund (PPF)

The PPF is in effect an insurance scheme, introduced to provide a level of protection for the benefits of members and pensioners of final salary schemes which are in deficit and where the sponsoring employer becomes insolvent. The PPF will only accept responsibility for schemes who cannot afford to pay even PPF-level benefits. PPF-level benefits are on the whole lower than the standard APS benefits. For pensioners who are over Normal Retirement Age or who are receiving an ill health pension the PPF does aim to provide an ongoing pension equal to their current pension, whereas for other pensioners and deferred pensioners reduced values would be paid.

Where a scheme is funded sufficiently to cover PPF-level benefits it would not be accepted into the PPF. The PPF Board would determine what action would be appropriate e.g. whether the scheme should be wound up (i.e. whether benefits should be secured via insurance companies) or run on as a closed scheme.

The first PPF funding valuation will be undertaken as part of the main scheme valuation due as at 31 March 2006. Based on our current understanding of the requirements, APS would be expected to be fully funded to provide PPF-level benefits and therefore unlikely to enter the PPF were BA to become insolvent.

All occupational schemes like APS must now pay a levy to the PPF as a form of insurance premium, this is regardless of a scheme's current funding situation and whether or not they are likely to be eligible to participate in the PPF should the sponsoring employer become insolvent.

It is the Trustees' responsibility to make sure the levy is paid. For 2005/06 the levy will be met from the Scheme's administration budget with the cost being passed on to the Company over the years ahead by way of appropriate additional annual contributions.

Scheme Funding and SFP

The Minimum Funding Requirement (MFR) is being abolished and will be replaced by a scheme specific Statutory Funding Objective. The MFR was a prescribed method for valuing a scheme's ability to pay its liabilities. It was designed to ensure a minimum level of funding for all schemes. Criticisms of the MFR valuation method include that it was designed as a 'one size fits all' approach and didn't take into account scheme specific liabilities and funding targets.

A new scheme specific funding basis is being introduced. The Trustees will establish a Statutory Funding Objective (the SFO). The SFO requires that schemes hold sufficient assets to secure the benefits that members have built up in the scheme as they fall due in the future. The policy for achieving this objective will then be agreed through a joint dialogue between the Trustees, the employer and the actuary and set out in a Statement of Funding Principles (SFP). The Government thinking behind this approach is to make sure all parties buy into the long term funding plan for a scheme especially in respect of making good any deficits. Trustees will also be required to provide a funding statement to members automatically each year.

The process by which a SFP is established is significantly different from the approach previously adopted and the Trustees have agreed with BA to rehearse the process during this year to make sure all parties are aware of their responsibilities and ensure a timely conclusion to next year's actuarial valuation.

A minimum knowledge requirement for trustees

From April 2006 the new Pensions Act introduces formal requirements for trustees to have sufficient knowledge and understanding of pensions and trust law, occupational scheme funding and scheme investment. They must also be conversant with the scheme's governing documentation. The intention is that trustees should have the confidence they need to run schemes well and to challenge their advisers before they make decisions in relation to the scheme. The BA Trustees have already adopted a formal training programme to ensure they are equipped with the requisite knowledge and understanding. Training over the past year has included sessions on investment, scheme risk, actuarial services and the new Pensions Act. Individual Trustees have also attended a wide range of external courses and seminars and a number of Trustees have passed examinations in Trustee Knowledge and Understanding accredited by the Pensions Management Institute.

Investment update

In the last edition of In Focus we reported that the surplus in APS had reduced significantly due to the increased cost of providing pensions and the poor past performance of global investment markets. Last year saw an improvement in the fund value of APS and there have been further improvements to the value of the Fund during the 2004/05 financial year. Equity markets rallied towards the end of the year and property has performed well. These improvements are welcomed although we will not know how they have impacted on underlying funding levels until the results of next year's actuarial valuation are known. In the meantime the Company continues to pay contributions, which for 2004/05 amounted to £23m or just under four times the level of active members' normal contributions, to fund the future build up of benefits.

