

## Questions and Answers from the Members Meetings - 30<sup>th</sup> October 2006

### Size of deficit/Actuarial Review

- 1) Were the assumptions behind the 2003 valuation too optimistic, so as to let BA pay off their other debts first?

The assumptions used at each valuation are those that are most appropriate at the time taking all relevant issues into account. In 2003 the deficit increased by about £700m which resulted in increased contributions for the Company. Under the new funding legislation which will govern the 2006 valuation the Trustees and BA must agree the assumptions whereas in past years this has been the role of the scheme actuary. BA's ability to make the necessary payments does not influence the assumptions chosen.

- 2) I understand that the trustees have met up with the Government's pensions regulator. Were the trustees put under pressure to make pessimistic assumptions about the real rate of return on investment, leading to a bigger deficit figure?

The Trustees met with the Regulator on two occasions and on neither occasion were the assumptions used in the valuation discussed. The Pensions Act and the guidance issued by the Pensions Regulator emphasises the need to be prudent when setting assumptions.

- 3) How does the discount rate used in the 2006 valuation compare with that used by other similar schemes?

Each scheme has its own set of assumptions to reflect its own membership characteristics and investment strategy. One of the central themes of the scheme funding legislation is scheme specific funding so it is meaningless to compare one scheme's discount rate with another.

- 4) What would the 2006 deficit have been if the discount rate which was used remained unchanged from that used in the 2003 valuation (i.e. 6.8%).

Had all of the assumptions used in 2006 been identical to those used in 2003 the Scheme would have a surplus of £503m.

- 5) The deficit appears to be larger because of a one-off reduction in the discount rate. Is it not true that if the assets of the NAPS scheme continue to grow at the present rate, the deficit will reduce automatically unless the discount rate used in future valuations is reduced again?

If the assets outperform the expected rate of return the funding level will improve. However, as the Scheme naturally matures over time the Trustees would expect to move more of the assets out of equities and into bonds to reflect that maturity and this in turn will affect the discount rate further.

- 6) BA claim that they have always paid what our actuaries have told them to. In light of the massive deficit would the pension fund have a claim for compensation against the actuaries for negligence (under their professional indemnity insurance) for providing an incompetent service and incompetent advice?

The Trustees confirm that BA has always paid the contributions required by the Actuary and as will be seen from the answer to question 13 the Trustees are confident of the advice offered by the Actuary.

- 7) I believe the crystallized pension, the part based on an age of 60, will be actuarially increased beyond 60. On the evidence of actuarial advice to-date (i.e. BA claim they have always paid what the actuaries have advised) is there any action the trustees can take to properly protect our pension right to age 65. The actuarial advice to-date is obviously very poor as the fund has such a massive deficit!

The changes the Trustees have made to the assumptions for the 2006 valuation are aimed to improve the overall security of the fund which in turn will protect all pensions. As far as actuarial advice is concerned please see the answer to question 13 below.

- 8) With the stock exchange improving, and shares gaining in value, how can the deficit be growing?

This is caused by a range of issues including increasing life expectancy and lower expected future investment returns..

- 9) The trustees have conceded that cuts in benefits are necessary to members within NAPS pension fund, what are these necessary cuts? What will be the cost of the deficit? and how will this deficit be funded, what measures should / will be taken in the future that will prevent deficits within the pension fund becoming unsustainable and how do the trustees suggest they cope with the effects of longevity of life, low inflation and stock market financial moderate returns.

The recovery plan proposal which the Trustees have put to the Company must for now remain confidential.. The changes to the assumptions that the Trustees have made strengthens the funding position and reduces the risk of further deficits occurring in the future.

- 10) In the latest issue of 'In Focus', it was stated that the trustees would decide upon the assumptions to be used in the valuation. One of these assumptions was the future rate of return on investments, and it was stated that a cautious approach to the choice of rate used would result in a larger deficit. The deficit of £2.1 billion which has been announced shows clearly that an exceptionally cautious approach has been adopted. I would be most interested to know the reason for this, bearing in mind that many other similar pension schemes have announced reduced deficits in recent months, and also considering that BA is showing strong growth in profits year by year.

The Trustees have looked at a significant amount of analysis to ensure that the assumptions used for the 2006 valuation are appropriate. They have a duty under the Pensions Act 2004 to take a prudent approach to setting assumptions, but they do not believe that they have been over prudent.

- 11) Is it correct that different accounting methods underlie the difference in reported deficit between 2003 and 2006? Had the same methodologies been applied the actual deficit in 2003 would have been close to £1.6bn - why did the trustees decide to promote the smaller number? Likewise why have the trustees not corrected the company on the BA News article, dated 5th October that the deficit has not doubled as the real rise is around 30% using the same methodology? I understand there is also a government report being published soon that will show a decline in longevity - are the trustees aware of this and can it be taken into consideration given the circumstances.

The £2062m figure quoted in the recent letter sent by the Trustees is the 2006 deficit and is directly comparable to the deficit disclosed in the 2003 valuation of £928m. The actuarial valuation results should not in any way be compared with those used in Company accounts. Those are calculated on a completely different basis. The Trustees are not aware of the report referred to. However, they are aware that some experts in the field express views which are far more conservative and others have views which are far less conservative than the position adopted by the Trustees regarding life expectancy. The choice of assumptions was based on analysis of actual mortality experience of the Scheme and a judgment in relation to future mortality trends.

- 12) 3 years ago the deficit was approx 900m with assets about 3.8bn. Now it is 2.1bn with assets 5.9bn. This indicates funding requirement now of 8bn versus 4.7bn. The three major factors we have always been told are 1/ interest rates 2/ living longer 3/ investment performance. As investment performance might be deemed as good over the last 3 years, can you explain this. Or are we all destined to live for ever?

