

Putting your future into focus

in [focus]

APS Update
December 2011

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Focus on your pension

2011 has been another year of change in the pensions world, and in this In Focus, we have a number of important issues to inform you about. Because of the amount of information we have to share, and taking on board feedback some of you gave us, we have redesigned In Focus this year. This new format of newsletter includes new features such as the jargon buster boxes.

Pension increases

The Trustees' agenda over the past year has been dominated by the impact of the Government's change from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI) used within the Pensions Increase (Review) Orders upon which APS pension increases are based. Several updates have been sent to members throughout the year and an update on these events is given on page 8.

Long term view of the Scheme's finances

The latest update on the Scheme's finances shows that although the funding level within APS improved slightly over the year to 31 March 2011, the Scheme remains in deficit. More details on the Scheme's long term finances and its deficit are given on pages 4 and 5.

The money going in and out of the Scheme

A summary of the Scheme's latest Annual Report and Accounts on pages 6 and 7, shows the money going in and out of the Scheme during the last financial year. The accounts show that as at 31 March 2011, the Scheme had assets of £6,672m.

Other useful information

Details of the Trustee Board who look after the Scheme on your behalf are shown on page 3 and important Scheme Rule changes are discussed on page 11.

We hope you enjoy reading this newsletter.

The Airways Pension Scheme (APS) Trustees

Keep up to date by email

The Trustees wish to encourage online communication for general pension information where possible due to the obvious cost and environmental efficiencies. If you wish to receive future issues of In Focus, and other general communications online, please let us know.



You can register your email address at www.mybapension.com by following the link on the home page.

Once you have registered we will alert you by email when future general communications become available.

You will no longer be sent a printed version unless you follow the STOP link on the website or write to Whitelocke House and ask us to go back to sending printed communications.

Why are we doing this now?

There has been a change in legislation, which allows us to communicate with members online by default. We know that some of you may have reservations about online communication, and others may not have access to a computer. So for this reason, we are asking you to choose whether you want to receive general pension communications online.

jargon buster

Deficit | This is where there is a shortfall between the Scheme's assets and its liabilities.

Funding level | This is a comparison between how much money the Scheme has now (assets) and how much it needs to have over the longer term to pay all of the benefits provided when they fall due (liabilities).

Who manages APS?

APS is managed by 12 Trustees. Six of the Trustees are appointed by British Airways and the remaining six are elected by the active and pensioner members of APS. Five of the elected Trustees are elected by pensioner members of the Scheme and must themselves be APS pensioners. One Trustee is elected by APS active members. Your current APS Trustees are shown below:



Tom Mitchell
Elected



Paul Douglas
Elected



Capt Cliff Pocock
Elected



Stuart Scott
Elected



Sandra Sellers
Elected



Graham Tomlin
Elected



Joanna Boswell
BA appointed



Alan Buchanan
BA appointed



Charlie Maunder
BA appointed



Philip Osmond
BA appointed



Peter Simpson
BA appointed



Paul Spencer CBE
BA appointed



Our members

Below we show you how many members are in APS:

Membership 31 March 2011

Active members

Members who are still employed by BA

1,016



Pensioners in payment

Members who have retired and are receiving their pension

19,839



Deferred pensioners

Members who have left the Scheme and are no longer paying in, but are not yet receiving their pension

2,415



Dependant pensioners

The dependants of deceased members and pensioners who are receiving a pension

7,206



Total APS membership

30,476

Funding update

A detailed review of the funding level is carried out every three years in a formal valuation. The last formal valuation was as at 31 March 2009. The next formal valuation is due to take place as at 31 March 2012. Carrying out a valuation is complex and does take time. We expect to be able to share the results of this with you in 2013, once the process has been finalised. The Trustees continue to monitor the Scheme's funding level, and in between valuations, the Scheme Actuary supplies yearly updates on how the funding level has changed.

The latest update shows the funding level as at 31 March 2011 was 93% and has marginally improved from the 31 March 2010 level of 92%.

