



In Focus

Annual funding statement

In May last year we wrote to you giving final details of the 2006 Actuarial Valuation. We are now sending you details of the funding position one year further on as at 31 March 2007.

You might recall that at 31 March 2006 NAPS had a funding deficit of £2.1 billion which meant that the Scheme had only about three-quarters of the funds it needed to provide benefits as they fell due to be paid over the years ahead. During 2006/7 the Trustees and British Airways agreed on a 10 year recovery plan which involved changes to the future build up of pensions for active members. This is our first annual update setting out how things are progressing against the recovery plan.

This update has not involved the detailed analysis which takes place as part of the formal triennial valuation but some of the underlying assumptions have been updated to reflect actual investment conditions as at 31 March 2007. A particularly important assumption is how long pensioners will live. The 2006 valuation assumed that pensioners' life expectancy would continue to grow. The details of this assumption have not been updated, but analysis of the latest data, which includes general national mortality statistics, suggests that a faster rate of improvement may need to be allowed for in the next formal valuation due in 2009. Work undertaken for this valuation will include an in depth review of the Scheme's actual mortality experience.

The following table shows the approximate funding level of the Scheme required to provide the level of benefits promised under the Rules of the Scheme as they fall due (known as the 'technical provisions'). The recovery plan agreed with British Airways is designed to reach a funding level of 100% by March 2016, however, there is no guarantee that this will be the case and the position will be formally reviewed each year.

31 March 2006	31 March 2007	2 April 2007*
74%	83%	90%



As part of the agreed recovery plan British Airways paid additional lump sum contributions of £240m on 9 February 2007 and £560m on 2 April 2007.

So as at 31 March 2007 the Scheme had an approximate 17% funding shortfall (£1,320m) which was improved further, two days later, to approximately a 10% funding shortfall (£760m). As you will see, there has been a significant improvement in the funding position over the year and this is mainly due to the change in the definition of current employees' pensionable pay (now capped at the rate of price inflation) and the recovery plan contributions paid by British Airways.

British Airways will pay recovery plan contributions of £126m a year (increasing each year in line with price increases) until 2016 to clear the remaining shortfall. These contributions are in addition to British Airways' normal pension contributions to the Scheme. The next formal valuation is due to take place as at 31 March 2009 and the level of British Airways' contribution will be reassessed at that time.

When we wrote to you last May we not only set out the funding level to pay the 'technical provisions' we also set out the funding levels on two other measures: a) if the Company withdrew its support (say, in the event of insolvency) but with the Trustees continuing to run the Scheme on and b) on the basis that the Trustees bought out the benefits with an insurance company. On these measures the funding levels have also improved from 59% to 65% and 52% to 57% respectively.

In our September 2007 edition of *In Focus* we set out a summary of the investments held in the Scheme. A copy of the September 2007 edition together with the formal Annual Report and Accounts and other documents about funding (such as the last formal Actuarial Valuation report) can be found on our website www.mybapension.com click on 'News' or 'Scheme documents'.

We will ask the Actuary to carry out another annual review as at 31 March 2008 and will let you know of the outcome of that review as soon as that work is complete.

Trustee matters

There have been a number of changes to the Trustee Board:

- Following the ballot of NAPS members in the Engineering and TMGs constituency Mr Ian Rycraft has been re-elected as a member Nominated Trustee. Mr Rycraft's term of office will be between five and five and a half years commencing on 1 October 2007.
- Mr Paul Douglas retired as a Trustee of both APS and NAPS on 30 September 2007 and British Airways appointed Capt Jon Round as a Trustee of APS and NAPS with effect from 1 October 2007.
- British Airways has also appointed Mr Raj Mehta as an APS Trustee with effect from 1 October 2007. Mr Mehta continues to be a NAPS Trustee appointed by British Airways.

SMART Pensions

All current employees who are active members of NAPS will have recently received information from the Company concerning its new salary sacrifice scheme known as SMART pensions. Scheme Rules will be amended to reflect this new arrangement, but all levels of benefits will be unaffected by the new arrangement. However, because of the way SMART pensions works, members who pay maximum AVCs, i.e. 30% of pay, will pay slightly more AVCs once SMART pensions is introduced. Conversely, those members who are not paying maximum AVCs, but are paying AVCs as a percentage of pay (rather than a fixed monetary amount), will pay a slightly lower amount of AVCs once SMART pensions start. As a result, AVC contributors are advised to bear this in mind and, if necessary, write in to Whitelocke House if they wish to make any amendments to their future AVC contributions.

Benefit Statements

Since April 2007 we have been reprogramming all our pension calculations to reflect the changes to NAPS benefits. This work has now been completed. While this work was ongoing we were unable to issue annual benefit statements to active members of the Scheme, but are now again able to do so.

We have re-commenced issuing paper benefit statements for NAPS active members. Statements are normally sent to home addresses in the month following the member's birthday, we are currently preparing statements for those with November and December birthdays.

The modeller on the Pensions website (available to most active members of NAPS) has also been updated to reflect the NAPS changes. We have also refreshed the data on the modeller and provided an online benefit statement for all active NAPS members with a birthday between 1 April and 31 October. Ongoing, data will be refreshed on the modeller in the month following the active member's birthday. The modeller can be accessed via our website www.mybapension.com

Pensioners with deferred AVC accounts

Some pensioners have decided to draw their main Scheme benefit but leave their AVC accounts deferred within the Scheme. In the past the Rules of the Scheme have not permitted these AVC accounts to be transferred to an external pension arrangement, but the Trustees have recently amended the Rules to allow this facility. Each pensioner concerned has received an individual letter from us to let them know of this new option.

Transferring benefits

It is expected that later this year the regulations governing transfers from one scheme to another will be amended which will have the effect of increasing the value of transfers payable by the Scheme. Those active members and, in particular deferred pensioners, who are considering transferring their benefits from the Scheme to another pension arrangement, will wish to bear this information in mind when deciding the timing of any potential transfer. The Trustees recommend that active members and deferred pensioners considering transferring benefits out of the Scheme consult their independent financial adviser about the timing of the transfer.

The Scheme rules are also in the process of being amended to allow all contracted-out rights to be left in the Scheme where a member wishes to transfer his/her non contracted-out rights to a contracted-in arrangement. Contracting out refers to benefits that have built up in the BA Schemes instead of the state additional pension schemes. Previously only contracted-out benefits in respect of service before April 1997 could be left in the Scheme.

Independent financial advice should not just be sought in respect of transferring benefits. You should always seek independent financial advice before making any decisions concerning your pension arrangements.

Keep us up-to-date

If you are a pensioner or deferred pensioner please remember to keep pensions up-to-date with any change of address.

Active members should remember to keep their Notice of Wish (NOW) up-to-date as this is used as guidance by the Trustees when distributing any death in service lump sum. NOW forms can be printed from our website www.mybapension.com. Please return completed forms to Whitelocke House.

Active members, don't forget to check your benefit statement to make sure you are happy with the scheme options you have chosen. For example, the benefit statement shows whether you are currently paying for a survivor's pension for your spouse or surviving dependant. If you wish to opt into or out of survivor's cover then please write to Whitelocke House.

More Information

As always more information concerning the Scheme can be found on our website www.mybapension.com or you may prefer to contact us at Whitelocke House, 2-4 Lampton Road, Hounslow, Middlesex TW3 1HU. Alternatively, you can contact us by email enquiries@bapensions.co.uk or call our Customer Service Team between 9am and 5pm on 020 8513 2222. Our fax number is 020 8572 6235 (or internally 32257).