Please see answer to questions 8.&10

- 13) Do the trustees have confidence in the opinions of the actuaries/ financial advisers which have proved to be so wrong in the past.

The Trustees did a thorough market review of actuarial advisers 3 years ago and after a full invitation to tender process decided to retain Watson Wyatt and Greg Alexander as their actuary. They continue to have full confidence in Greg Alexander and Watson Wyatt.

## BA's ability to pay

- 14) PricewaterhouseCooper were hired by the trustees to establish BA's ability to pay into the scheme and have concluded that BA cannot pay much more on an ongoing basis than they currently do. However, PwC have a mixed record: they were the auditors for the Maxwell pension fund, for Barings in Singapore at the time of the Nick Leeson scandal and were the auditors for BCCI before its collapse. Should we trust their views on BA's ability to pay?

PwC is a well respected supplier of a range of consultancy services and is the largest creditor advisory firm in the world. PwC was also employed by the Pensions Regulator while it was setting up its organisation to advise the Regulator on a variety of pensions / sponsoring employer / creditor issues. The Trustees are confident that the work carried out by PwC has been thorough and independent.

- 15) How can we be sure that PwC don't want to keep in BA's good books so as to get future business from BA? Shouldn't the trustees get a second opinion on this issue?

See the answer to 14. In addition, PwC's work with creditors worldwide clearly indicates that they are independent on the debtor they are reviewing. PwC have also confirmed that, as a complete organisation, they have no conflict of interest with the work they are carrying out for the Trustees.

- 16) If BA can pay off £5bn of debt in 4 years and 3 months and it only has £1.6bn left why can't the £2.1bn of pension deficit be added to the £1.6bn of debt and paid off over the next 3 to 4 years prior to saving to pay for new aircraft? If we are looking to buy 34 new aircraft ranging from £85.5million to £168.7million that equates to £2.9bn to £5.7bn - if BA can pay £1bn off of debt each year it will be able to save the money over the following 4-5 years to buy the aircraft rather than increase debt during the next decade i.e. 2010 to 2015.

The Trustees recognise that an important factor in securing NAPS' long term ability to provide pensions is to have a strong, sponsoring employer. Although the Trustees are not able at this time to publicly state what detailed advice they have received from PwC, the Trustees can confirm that they have identified funds beyond the £500m proposed by the Company and will negotiate hard to maximise the cash and other security from the Company.

- 17) BA are talking about paying a dividend to shareholders next year. Since privatisation, we've probably paid more out in dividends than any other airline. Shouldn't pensions have priority over dividends?

The negotiations that the Company and the Trustees are having at present are confidential. However, the analysis on which the Trustees recovery plan proposal is based considered a range of financial circumstances in which any company might find itself, e.g. it might be subject to an adverse external event or an economic downturn, or alternatively it might enjoy periods of profitability and out performance. The analysis focussed on how security/value might be extracted for the benefit of the Scheme in a range of scenarios over the corporate lifecycle.

- 18) In 2003, BA made a pre-tax profit of £135m, which meant that the £928m deficit was equivalent to almost 7 years' profits. In 2006, BA made £620m pre-tax, and the revised deficit now only represents 3.4 years profits. With BA's profits still rising, is it not true that the deficit is now more manageable than in 2003?

Please see answer to question 16.

- 19) I believe the trust deed sets down the member contributions and says the company pays the balance to fund the scheme. Does BA have a legal obligation to pay the deficit, Yes or no please? If yes why are they not doing so and why is the NAPS fund the only creditor they are negotiating with?

The Trust Deed of NAPS is no longer the only documentation that the Trustees must concern themselves with when setting contributions. The Pensions Act 2004 sets out the Trustees duties in respect of agreeing a recovery plan with the Company. That recovery plan must take account of the strength of the employer's covenant, i.e. its chances of going 'bust' over time, and must ultimately be agreed or rejected by the Pensions Regulator. The Pensions Regulator has confirmed that it would not expect trustees to impose such contributions on a company as to put the company's viability into jeopardy and the work that PwC has been doing for the Trustees has helped the Trustees to determine the answers to these various issues. The Trustees are aware that the trustees of APS are also having discussions with the Company at this time.

- 20) When Derek Stevens was Chief Financial Officer he told us (BA News, 11th July 97, p4) that "the Company is committed to make up any shortfall in funding, and pensions are safe". Some of us stopped paying AVCs as a result of this assurance. Have the trustees taken legal advice on enforcing this guarantee?

The Company's formal commitment to the Scheme is governed by the Trust Deed and Rule and legislation but please see the answer to question 19.

- 21) On 9<sup>th</sup> August BA issued 20 million Executive share options. Are these the actions of a company that cannot afford to pay for our pensions?

This is a question for BA but also see the answer to questions 16 and 17.

- 22) If the deficit is approx. £1.4 billion that must be sorted out in the next ten years by law. British Airway has said it will pay £500 million towards the deficit, they have also found £850 million to pay its fine if found guilty of cartel activity. If found innocent (hopefully), £500m plus 850m equals 1.35b that will solve the deficit problem without giving away our deferred pay i.e. our pensions. Also we have ten years to sort this out not two minutes, as we are being pressed by the management so they can invest our pensions in new planes and meet their targets to achieve their bonuses. Thank you.

Please see the answer to question 16.