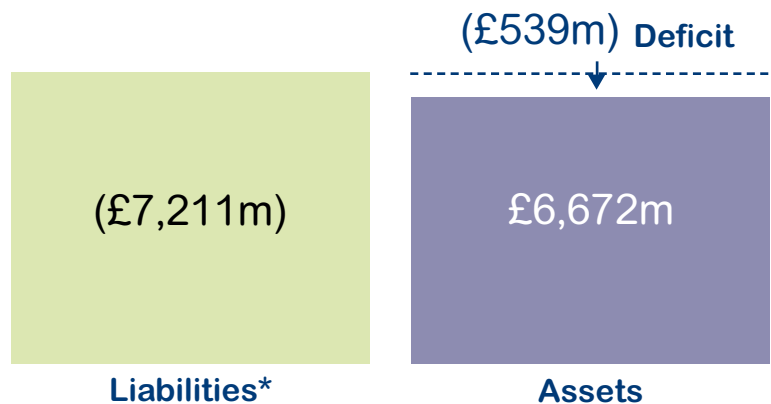
The funding levels are shown below:

	31 March 2009 (£m)	31 March 2010 (£m)	31 March 2011 (£m)
Liabilities*	(6,955)	(6,996)	(7,211)
Assets	5,925	6,442	6,672
Deficit	(1,030)	(554)	(539)
Funding level	85%	92%	93%

*The liabilities are based on the technical provisions agreed between the Trustees and BA at the 31 March 2009 valuation, updated by the Actuary in line with changes in market conditions as at March 2010 and March 2011.

Note that since March 2011 the Scheme has also received an extra £35m from BA in addition to the Company's normal Scheme contributions and deficit contributions, but this is not reflected in the figures above.

The funding level as at 31 March 2011



The latest update shows the funding level as at 31 March 2011 was 93%



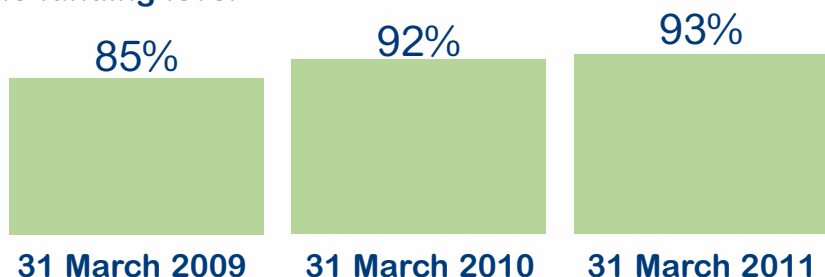
jargon buster

Actuary | the Scheme's Actuary is Michael Pardoe from Towers Watson Ltd. Michael is a qualified professional who uses his knowledge and expertise to estimate the future costs the Scheme needs to cover to support members' pension benefits.

Valuation | this is a detailed review of the Scheme's funding. The Actuary carries out a full valuation once every three years.

Liabilities / Technical provisions | this is the amount that APS needs to put aside in order to pay members' benefits in full when they become due.

The funding level



When calculating the Scheme's liabilities the Actuary must make assumptions about the future, for example, life expectancy, what returns will be achieved on the Scheme's investments and what levels of future pension increases may be awarded.

To allow comparison with the funding level at 2009 and 2010, the current funding level of 93% shown above has been calculated taking into account the actual pension increase of 3.1% (CPI) paid in April 2011 and assuming that future pension increases were based on RPI. If the April 2011 increase had been based on RPI (4.6%) instead of CPI (3.1%) there would have been a moderate worsening of the funding level when compared to the 2010 level.

If future increases were assumed to be based on CPI (and assuming CPI to be 0.5% lower than RPI) this would improve the 2011 funding level to around 97% (leaving a deficit of £206m, instead of the £539m shown in the table on page 4). Assuming a larger gap between CPI and RPI would reduce the deficit still further.

Since 31 March 2011 there has been considerable volatility in investment markets following a fairly stable few months. This would be expected to lead to a fall in the funding level of the Scheme if a valuation were carried out at this current time. The position will continue to be reviewed regularly by the Trustees.

