BRITISH AIRWAYS
PENSIONS

In Focus

A message from the Chairman of NAPS

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 NAPS 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 1-4 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 3.

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 5.

During the year, Mr Peter Holloway and Captain Paul Revell retired as Trustees and we welcome Mr Paul Douglas and Captain Ian Bretherton as their successors. Mr Mervyn Walker retired as Chairman with my own appointment becoming effective from 1 April 2005. 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 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 to make sure benefits are secure. Many of these reforms come into effect at the start of the next tax year on 6 April 2006 ('A day') and we describe below how these changes will affect you and your Scheme.

We are however, still awaiting further details from the Government around how to administer some of the changes but we will keep all members up-to-date as regulations develop, with a further In Focus due to be sent out later this year.

Maximum pension benefits

From 'A day' existing Inland Revenue limits on pensions and lump sums will disappear and will be replaced by a new 'lifetime allowance' (LTA). The **value** of your benefits at retirement will be compared against the allowance for the year of retirement. Any excess benefits will be subject to a tax charge. The allowance is large (£1.5m for 2006/07 increasing yearly to £1.8m by April 2010) and for most people the **value** of their pension benefits will fit well within the allowance.

Simplification, security, choice continued

Tax year of retirement	Lifetime allowance (£)
2006/07	1,500,000
2007/08	1,600,000
2008/09	1,650,000
2009/10	1,750,000
2010/11	1,800,000

The **value** of an individual's pension benefits must take account of the total of all their pension and lump sum benefits from all pension schemes of which they have been members. Very generally at A day the value would be 20 times the scheme pension where the scheme pension is not yet in payment (or 25 times any pension which is in payment) plus any lump sum benefit. For example if your NAPS pension (not yet in payment) at April 2006 was £15,000 a year and you had an AVC account of £5000, the value of your benefits would be £305,000 (£15,000 x 20 + £5,000). If in addition to this you are already being paid a pension of £2,000 a year from another arrangement the value would be £355,000 (£15,000 x 20 + £2,000 x 25 + £5,000). You could make a rough assessment of the value of your NAPS benefits by using the pension figures on your latest benefit statement, if you have access to one.

State benefits and pensions that you may be receiving in respect of anyone else, such as widow's/widower's or partner's pensions, do not count towards the LTA.

For those few members who have benefits in excess of the LTA the amount of tax charge on the excess will depend on how the benefit is taken, 55% if taken as a lump sum or 25% if taken as pension.

If your benefits exceed the LTA

We will be writing individually to members later in the year where we have identified that the value of their pension benefits will exceed the LTA on 6 April 2006 or who potentially may reach the LTA at some time before they retire. For these members there are transitional arrangements which allow the value of benefits at A day to be protected and we will explain what action you may need to take. We will only be able to assess the expected position using the details of our Scheme. If you have significant pension benefits from other pension arrangements which may affect the overall value of benefits, you may need to take some advice on whether it is necessary to take any action.

Detailed information explaining how to protect your pension benefits is also available from http://www.hmrc.gov.uk/manuals/rpsmmanual/index.htm click on member pages.

Tax-free cash

The new maximum limit for tax free lump sums from 6 April 2006 will be 25% of the **value** of your benefits at the point the benefits are drawn (within the available limit). We have explained how to value your benefits above. AVC payers retiring on or after 6 April 2006 will be able to take their AVCs as cash irrespective of when they started paying.

Generally the new rules give the opportunity for many members to take a higher tax free cash amount, by exchanging pension and/or by taking AVCs as cash, but we will still need to take account of guaranteed minimum pension requirements.

To assist with your retirement planning we will be able to provide two sets of figures on request to anyone considering retiring from September 2005 to September 2006 so the different limits can be compared.

There are transitional arrangements that allow lump sum protection for those with existing lump sum entitlements greater than 25% of the value of benefits at A day. We will look at this in more detail in the next edition of In Focus.

Multiple scheme membership

From A day, an individual can be a member of as many schemes as they wish, at the same time, regardless of the types of scheme and their personal circumstances. So for example, if you can afford to do so, you will be able to contribute to a personal pension with an insurance company as well as contributing to your BA pension, subject to LTA and contribution limits.

Contributions and Additional Voluntary Contributions (AVCs)

The new regulations remove the requirement for pension schemes to provide an AVC facility. However, the Trustees have agreed to keep the BA AVC plans in force.

The regulations introduce a single limit on contributions that can be made to pension schemes free of tax, known as the 'annual allowance'. The Government has set the first annual allowance for the 2006/07 tax year to £215,000. For final salary schemes such as NAPS, the amount to be compared against the 'annual allowance' each year is the increase in the value of the pension built up from one year to the next. The value here is assessed as £10 per £1 instead of the £20 mentioned earlier. The regulations allow contributions to be paid on 100% of all pay free of tax, subject of course to whether an individual can afford it and individual scheme rules. The Trustees have agreed to maintain the contribution limit for the Scheme at 15% of pay by way of normal contributions and AVCs, however additional tax relief can be gained by utilising other vehicles outside of NAPS.

Minimum retirement age

From 6 April 2010 it will not normally be possible for members under age 55 to draw their pension except in cases of ill health.

If you are planning to retire after age 50 but before age 55, where this date falls after 6 April 2010 you will need to reconsider your retirement plans. For example, a member planning to retire at age 54 who reaches age 54 in 2011 would need to consider retiring earlier at age 53 before 2010 or continuing until age 55 or later.