- 23) Why can the Trustees not request BA to solve the deficit in the same way as Lufthansa, which has put in trust assets worth £2.9 billion for its 65000 employees. In Germany, a Contractual Trust Arrangement (CTA) is a reliable way to convert existing company assets into pension plan assets that are recognized under FAS 87 and IAS 19. This is a complex legal instrument that can be created without changing the investment structure or tax treatment of those assets. Similar trusts exist in the UK. This is a possible solution to BA's pension deficit, converting some of BA's assets into our pension as a "Contingent Asset" as it is called in the UK, under new regulations. BA can provide contingent assets, meaning the pension gets the assets contingent on BA collapsing. So BA still get the assets on their balance sheet, it is only transferred on default of the pension. That way BA's cash flow from operations would be free to invest to grow the business.

Please see the answer to questions 17 and 19. In addition, the work carried out by PwC has looked at all aspects of BA's business including an assessment of the assets held by the company.

- 24) Has consideration been given to asking the company to transfer the ownership of Waterside to NAPS which could clear half the deficit?

Please see the answer to question 23

- 25) BA has many assets which can be used to guarantee pension asset growth, e.g. buildings, slots, property. These can be used to guarantee investments made in higher risk investments rather than bonds.

Please see the answer to question 23.

- 26) 1. When will all the uncertainty be over?(i.e. when will a definite course of action be implemented?) 2. Is there a real risk that people currently in service will not see any of their pension (or the minimum 62p in the £ that has been touted about as a backstop)?

The Trustees and the Company have recently started negotiations regarding a recovery plan. Separately the Company is having discussions with the Trade Unions regarding changes to future pension arrangements. Legally the Trustees and Company must complete their negotiations by the end of June 2007, but all parties hope to have their discussions completed long before that – possibly by the end of this year.

There is a risk if the Scheme is not properly funded and if British Airways becomes insolvent that members will not get all of their earned benefits from NAPS although the Pension Protection Fund (a statutory fund) may offer some protection in this regard. It is for this reason that the Trustees wish to improve the funding level of NAPS as quickly as possible.

- 27) Starting from the awful low point of September 11 2001 and the quiet years after, BA has reduced net debt from £6.6b to £1.1b (FT 18th Oct 2006). The company is now generating cash at a fantastic rate and debt is rapidly approaching the industry norm for a company of this size. Further savings in costs will come from the integration of services at T5. How can Trustees possibly justify not demanding a substantial increase in the terms of BA's current offer?

Please see the answer to question 16.

- 28) Is it true that BA has to fund the pension unless BA goes bust i.e. that as long as BA is a viable business, it can't refuse to fund the pension?

Please see the answer to question 19.

- 29) The deficit is the result of BA under funding and BA alone must correct it. If this causes cashflow problems what is the logic that requires future pension contributions to be reduced rather than any other item in BA's £8bn costbase? There is no link between the deficit and any specific future cost item and to suggest there is just repeats BA propaganda. If cost savings have to be made should not discretionary items such as marketing be cut rather than contractual commitments (pensions)? Is not the idea that there is a fixed sum that BA can afford for pensions non-sensical? What is the affordable sum for fuel (up £500m in 2006)? Are not BA's proposals just an opportunistic cost-cutting exercise that will reap huge benefits when deficit-clearance payments have finished? How can the triennial valuation deficit be the same as the IAS19 one, given the different discount rates used?

Please see the answers to questions 11, 16 & 19.

- 30) If BA owed a VAT bill of 2.1 billion pounds and refused to pay they would be closed down. Why is this debt any different? How can they be allowed to resume paying dividends by dint of renegeing on a contract of employment, binding on both sides?

Please see the answer to question 19.

- 31) BA have paid off £1.2bn worth of debt every year for the last 4+years. Why can't they treat the pension deficit like all their other debts?

Please see the answer to questions 16.& 17

## Trustees

- 32) Can we change the rules of the scheme so that changes in benefits and contributions have to be voted on by the members of the scheme?

The trustees are required to make all the decisions surrounding the scheme in accordance with the Trust Deed & Rules and the underlying pensions legislation.. .

- 33) Is it true that the Chairman of Trustees was recently granted 150,000 share options with British Airways? If so, does this make him less neutral?

With the exception of the Pensioner Elected Trustee, all of the other 11 Trustees are employed by BA Plc and have varying remuneration arrangements. The Trustees have looked at the issue of conflict of interest in great detail over the last year or so and have taken appropriate legal advice to put in place various mechanisms to ensure that if their duty as a Trustee conflicts with any other role (as a senior manager, as a TU official, as a member of a pensioner organisation) they may, after taking legal advice, absent themselves from discussions and decisions in their role as a Trustee.

- 34) Is there not a potential conflict of interest for the six BA-nominated trustees who are unpaid in their role as trustees, but are paid by BA as their employer?

Please see the answer to question 33.

- 35) The trustees have a legal duty to ensure the scheme is adequately funded and that earned benefits can be paid. Does this not mean if they do not ensure that BA paid an adequate amount to fund the balance then they could be sued by the member for failing in their duty?

See previous section on BA's ability to pay. In addition, the Trustees employ a professional, full time team and a range of independent advisers who aim to ensure that the Trustees are properly advised at all times before coming to any decisions regarding the Scheme.

- 36) Will members be balloted on what the trustees agree with the company?

Please see the answer to question 32.

- 37) The BA managers that reside within the Trustees have the opportunity to shape the forecasts of the fund by altering the assumptions against which the health of the fund is assessed. How can the members be assured this doesn't happen? Is there any place for a BA manager as a Trustee of the fund when they may stand to directly financially benefit from disadvantaging NAPS members?

Please see the answer to question 33.

- 38) How do trustees, particularly company appointed trustees who seem to mostly be very senior managers deal with the conflict of interest between their duty to the shareholders and their career prospects as senior managers and their duty to the pensioner scheme members.

Please see the answer to question 33.

## Reviews of the scheme

39) If there are changes to benefits, can you guarantee that these will be reviewed after the next valuation?