More information on pension increases is given in the Other Scheme updates section on page 8, if you would like to read more.

Further information on the Scheme's funding

As part of every formal valuation, the Actuary is also required to provide an estimate of whether there is enough money within the Scheme to buy out benefits built up to date, with an insurance company. This is known as the solvency level. This does not mean that consideration is being given to winding up the Scheme, it's just another piece of financial information that helps with understanding its financial position. The APS solvency level as at 31 March 2006 was 86%. As at 31 March 2009 it was 78%. A formal figure will be provided as part of the 2012 valuation but in the meantime the March 2011 update indicated that the solvency level was around 85% although this is currently likely to be somewhat lower, due to recent investment market conditions.

How are my benefits protected?

The Pensions Regulator acts as a watchdog, ensuring employers and trustees are fulfilling their responsibilities and schemes are being run effectively. The Pensions Regulator has powers to intervene in the running of schemes if necessary and can also issue directions to trustees and companies operating pension schemes. We are required to report to you that The Pensions Regulator has not issued any such directions to the APS Trustees, and that the Scheme has not made any payments to the employer in the year to 31 March 2011.

jargon buster

Assets | this is the amount of money that APS has to pay members' benefits. The assets are detailed in money going in and out of the Scheme, on page 6. The Scheme's assets are held in investments that are detailed on page 7.

Recovery Plan | As the Scheme has a deficit, the Pensions Regulator requires the Trustees to agree a Recovery Plan with BA to get the Scheme 100% funded as soon as possible. The current Recovery Plan intends to eliminate the deficit by 31 March 2023. A copy of the latest Recovery Plan is available within section 3 of the 2009 Valuation Report on the website www.mybapension.com, if you would like to read about this in more detail.

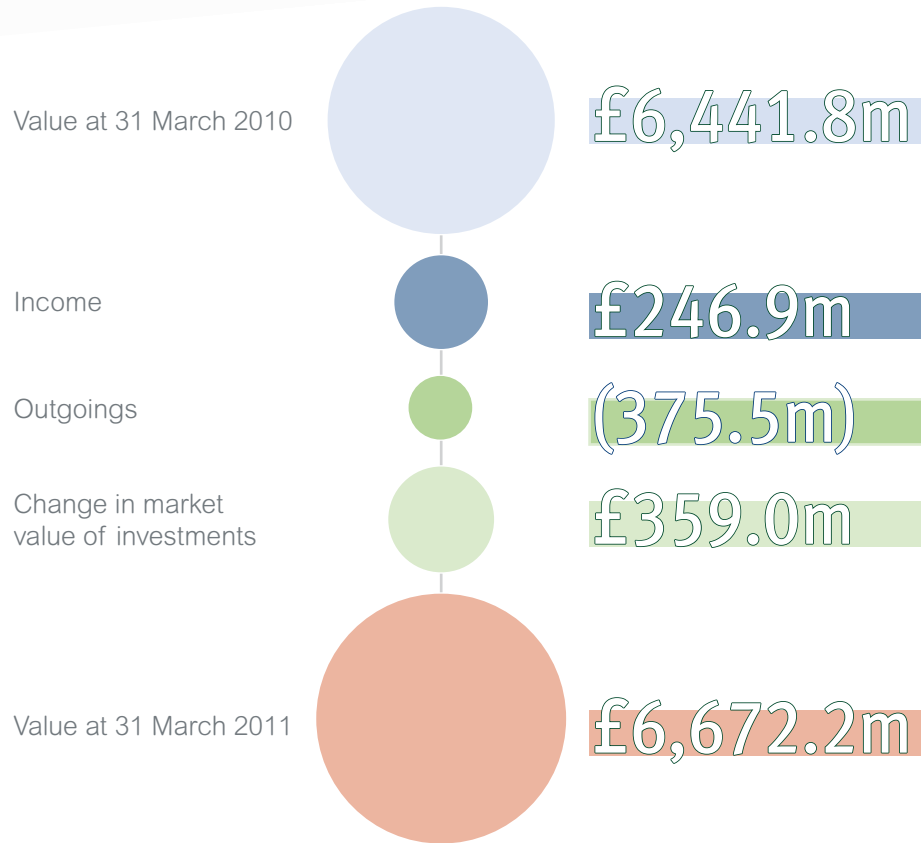
Money going in and out of the Scheme

The following table summarises how the Scheme's assets changed from 31 March 2010 to 31 March 2011, including:

- income (member and employer contributions and investment income);
- expenditure (payment of pensioner and dependant's benefits); and
- the change in the market value of the Scheme's investments during the period.