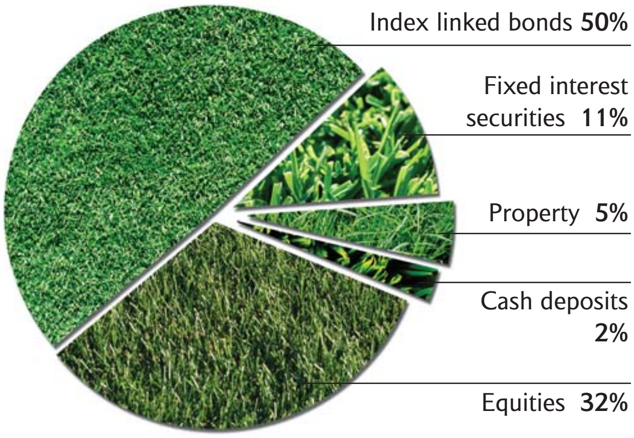
The investment strategy for APS which we reported in last year's In Focus continues to be appropriate. Due to the high proportion of pensioners in APS compared to active members, funds continue to be moved out of equities (shares) into bonds (both Government and corporate). The strategic mixture of investments held within APS from 1/4/05 was 28% in equities, 67% held in bonds (both Government and corporate) and the balance in property and cash. The Trustees set parameters around this core mixture to allow the fund manager some discretion over the actual level of each type of asset held. This enables the fund manager to use their judgement and hold slightly more or less than the amounts shown above in order to maximise returns as market conditions allow but within the guidelines set by the Trustees.

The actual investment split for APS at 31 March 2005 is shown opposite.

The Trustees continue to monitor performance of the Fund overall by comparing returns against a performance benchmark. The Trustees are pleased to confirm that last year our in-house investment management team (BAPIML) outperformed the benchmark for 2004/05 and have outperformed the longer term benchmark over three, five and 10 years.

Investment split at 31 March 2005

Actual investment split at 31/03/05



Those members interested in the detail behind the investment strategy can review the Statement of Investment Principles (SIP) available on our website.

Scheme membership

Rule changes

Accounting for the Money

The overall value of the Fund reflects the amount of income received by the Scheme (such as member and employer contributions and investment income), the withdrawals made from the Scheme (payment of benefits, administration and investment expenses) and the market value of the Fund's investments at a particular date. The continuing rise in investment markets generally, over the two years since the last valuation in March 2003 continues to improve the overall market value of the assets of the Fund, although we will not know the impact on underlying funding levels or be certain of the required level of Company contributions until the results of the next actuarial valuation are known.

Monies in and out of the Fund

The charts below show the income and expenditure of APS during the year.

Money into the Fund	£m
Contributions received	34.8
Transfers in	0.0
Investment income	172.4
Total income	**207.2**

Money out of the Fund	£m
Pension benefits paid	318.7
Leavers	19.6
Administration expenses	1.9
Investment management expenses	3.4
Total expenditure	**343.6**

Fund value	£m
Value of Fund at 1 April 2004	5,826.5
Total income	207.2
Less total expenditure	(343.6)
Change in market value of investments	345.7
Value of the Fund at 31 March 2005	**6,035.8**

There have been several changes to the Scheme's Trust Deed and Rules during the year.

Rule 25 (of APS part VI), which allows 50 active members to convene a meeting, was amended so that in addition any 100 members or pensioners may convene a meeting. Corresponding changes were also made to the rules of Parts I - V.

Pensioner Elected Trustees can appoint an Alternate should they be unable to attend a Trustee meeting and following this rule change the Alternate can now either be an active member Trustee or another Pensioner Trustee.

The rules relating to the large number of deferred pensioners who retain Equivalent Pension Benefits only in APS have been changed. These benefits are for small amounts (less than £46 a year) and the change in the rules enable these members to take the benefit as a lump sum payment before they reach State pension age as long as this is the only benefit they hold in APS. These benefits were earned many years ago and we need to contact as many of the beneficiaries as possible to make sure that they are aware of this new facility. If you know of anyone to whom this benefit may apply please ask them to write in with details of their current name and address (including a copy of their marriage certificate where applicable), dates of employment and national insurance number.

Clause 24 of the Trust Deed has been extended to ensure that if British Airways wishes to provide benefits under the Scheme for someone who is not a member, then appropriate, timely payment of the cost of the benefits would need to be made by the Company. The payment will need to be made whether or not there are sufficient funds within the Scheme to cover the cost of the benefits provided.

More information

As always, copies of In Focus, the full Annual Report and Accounts, the SIP and other documents relating to the Scheme are available on our website: visit www.mybapension.com

Getting in Touch

You can contact us by:
Email: enquiries@bapensions.co.uk or follow the link in our website [click on 'Talk to us'].

Telephone: Call our Customer Service Team on 020 8513 2222 between 9am and 5pm.

Fax: Externally on 020 8572 6235 or internally on 32257