The answer to question 17 is relevant here, but it is also worth noting that over the years the Trustees have seen the Company make benefit improvements to the Scheme from time to time. The Trustees would expect the Company and its TUs to discuss pension provision again at some time in the future. The Trustees in office at that time would consider any request for benefit changes depending upon the funding position of the Scheme at the time.

40) Why can there not be an agreement where as soon as the plan to reduce the deficit to zero is achieved the rules revert to what they are now. If at that time there needs to be an adjustment to keep the fund stable then the rules are discussed (say 6 months prior to the target date) and agreed at that time taking the prevailing conditions into account - market condition, longevity etc, etc

Please see the answer to question 39.

41) Can we reach an agreement with BA that we revert back to the current arrangements once BA starts paying a dividend?

Please see the answers to questions 17 & 39.

42) If pension benefits are to be reduced, why can't there be an option to restore benefits when the pension fund is out of deficit?

Please see the answer to question 39.

43) If interest rates continue to rise, will the trustees look at the scheme and advise BA and it's members that benefits will remain or increase if the deficit is reduced/cleared, for when members retire. As, the current measures all seem to surround the fact that an increasing deficit means reducing benefits, in a nutshell.

Please see the answer to question 39.

44) Should any surplus appear in the scheme in the future, will this be shared with members?

Please see the answer to question 39.

45) Why are we always told that the problem is too complicated to be explained properly whilst at the same time being told that the solution must be simple? If the problem is complex then the solution may be complex in order to be fair. It seems utterly ludicrous to me, for example, to concrete in non-movable thresholds. Much better to engineer into adjustments something that guarantees a better deal in the instance of inflation, say, going to 10%. It is folly to nail down to 2% or so. If the reasons for the current deficit were unforeseen, then equally the opposite effects could be unpredictable.

Please see the answer to question 39 and the section on proposed changes to the Scheme.

46) Deliberately left blank.

## Distribution of Costs

47) Can you provide a breakdown of the costs for each occupational group e.g. flight crew, cabin crew, A-Scales etc?

On the current benefit structure, but using the 2006 valuation results the Company's contribution in respect of future pension build up for ground staff is expected to be £111m a year; for pilots £70m a year and for cabin crew £57m a year. In addition to these sums the Company needs to make an appropriate contribution to clear the deficit over time and this is yet to be negotiated between the Trustees and the Company. Also see the answer to question 50

48) What is the highest annual pension that anyone is getting paid out of NAPS? Why shouldn't there be a maximum amount that anyone can get so as to protect the lower-paid who probably need their pension the most?

NAPS is designed to provide a pension as a proportion of pay at retirement for each year of service. There is currently no maximum limit to the amount of pension that can be paid and the proposals put forward by the Company do not envisage introducing one. All benefits currently being paid from NAPS have had an appropriate contribution paid from the individual member and the Company as set out in the Rules.

49) Is it true that it's far more expensive to provide pensions for flight/cabin crew? Should we have a break down of the deficit in NAPS for flying staff and for general staff, so we can have a different approach to tackle the pension deficit problem for the 2 groups?

Please see the answer to question 47. The proposal put forward by the Company sets out arrangements for the different occupational categories and this proposal is currently being discussed between the Company and the TUs.

50) If the current BA to employee contribution rate is 5:1, what is it cumulatively?

In 2005/6 the Company paid about £120m in normal contributions and about £120m in deficit contributions. The members paid around £42m in normal contributions (and £8m for flexible build up). If the current benefits are maintained and, using the new valuation results, the Company would need to pay £238m in normal contributions and £259m\* in deficit contributions. The members' contributions would remain unchanged. This would change the ratio from over 5:1 to nearly 12:1.

\* This example assumes that the deficit would be paid off over 10 years. In reality the period of the recovery plan is yet to be agreed between the Company and the Trustees.

51) I understand the GMB have tabled the idea of Capping pension payouts to 50,000 (Rod Eddington receives £250000 for 5 years service) is that not a good idea?

Please see the answer to question 48.

## Proposed changes to the Scheme

52) Are pension benefits already earned really protected in the NAPS proposal as is always stated?

Pensions earned up until any changes are introduced will be governed by the current rules so that, for example, the current normal retirement age will still apply to that part of the benefit and once in payment it will receive increases in line with RPI up to 5% a year.

53) Should BA's proposed new pension arrangements be described as the Company's Reduced Airways Pension Scheme?

The new benefits will be provided under NAPS there is no intention to introduce a new scheme (or change the name of the existing Scheme).

54) Would you rather that BA agreed any changes with the unions before presenting these to the trustees? Have you met with the unions to find out how their negotiations are proceeding?

The Trustees do believe that the appropriate place for an understanding to be reached regarding the proposed benefit changes is within the industrial relations arena and they hope that the Company and the TUs can make progress on this matter in the near future. The Trustees have met with TU officials and have shared some detailed information with their advisers.

55) It looks as though BA's proposals are worse for those with more years to go before retirement. Isn't this age discrimination against the young?

The anti-age discrimination legislation (in its current draft form) specifically exempts pension build up from being a discriminatory issue.

56) I believe that under BA's proposed changes, the protected portion of pensions will be crystallized at age 60 and based on pensionable pay at that age. Would it not be beneficial for pensions to be based on our final pay (it is supposed to be a final pay scheme) @ age 65 or when we finally retire what ever the age?

The Trustees understand the proposal as the questioner describes. Any views concerning the detail of the proposal should be expressed to the Company and the Trade Unions for them to consider.

57) Will the 'protected pensions be itemised separately in annual pension statements?

When the changes are made the staff at BA Pensions will review all aspects of communication and will decide how best to set out the different elements of the pension scheme.

58) Do trustees think BA's max 2.5% inflation cap proposal reasonable?