The Scheme's assets rose in value from £6,441.8m at the start of the year to £6,672.2m at 31 March 2011



Headline results

The Scheme's assets rose in value from £6,441.8m at the start of the year to £6,672.2m at 31 March 2011. This was mainly due to the continued recovery in the market value of the Scheme's investments in the period to 31 March 2011. Since March 2011 the Scheme has also received an extra £35m from BA in addition to the Company's normal Scheme contributions and deficit contributions.



Want to know more? The full Annual Report and Accounts for the year ending 31 March 2011 are available on our website www.mybapension.com under the Scheme documents link. The Auditors, KPMG, gave their opinion that the financial statement gave a true and fair view of the financial transactions of the Scheme.

The Scheme's investments

British Airways Pension Investment Management Limited manages the day to day investment decisions for APS on behalf of the Trustees. The Scheme's assets are invested in line with the Trustees' Statement of Investment Principles, see 'want to know more?' at the bottom of the page.

Investment update

Over the last year, returns on the APS investments, which include stocks, shares and bonds (and are detailed below), were positive, and the table below shows that actual investment returns have been better than the target 'benchmark' over 1, 3, 5 and 10 years.

How APS investments performed

	2011 1 year	2009/2011 3 years	2007/2011 5 years	2002/2011 10 years
APS returns (% a year)	7.79	5.70	5.73	6.16
Benchmark returns (% a year)	7.35	5.04	5.36	5.93

Investment strategy

The Trustees aim to choose investments to match the needs of the current membership, by providing the right mix of growth and security. We do this by investing in a mixture of investments, shown below:

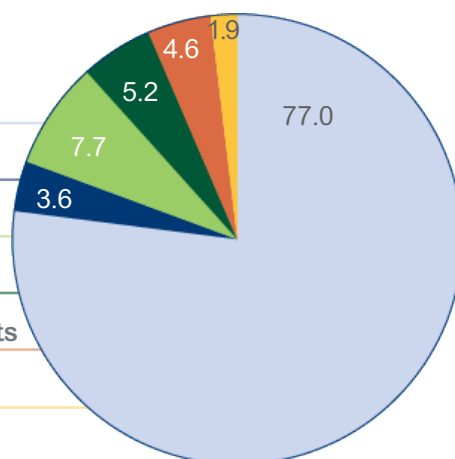
How APS is invested

% held as at 31 March 2011

Investment category

- Bonds & Cash
- UK Equities
- Overseas Equities
- Property
- Alternative Investments
- Private Equity

Total 100%



jargon buster

Benchmark | this is the level of return set by the Trustees in their Statement of Investment Principles (see 'want to know more?', below). The aim is to meet this level of return and investment performance is judged against this target.



Want to know more? More information is included in the full Annual Report and Accounts, which are available to download under the Scheme Documents link on our website, www.mybapension.com. The Annual Report and Accounts includes a further breakdown of the Scheme's investments and a detailed report on how they performed over the year to 31 March 2011.

If you are interested in the detail behind the investment strategy, you can also view the latest Statement of Investment Principles on our website under the Scheme Documents link. Over the years ahead the Trustees will continually look for ways of maintaining good investment performance, while reducing the Scheme's investment risk.

Other Scheme updates

Changes to pension increases

The Trustees' workload has been dominated by the Government's change to the Pensions Increase (Review) Orders this year. This change resulted in the Orders being based on the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) and affected many UK based pension schemes.