Flexible Retirement

Currently you can only receive benefits from the Scheme once you have left employment. Under the new legislation it will be possible to draw benefits and remain in employment providing the Scheme rules allow it. The Trustees have agreed not to change the rules for the time being but will look again at the issue in due course. We will keep members informed of progress through future editions of In Focus.

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 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 NAPS benefits.

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.

If BA were to become insolvent, it is by no means certain that NAPS would be taken on by the PPF. This would depend on the level of funding applicable at the time should such an event occur. The first PPF funding valuation will be undertaken as part of the main scheme valuation due as at 31 March 2006.

All occupational schemes like NAPS 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 onto 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.

Scheme Accounts

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 opposite show the income and expenditure of NAPS during the year.

Money into the Fund	£m
Contributions received	292.3
Transfers in	2.3
Investment income	118.7
Other income	4.5
Total income	**417.8**

Money out of the Fund	£m
Pension benefits paid	144.3
Leavers	7.3
Administration expenses	4.5
Investment management expenses	3.3
Total expenditure	**159.4**

Fund value	£m
Value of Fund at 1 April 2004	3,943.8
Total income	417.8
Less total expenditure	(159.4)
Change in market value of investments	357.8
Value of the Fund at 31 March 2005	**4,560**

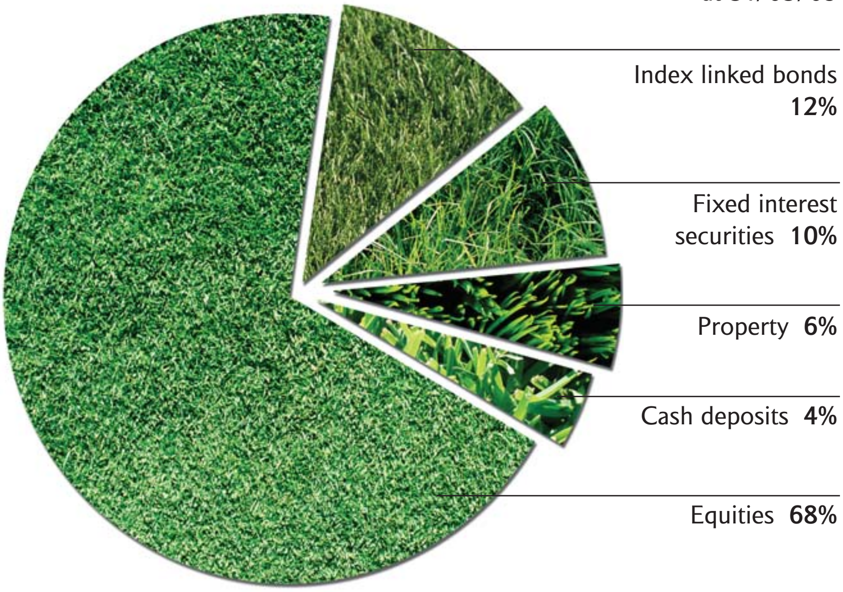
Investment update

In the last edition of In Focus we reported that whilst still in significant deficit, the Fund value of NAPS had improved. There have been further improvements since then in the overall value of the Fund, but this needs to be set against any increase in the liabilities. Equity markets rallied towards the end of 2004/05 and property has performed well. The Scheme does however continue to have a shortfall and the Company continues to pay an extra £115m each year to address the deficit, on top of its normal employer's contributions. It will not be until the next formal review, to be conducted in March 2006, that we will know precisely the extent to which the deficit has reduced or whether it has in fact increased. However, current indications are that there will not be any reduction to the Company's extra contributions in the foreseeable future.

The strategic mixture of investments held within NAPS which we reported in last year's In Focus, continues to be appropriate with 65% being held in equities, 28% held in bonds (both Government and corporate) and the balance in property and cash. This will be reviewed again as part of next year's valuation. 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 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



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

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

Rule 25, which allows 50 active members to convene a meeting, was amended so that in addition any 100 members or pensioners may convene a meeting.

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 covering ill health have been changed so that in future an ill health pension will only be payable where a member's employment is terminated by the Company because they cannot do either their current job or an appropriate alternative job. However, the new rules specify that if a 'reasonable' and suitable' job is not offered by the Company then an ill health pension will, as now, be payable. Pilots who lose their licence through ill health will remain eligible for ill health retirement. The rule governing the review process has also been changed to ensure it is consistent with the new criteria for paying ill health pensions. For those who have retired on ill health grounds prior to 1 August 2005 the old review criteria will stay in place. Further details of this rule change can be obtained from Whitelocke House or found on our website.

During the debate concerning the rule change the Trustees also discussed how they would generally carry out reviews of ill health pensions in future. Currently a financial test is carried out to ensure that the ill health pension plus any other income does not exceed what the pensioner would have earned if he had still been employed by the Company. In future, there will also be a review, irrespective of when the pensioner retired, to establish continued medical incapacity. The Trustees have yet to decide when to commence these reviews but they will only affect those ill health pensioners who are under normal retirement age.

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 can be found on our website under 'forms'. We use these forms to help us decide who should receive benefits in the event of an active member's death. Failure to complete the necessary form(s) often leads to a delay in the payment of benefits.

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