The Trustees' legal advice is that the Trustees should be concerned with viewing the package as a whole and whether the savings are appropriate rather than looking at any particular aspect of the proposal. Please also see the answer to question 54.

59) Will the current limit of 15% employee contributions be lifted. If the answer is no could reasons be given.

The Company has recently announced that it proposes to introduce various options and that the 15% employee contribution limit would be lifted to allow members to take up these options.

60) How can BA claim that under the proposal, existing pension earned is protected? I do not think this is so. If you leave BA the day the proposed scheme is introduced and have a deferred pension, final salary for the purposes of calculating the pension increases with inflation for each year of deferment (capped at 5% or whatever) and clearly cannot be impacted by performance. If you stay at BA and get a pensionable pay rise less than inflation (or 5% cap) as a result of the IM pay scheme, your final salary for the purposes of calculating pension could be lower than

if you had left BA. So for the years that you have already worked under the existing pension scheme, you will get less pension. This seems very unfair when the IM pay scheme is managed to a distribution, whereby x% of people will be rated at a particular level irrespective of how they perform. If you get inflation or less than inflation in total pay rise, you will get even less than inflation in terms of pensionable pay rise. As a result, many IM people will be going backwards in real terms & be relatively worse off than A scales. Even if you have only ever had excellent ratings to date, and despite the age legislation, I wonder how likely is it that you'd get to age 65+ in an IT career and still be highly rated every year. Would you even be put on the high profile projects that allow you to have the biggest impact (e.g. T5) and hence get rated highly if you are likely to retire before they complete?

Although the Trustees are not party to the detailed pay structures to which the question refers, it would seem that the point the questioner makes would be the case whether or not the changes are introduced. In the example given there would also always be the possibility that the actual pay rise awarded to the individual would be less than the prevailing RPI which (up to 5%) would be applied to a deferred pension.

- 61) What are the details of the proposal to share any future increase in deficit due to longevity? Will this be through contributions or a further reduction of benefits

The Company has only just put forward its detailed proposal in respect of sharing future longevity costs to the Trustees and the TUs. The Trustees believe it would be appropriate to allow the Company to set out these proposals to its staff via BA News etc.

- 62) What options will be available to individuals to retire early from BA and is the pension likely to be enhanced by BA/BA Pensions and if so, by how much

The Rules of NAPS will still allow members to retire before normal retirement age (legislation is changing in 2010 which will mean that the earliest possible age will be age 55 years). Retirement before normal retirement age will mean that the benefits will be reduced to take account of early payment and any improvement to this position would only be possible if the Company made a payment to the Scheme as part of a severance arrangement. For clarity, under the proposals all members would have 2 normal retirement ages, one in respect of the current benefit and one in respect of future benefits and separate calculations will be carried out to reduce the two types of benefit as appropriate.

- 63) Benefits to date, for ground staff, are (length of service so far divided by 56 times retiring pay under the current scheme). However, I think that under the NAPS proposal retiring pay in this calculation would be subject to the new scheme rules. As it is proposed that pensionable pay increases are capped at inflation, retiring pay under the new scheme is likely to be lower than under the old scheme. In other words, we will not get benefits already earned. Can this be clarified, please?

Under the Rules of NAPS it is the Company that defines pay for pension purposes. Over the last few years the Company has capped annual pensionable pay awards to RPI. The benefits earned up until the date of the change will continue to reflect increases in future pay rises including any incremental points and promotions and will be payable from the current normal retirement age and on current conditions.

- 64) Unfortunately I can't attend due to leave. I recognise we will need to accept a decrease in benefits to ensure the future of the BA pensions and have no problem with that. However, I have great concern about capping the pensions inflation to 2.5% after retirement. This means that the 'real' value of the pension will decrease the older you get. Question: What has the inflation been over the last 20 years and what would the decrease in 'real' pension have been if this rule had been applied? Other European governments, like the Dutch government warn people to look out for pensions that don't go up with inflation. Therefore, the fact that the UK government have come up with a recent change of policy on this doesn't reassure me as it is very difficult to look 30-55 years ahead and also they could be trying to 'fix' the pension problem in the short term.

Statistical information can be found at [www.statistics.gov.uk/glance](http://www.statistics.gov.uk/glance). Please also see the answers to questions 54, 58, 66 & 76.

65) My normal retirement date is the 15/9/2007. Whatever is agreed between the Trustees and British Airways, will I still be able to crystallise on the 15/9/07 and continue to work until I am 65?

“Crystallisation” means that when you reach normal retirement age you have the option to cease paying contributions for future service and have an actuarial adjustment made to your pension earned at normal retirement age to take account of any late payment. After the proposed changes are made, you will have a new normal retirement age for future service so the option to stop paying contributions will not be available to you until age 65. However, the benefit that would be payable from the old normal retirement age will receive an actuarial uplift to take account of any period worked beyond that normal retirement age. You can of course opt out of the Scheme at any time and stop paying contributions.

66) I have always been keen to have the choice of making extra contributions if I wish, both to protect my future benefits and give me the choice of retiring before the age of 65. I have been disappointed at the apparent assumption that all/majority of staff do not want to make extra contributions. On the most recent Q & A's I read, making extra contributions is now mentioned as an option that is being looked at - I would like to know much more about this please.

The Company has recently announced an amendment to the proposal to introduce options and we understand it will be issuing more information on these in the near future.

67) Can I crystallise between ages 60-63 in the present scheme before the new proposals come in, and then start paying into the new scheme until I retire at the age of 65?

If you are already crystallised at the point any changes are introduced you will be unaffected by those changes and your benefits will continue to be governed only by the current Rules. You will not be able to recommence contributions under the new arrangements.