The Trustees are sympathetic towards the strength of feeling this issue has caused amongst the membership and updates explaining what the Trustees have been doing in light of the changes were sent to you in March and September. You can find copies of these updates in the 'news' section of our website www.mybapension.com

The Trustees have introduced a discretionary power to award pension increases above those required by the Government's Orders when the Trustees decide it is appropriate to do so.

Next steps?

Our September 2011 communication advised that the Trustees are working on a framework to achieve their objective of returning to RPI type annual increases after taking into account matters such as the ongoing funding level, the volatility of investment returns and the need to ensure existing benefits are secure. This work will be ongoing leading up to the next pension increase due in April 2012.


The April 2012 Scheme increase will be based on Orders which we expect to be published in March 2012. Assuming that the Government does not change past practice and that the Orders continue to reference the relevant inflation measure for the previous September, the April 2012 increase payable will be 5.2%, the CPI figure for September 2011. The RPI figure for September 2011 was slightly higher at 5.6%, a difference of 0.4% on this occasion.

The Government's pension increase Orders have been challenged by a Judicial Review, lodged by various public sector and trade union representatives. The review took place at the end of October and the Judgment was made on 2 December 2011. The Trustees will be reviewing the details of this Judgment before determining what further action if any may be required in respect of APS.

Scheme news in depth

Members' ballot

Two ballots were requested by active members and pensioners in receipt of pension and were sent out in July and October of 2011. The results of both ballots are shown below and clearly reflect the strength of feeling amongst the membership on this important issue.

 If you need a reminder of the questions posed these were in the packs sent to you or can be viewed on our website www.mybapension.com under the 'news' section.

The first ballot

Members balloted		26,257	46.1% of papers returned	
Question 1	Yes votes	11,362	No votes	620
Question 2		10,827		1,115
Question 3		11,421		609

The second ballot

Members balloted		26,178	49.8% of papers returned	
Question 1	Yes votes	12,217	No votes	378
Question 2		11,995		838
Question 3		8,596		3,699

A small number of papers were spoiled in each ballot and some members did not answer every question.

jargon buster

RPI and CPI | Although both the CPI and RPI measure the change in the price of goods and services over time, the CPI is generally (although not always) lower than the RPI. One of the differences is that the RPI includes the costs of housing (mortgage interest costs and council tax for example) while CPI does not.

Pension Input Period | This is the time used to calculate your benefits from APS for tax purposes (including calculating the Annual Allowance), and is the period from 1 April to 31 March each year.



Important news for active members

Scheme news in depth

Pension tax changes

The Government has changed the amount of pension savings that you can make and still benefit from tax relief. We only expect these changes to affect a small number of members. However, we are including some details of these changes here to help you see if you could be affected.

Changes to the lifetime allowance – are you affected?

The lifetime allowance is the maximum amount of pension benefits you can build up across all of your UK registered pension arrangements without a tax charge. It is currently £1.8m but will reduce to £1.5m from April 2012, with some protection offered to employees who have already made pension saving decisions based on the current lifetime allowance limit.

Further information is available on the HM Revenue & Customs (HMRC) website at <http://www.hmrc.gov.uk/pensionschemes/lifetime-allowance/savings.htm> and the Scheme has written to members who, based on their APS benefits only, may be affected. More detail was also provided in the last issue of In Focus, and you can find a copy of this on the Scheme website, www.mybapension.com

Members who have reviewed the information, and who would like to apply for 'Fixed Protection' to fix their lifetime allowance at £1.8m can complete an application form at <http://www.hmrc.gov.uk/pensionschemes/apss227.pdf>. Completed forms must arrive with HMRC by 5 April 2012.

If you build up any benefits within any registered pension scheme after obtaining 'Fixed Protection', your Protection will be lost.

Have you exceeded the Annual Allowance?

In the last issue of In Focus, we told you of some changes to the Annual Allowance (AA) (further information is available on our website www.mybapension.com click on 'Simple English Guide'). It is now your responsibility to tell HMRC if you exceed the AA, so it's important that you take time to understand what you need to do if you are affected.