68) How does the 2.5% inflationary limit compare to other schemes in the U.K. and can you provide an actuarial breakdown in terms of cost to BA for each percentage point above 2.5% if BA were to bear that cost.

In April 1997 the Government introduced a requirement for all schemes to pay pension increases in line with RPI up to 5% for service earned from that date. For service before that date, Schemes have a whole range of pension increase rules, ranging from zero to full RPI. In April 2005 the Government amended its requirements so that service from that time need only have pension increase protection in line with RPI up to 2.5%. Over the last year or so there have been several high profile schemes reported in the press that have adopted this lower ceiling for future service. There is no simple answer to the cost of providing difference between 2.5% and 5% RPI, but as a guide it is around 4% of pay.

69) I started working for BA at age 16 and paying pension at age 18. My full pension will be achieved at age 57 under the current rules, the changes suggest that I should now stay on until 65, is there any provision under the proposed changes for staff who have reached max pension well before the proposed retirement date, or do we just carry on working and paying in at the same rate for no improved benefit. Thanks

This is a highly technical area and you should contact BA Pensions for personal information. However, in April 2006 the tax rules were changed and, for the majority of scheme members, it is unlikely that they will reach 'maximum pension' which, for ease, can be described for 2006/7 as £75,000 a year. Members can continue to pay contributions and earn benefits in NAPS until they actually leave the Company or opt out at any time.

## Miscellaneous

70) Have you considered re-opening the issue of a merger between APS and NAPS?

No.

71) Shouldn't we ask for BA to offer NAPS membership to new joiners – at the moment they can only join BARP, which is a much worse scheme.

This is a question for BA, but when it introduced BARP the Company stated that it wanted to reduce its long term pension contribution volatility and if new staff join NAPS this objective would not be achieved.

72) It is rumored that Emirates Airlines has proposed a deal in buying (all or part) of BA and that as part of the package Emirates are offering is that they are willing to pay off our pensions deficit. Can the trustees shed light on their discussions with the management and confirm if this has been discussed as a possible solution?

The Trustees have no knowledge of any discussions.

73) When agreeing early retirement and enhanced pensions I believe BA contribute a lump sum up front. How is this calculated and how do we know that the enhanced pensions are not under funded as the current NAPS pension is? This would obviously increase the burden on the fund

In respect of enhanced benefits the Company pays a contribution at the time the benefit is awarded and the cost is calculated using market driven factors which are currently reviewed every month to ensure appropriate funding.

74) Over recent years the company has paid substantial numbers of employees leave on early retirement, although the pension is augmented at the time, as the deficit grows over time, surely some of this is due to early retirements. Why are current members being asked to subsidise this through a reduction in benefits?

Please see the answer to question 73.

75) In the opinions of NAPS pension trustees. Did the early retirement program allowing 2-3000 BA staff to take early retirement over the last 20 years have a sizeable impact to the NAPS' deficit. If so, is it fair to ask serving NAPS members to share this responsibility? As serving employees don't have a say in this matter.

Please see the answer to question 73.

76) My biggest concern about the existing proposal relates to the inflation capping once you have started to take your pension. The other parts of the proposal, in general, have a reasonable element of personal control in that you are able to influence them by making working longer etc. The 2.5 inflation cap I feel is far too limiting and will significantly erode the value of our pensions over time, with the added twist that there is nothing we can do to change this once retired and no longer earning. 5% is a reasonable cap - that's why I signed up for it when I joined NAPS. Otherwise I think the proposals are fairly realistic. I would also suggest that any concept of an algorithm for further changes based on actuarial feedback should work both ways (i.e. should life expectancy reduce then we should see the benefit

The Company has recently announced an amendment to its proposal whereby a member will have an option to pay extra contributions to 'buy back' the 5% pension increase cap. The Company is expected to provide more details in due course.

77) Could you give us an assurance that no agreement will be made to change the pensions arrangements such as would cause the real value of our pensions to be savaged were levels of inflation to return such as were seen in the 70's. In the worst year of that decade inflation touched 28%. Remember also that a few years of inflation at relatively low levels: 5%, 6%, 7% etc would have the same effect

Please see the answer to question 76. The current rules of NAPS limits pension increases to a maximum of 5%.

78) Whatever is decided in terms of contributions and NRA, will I still be able to retire in 3 years at the age of 55 without ANY penalty to my accrued pension thus far?

Assuming your normal retirement age is 55 (i.e. you are flying staff) the answer is Yes. If you are ground staff, your current normal retirement age is 60 so your pension would be reduced to take account of the 5 years early payment.

79) Would those who are nearing their original retiring date of 60 be considered differently in a new pension structure?

No – but see the answer to question 67.

80) There is a suggestion that pension increases would be capped at 2% and not linked to inflation. We have a stable economy at present with low inflation, what provisions can be made to offset high inflation in the future and thereby protect the value of our future pensions?

The proposal is that pensions will increase in line with RPI up to a cap of 2.5%, but please see the answer to question 76.

81) Why is our new pay deal being linked to the NAPS decision/conclusion?

This is not a question for the Trustees.

82) Is there a document that describes the changes in detail with all the implications they have? 7 bullet point on a two page handout is hardly enough information to make one of the biggest decisions in your life. 20 - 30 yrs of my life will be affected by this and at a very vulnerable time of my life. I have many many questions

British Airways has run a series of articles over the last 6 months or so in 'BA News' about how the proposals will work. These are being discussed with the TUs at present. As far as the Trustees are concerned you will not be asked to make any decisions other than if you wish to take up one of the options which the Company has recently proposed. At an appropriate time in the future you will receive a personal communication setting out those options in detail.

83) Are the trustees able to put forward alternative proposals to BA? For example at, the forums last year it was said that staff did not want to pay additional contributions, but I have never been asked and I would prefer to pay more contributions and retain better benefits, such as faster accrual rates. Also, it seems that it is mostly the NAPS members that are making the sacrifices and there should be a better balance. Do the Trustees feel the same?

Please see the answers to questions 58 & 66.

84) It seems to me that a final salary scheme is inherently less fair than a scheme based on contributions made. A final salary scheme favours certain groups of employees, notably pilots, whose pay rises hugely over their career. BA has made one single proposal based on final salary. Could BA also offer alternative proposals, e.g. contribution-based, which members could evaluate in terms of how they are affected under each, and then be allowed to express a preference for one scheme.

The proposal does only concern future arrangements for NAPS. The Company already runs a contribution based scheme (BARP). You can opt out of NAPS at any time and our understanding is you will be eligible to join BARP for future service if you wish to do so.

85) Are there any details on how the impact of future changes in life expectancy is shared? We are asked to sign up to something we know nothing about.

Please see the answer to question 61.

86) The British Airways Board says BA can not afford the pension contributions then why has BA paid Martin George a years salary, £276,000 and his head of communications Iain Burns 6 months salary when our Chairman Martin Broughton said they would be reinstated unless they had done wrong? as quoted in the business section of the Daily Telegraph, 10th Oct '06

This is a question for BA, but also see the section regarding BA's ability to pay.

87) I currently am paying avcs of 100 per mth. With the proposed increase in pension payments how much more in avcs would I need to pay in to draw a reasonable pension at 60?

Once the changes to the benefit structure are made you will need to contact BA Pensions personally for the appropriate calculations to be made. As with all aspect of financial planning you should consult an independent financial adviser to determine what a 'reasonable pension' might be in your circumstances.

88) I moved my pension from APS to NAPS in the early eighties on dubious information provided by the company and given totally inadequate compensation for the loss of future benefits. The insurance industry has had to pay back compensation for missold endowments and I believe the same should be done for staff who switched from APS. Staff were told that the problem facing BA pension funding at that time was high inflation, now we are being told it is due to low inflation.

The current proposal put forward by the Company is in respect of future service and does not differentiate between NAPS only members and those that transferred from APS in 1984.

89) There is so much "spin" about this how do we know who to believe? For example "the increase in deficit is not as bad as it looks because the 2003 figure was calculated using one method and the 2006 using IAS19 therefore we are not comparing like for like". There are too many conflicting bits of info to know which is the truth.

Please see the answer to question 11.

90) As I understand it, the trustees have to give two months notice to members of any change to NAPS. However, three months notice is required by the company of the intention to retire early. Will this not prejudice anyone who wishes to retire under the old scheme before the new scheme is implemented?

If you retire from the Company before any new changes are introduced then the whole of your benefit will be based on your current Scheme arrangements. If you retire after the introduction of the arrangements some of your pension will be based on the new pension arrangements.

91) Do the Trustees agree that a pension is simply a deferred payment and like any other debt that BA have to pay, they have to pay this debt?

Please see the answer to question 19 and the whole of the section on BA's ability to pay.

92) Have the Trustees researched the death rate of pilots from APS/Naps members, who have continued to work after 55 as pilots? If no research has been done by the Trustees, how can the current proposal by BA be countenanced as it will force the pilots to work until 65, with no duty of care being shown as to their quality of life during what could be their last years

A great deal of analysis on the mortality of all members and pensioners (including pilots) was carried out as part of the valuation and the adjustments made to the life expectancy factors reflect the information obtained from that analysis.

93) Is it possible to amend the BA Pensions modeller available through [www.mybapension.com](http://www.mybapension.com) to show more accurately what the pension prediction is now and to allow for one or two alternative scenarios including BA's latest proposals. The BA Intranet spreadsheet modeller seems very crude as an alternative.

The Trustees have not made arrangements to adjust the BA Pensions modeller as it reflects the current Rules of the Scheme. British Airways produced the modeller on the Intranet to help employees understand their proposal and any enhancements required should be directed to the Company. When benefit changes are made and incorporated into the Scheme rules the Trustees will make the appropriate adjustment to all aspects of their communications.

94) Would it be possible to have the option to work beyond 65, as I cannot afford to retire at that age? At the moment I believe this is at the discretion of BA. I would prefer this to be at my discretion rather than at BA's discretion.

This is a question for British Airways.

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The following questions were received after the initial Q&A was completed and consequently were not included in the handouts at the recent meetings

95) Why are Ground staff and flying staff not attending the same meetings

All members were invited to both meeting. There has been no segregation.

96) What other proposals have been made to the trustees and have any been accepted? If not, why not? The industry view is that pension fund deficits are a long term problem. Why is it essential for BA to resolve theirs all at once now? BA's proposals are very detrimental to the members' benefits. If BA's proposals are upheld, it will contribute to the 10% profit target for the year entitling senior management to bonuses which will comfortably exceed £250,000. This is more than 12 times what many members earn. How is this fair or justifiable?

The trustees have only been presented with the same proposals by the company as the company has given to the staff and TUs. Please see the ability to pay section and particularly the answers to questions 21 and 26

97) The share price has gone up, the oil prices have come down, the 100 index has gone over 6000 points, meaning that this has made millions upon millions for all these companies concerned. The deferred pension fund is now halved because of this index. Why are people not getting informed about this?

Please see the section on size of deficit above

98) Currently all pension calculations & benefit statements in NAPS2 are based on retiring at age 55, including ill-health quotations, post changes made due legislation 1st October 2006, are these calculations/benefit statements still valid? No-one has been able to supply a definitive answer so far! Does the new contractual age of retirement apply instead?