If you are a pilot, or you were likely to exceed the AA in the Scheme Pension Input Period from 1 April 2011 to 31 March 2012, based on estimated figures, the pensions team issued you with an estimated AA statement in February 2011. We will issue formal statements automatically by October each year to those individuals who exceed the AA in relation to their APS benefits and are liable for a charge. Members will also be able to request an AA statement for a different period, if required.

Will the Scheme pay any AA charges?

New Government legislation means members who meet certain criteria can request that the Trustees pay any AA charge due on their behalf, in return for a reduction in Scheme benefits. The Trustees have agreed to this where the increase in the member's benefit value within APS during the Scheme Pension Input Period exceeds £50,000 and whose total AA tax charge is £2,000 or more.

The way that the Scheme will pay this charge is still under development, however it is currently expected that where a member holds an AVC account, any AA charge paid by the Scheme on behalf of the member will be offset from the member's AVC account. Alternatively, members can choose to reimburse the Scheme for the charge it has paid on their behalf by having a deduction made from their pension once they leave the Scheme, with the amount of charge being increased by Mixed Portfolio Fund (MPF) returns for the intervening period.

Several points within the legislation are yet to be clarified. Further details regarding the AA charge payment options will be sent to members who exceed the AA in their 2012 AA statements.

Building up benefits in relation to tax charges

To help you to understand what is regarded as building up benefits in APS for AA and Fixed Protection purposes, we have included some additional information here:

Active members: Generally, if you are an active member and you continue to build up benefits (including any AVCs), then the increase in value of all benefits will count towards the AA and would invalidate any Fixed Protection you have.

Crystallised members: If you are paying AVCs, you are deemed to have ongoing benefit build up and therefore benefits will count towards the AA and would also invalidate Fixed Protection.

Deferred members: Increases to deferred pensions up to CPI are allowed. However, if the Trustees grant a discretionary increase in the future resulting in increases exceeding CPI, this would count as benefit build up for AA purposes and would invalidate Fixed Protection.

Members who defer their benefits beyond Normal Retirement Age (NRA): late retirement increases that are automatically applied to the pension do not count as long as the member has not paid AVCs during the relevant Pension Input Period.



Important news for active members

SmartAVCs

BA's salary sacrifice arrangement for AVCs known as 'SmartAVCs' was introduced in October 2011 and since it was introduced, the number of people paying AVCs has gone up. SmartAVCs allow both you and BA to pay less NI contributions. The NI savings BA makes will be shared with you. You will currently get an extra 10% of the amount you save paid into your AVC account. So for every £10 paid in as SmartAVCs, BA will add an extra £1.

You must be a member of SmartPension to make SmartAVCs, and your SmartAVCs can be changed once a year during September to be effective from 1 October. A form will be made available on our website when the next election window opens.

Normal AVCs can still be paid on top of or instead of SmartAVCs and can continue to be changed from the 1st of any month by submitting a form, available on www.mybapension.com by clicking on forms. You can also change your AVC investment decisions at any time.

jargon buster

Crystallised members | These are active members who stop paying into their pension at or after their Normal Retirement Age (NRA) but do not draw their pension. They continue working for BA but do not build up any more pension for the extra time they work. Instead, at retirement their pension is increased to allow for the fact that it is being paid later.

Additional Voluntary Contributions (AVCs) | You can make extra tax-free payments on top of your standard BA pension to provide additional benefits for you and your dependants when you retire or die. There are two ways to save AVCs, SmartAVCs and normal AVCs.

Scheme Rule changes

Calculating members' retirement options

The Scheme uses 'factors' to calculate how members' choices will affect their pension at retirement. These are regularly reviewed by the Trustees, and a full review of all Scheme factors is carried out every three years as part of the valuation.

The Trustees have now completed a full review of factors. The full review of factors reflects changes in financial and mortality (people are living longer) assumptions and takes into account the fact that the Trustees have a power to pay discretionary increases above standard Scheme increases when they deem it appropriate to allow this in the future. Very broadly most members converting pension to cash at retirement will receive slightly more than they would have under the old factors. Those retiring early or later will receive slightly less pension than under the old factors.

The new factors will apply to members who retire or leave the Scheme after 29 February 2012.