Under the proposals the new, later normal retirement ages will be used for assessing the extra service used in calculating ill health pensions

99) 1) Why must we cap inflation at 2.5%. 2) The increase in retirement age is a totally separate issue to the pension issue which happens to have come around at a good time. Can we have options for the pension that do not involve changing our NRA

Please see the answers to questions 59 and 65

100) I crystallized my pension in March 05. If I retire and draw my pension after the new pension rules come into force would it be liable for the 2.5% capping? Alternatively, if I should start to draw it before the changes are made, would it then be safe from the capping and continue with a ceiling of 5%? Thank you.

Please see the answer to question 67

101) 1. Is it true that the future service contributions of BA will reduce in future years if the measures are adopted thus enabling any lump sum paid by BA to be 're-claimed'. 2. BA is said to 'fully fund' those leaving with early retirement packages, when headcount reduction is necessary. What % of pensioners have left with such a package and how has this been taken into consideration in the calculations of the deficit. 3. What contribution does each element of the proposal make to the: · Reduction of deficit · Future stability of scheme 4. Why is there no option for us to contribute more to the scheme to maintain current benefits. 5. Is the life expectancy based on all members, retirees or active members. 6. Clearly life expectancy cannot continue to increase at current rates. What is built into the proposals to restore benefits at a later date. 7. Why are existing pensioners benefits protected as presumably they are also living longer. 8. What is being done to check on the appropriateness of continued payment of pensions to those staff who have left BA with ill health early retirement pensions. 9. What is the breakdown of deficit by staff grouping i.e. - flight crew - ground staff - cabin crew

1) Once BA pays contributions, whether in lump sum or monthly form, they must remain in the scheme and will not be refunded. 2) Enhanced early retirement arrangements have been in place for many years and there are no statistics of numbers easily available but please see the answer to question 73. 3) The Trustees are aware that BA and the Unions are discussing the detail of BA's proposal. Pending the outcome of these discussions, the Trustees have considered only the overall potential financial impact of the proposal in terms of the extent to which it contributes to repairing the funding position of the Scheme in a reasonable timeframe. The proposed changes are principally concerned with reducing the costs associated with future service although the element of the proposal concerned with future pay increases (please see question 63) does mitigate the past service deficit as formalising BA's definition of pensionable pay allows a different assumption to be made for future pay increases for the purposes of calculating the liabilities. The final impact will not be known until the final terms of the package are confirmed and the valuation exercise itself is complete. 4) Please see 66 above. 5) The detailed analysis the Trustees and Actuary have looked includes both members and pensions of NAPS and of the wider population within the UK. 6) Please see the answers to 39 and 61 above. 7) It is a legal requirement that all benefits earned to date (including those earned by pensioners) must be protected. It is these earned benefits to which the deficit refer. 8) The Trustees have a review programme in place in accordance with the Rules. 9) In terms of the liabilities associated with active staff (excluding BAMP, crystallised members and AVC liabilities) the breakdown is 25% pilots, 25% cabin crew and 50% ground staff.

102) Should the trustees consider capping the final salary scheme i.e. base your pension on your final salary to a maximum of £x say £25 which is no more than full time equivalent wage of a defined existing grade. It seems perverse that some people will enjoy pensions which are significantly better than some of us earn full time - even as a BA Manager. It appears to me that the higher earners will place an ever increasing pressure upon the fund firstly because they earn more and the company needs to match high wages secondly its proven that higher earners live longer. I believe that keeping some populations e.g. pilots and higher paid senior management on final salary benefits will undoubtedly put burden upon other members. Impact felt on lower earners will be far more significant than impact upon the higher earners as some of us - particularly females who statistically earn less or have worked part time at some point and get penalised on pension for it, struggle to keep our pensions above minimum levels. Surely it's in the best interests of the fund to ensure that all members can after 30 years get a pension which they can live on.

Please see the answer to question 48

103) I would like to know how it can be that my life expectancy has increased by a year over the last three years, whether the fact that I am expected to work longer has been factored into my new life expectancy and how the life expectancy of APS members is actually longer than that of NAPS population? (All facts gleaned from the recent Waterside Theatre pensions presentation given by a senior manager and a pensions trustee) If life expectancy is growing at one year every three then NAPS is going to be in big trouble again in a few years whatever measures are put in place now. I believe that statistically working longer is an indicator of a shorter life. Isn't it also true that the simplest measure of life expectancy is purely year of birth i.e. the more recently you were born the longer your life expectancy?

There are two elements to choosing the mortality assumption; firstly, reflecting the observed mortality experience of the Scheme and secondly, making an allowance for potential further improvement. Although an element of judgement is involved in both; the former is more objective. The Scheme data support the strengthening of the mortality assumptions.

The study of mortality and the potential for future improvement is complex and the Trustees necessarily rely on expert advice from their Actuary. For example, the assumption of uniform improvement depending on year of birth is challenged by the "cohort effect" identified by the UK Continuous Mortality Investigation Bureau (CMIB) data which shows that generations born between 1925-1945 have enjoyed a higher than average rate of improvement than those born on either side. There are more members/pensioners in this group in APS than in NAPS. Of course there are many factors that might influence future mortality including; obesity, alcohol consumption, smoking, medical advances, infectious diseases as well as a range of socio economic factors. Whilst the Trustees recognise the uncertainty associated with mortality projections, they are required to choose assumptions prudently to ensure that there are sufficient funds to pay benefits when they fall due and to make provision for those payments to be made over the entire lifespan of the pensioners concerned.

104) Will the employees see the detailed (including some form of calculator) implications of the revised proposals from the company before any agreement is made? If not? Why not?

Please see the answer to 82 above

105) Under BA's proposals Will people in NAPS still be able to crystallise their pension when they reach 60 until they retire?

Please see the answer to question 65