Taking pension benefits after age 75

From 1 January 2012 you will have more flexibility on your pension options if you are planning to retire after age 75, as follows:

- Deferred AVC balances will be able to be used to purchase additional pension after age 75, and you can also now take 25% of these benefits as cash, after age 75.
- Deferred members who have lost touch with APS may also have their benefits backdated to age 75, and will also be given a lump sum option.
- Members who only have a small amount of pension in APS (worth less than £2,000) will normally be able to take it as a cash lump sum, even if this is after age 75.
- Death in service lump sum payments will be permitted after age 75 subject to a 'special lump sum death benefits charge' of 55%.

Retiring after Normal Retirement Age (NRA)

From January 2012, if you are leaving employment after NRA, you will have the option to defer the payment of your benefits beyond your NRA, and will be able to transfer these benefits to another provider if you wish. This change brings benefit options into line with those for members who leave the Scheme before their NRA.

Changes to our disputes timescale

If you have reason to complain about any aspect of the Scheme's service then you should write to the pensions team at Whitelocke House. If your complaint is not resolved to your satisfaction BA pensions operates a two stage Internal Disputes Resolution Process (IDRP). The maximum timescale for responding to such complaints has recently changed from two months to four months but we still aim to respond to any complaint as quickly as possible.

Keeping track of your pension



An action for pensioners and deferred pensioners

It is important that you keep the pensions team at Whitelocke House updated with any change in contact details or personal circumstances. If you do not, there could be a delay in payment of your benefits or dependants benefits and you will miss out on regular updates on your pension.

If you are a pensioner or deferred pensioner please write to the pensions team at Whitelocke House immediately if you change address, remarry, divorce, become bereaved or have children.

The Trustees do work to ensure the details we hold are accurate, and recently completed an exercise to trace older deferred pensioners who had lost contact with the Scheme.

We take the security of benefits very seriously and take regular action to audit the continued existence of pensioners in receipt of pension payments. Where queries arise we seek guidance as required including from the police if necessary to ensure the Scheme remains as secure as possible and to protect the Scheme against fraudulent claims.



Note for active members

Active employees do not need to inform the pensions team, as any changes made via people-on-line are fed to Whitelocke House automatically by BA.

Useful information

Past copies of In Focus and the other Scheme documents listed below are available on the website, www.mybapension.com or by contacting the pensions team:

- The full 2009 Valuation Report (which includes the Recovery Plan in section 3, and the Statement of Funding Principles, in appendix D)
- The Statement of Investment Principles
- The Annual Report and Accounts (including the Scheme's Schedule of Contributions)
- The Scheme Booklet
- The Trust Deed and Rules



Note for active members

Notice of Wish

Please can we remind all active members of the Scheme to update their Notice of Wish form and Surviving Dependant's form. Blank forms are available on www.mybapension.com by clicking on forms. We use these forms to help us decide who should receive benefits in the event of an active member's death.



Contact us

We are always interested to hear any feedback on our communications. Any comments should be sent to:

 BA Pensions
Whitelocke House
2-4 Lampton Road
Hounslow
Middlesex
TW3 1HU

For other enquiries you can contact our pensions team on:

 0208 538 2100

 enquiries@bapensions.co.uk

Contacts at BA

The Trustees have been asked to provide the following updates for your information.

BA Clubs have launched a new website www.ba-touchdown.com containing useful information and links to organisations working on behalf of former BA staff including Pensioner Contacts, the British Airways Welfare and Benevolent Fund (which also accepts applications from current BA staff), the BA touchdown team (formerly retirement support), the Retired Staff Liaison Council, and BA Clubs.

The Welfare and Benevolent Fund is a charity set up by BA to help current and former employees, including those of predecessor companies, who are experiencing severe financial hardship. To discuss making an application in confidence please call 020 8513 2528 or contact your pensioner contact.

Financial advice

Remember your pension benefits are very valuable. You should consider taking professional independent advice before making any decisions regarding your pension benefits and especially if at any point you are considering leaving the Scheme. For a list of advisers go to www.unbiased.co.uk