

## **Airways Pension Scheme (APS) – investment announcement from the APS Trustees**

One of the primary objectives of the Trustees is to manage risk to achieve a high level of security for your pension benefits. One way we have sought to achieve this has been to align the Scheme's investment strategy with the benefits that are expected to be paid, also known as liabilities. However, this alignment of assets with liabilities does not fully protect the Scheme from longevity risk which is the extra cost of providing pensions as a result of people living longer.

Having conducted a thorough test of the longevity reinsurance market, the Trustees identified an opportunity to enter into a longevity swap, under an insurance contract, which reduces the longevity risk on a further c. £1.3bn of the Scheme's pensioner liabilities. The transaction will be with Rothesay Life Limited, a UK insurance company. You may recall that in June 2010 the Trustees entered into a £1.3bn insurance policy with Rothesay Life Limited which provides protection against the cost of pensioners living longer as well as providing a better match for expected pension cashflows. Taken together the two contracts with Rothesay Life have reduced the longevity risk on around £2.6bn of pensioner liabilities. In the recent In Focus publication we confirmed that the Scheme's total liabilities (as at 31 March 2011) were £7.2bn.

**There is no change to the way APS benefits are calculated or paid. There is no direct impact on the membership. Pensioners will continue to be paid at the same rate, at the same time and from the same place.**

As with the longevity element on the first transaction, the longevity swap involves the Scheme making fixed payments to Rothesay Life and in return the Scheme will receive payments from Rothesay Life Limited which reflect the pensions payable from the Scheme to actual surviving pensioners. If actual longevity improvements are better than assumed in the Scheme's fixed payments (in other words, people are living longer) then the Scheme will receive the difference from Rothesay Life. The difference will be in Rothesay Life's favour if people do not live as long as expected, although the Scheme's overall liabilities would fall.

The process of reaching the decision to proceed with the longevity swap has been comprehensive and a number of providers were considered as well as the price of the swap and any change in the risks to which the Scheme would be exposed. There are collateral arrangements in place which address counterparty risk and taken together with the favourable pricing terms, the Trustees and their advisers concluded that this transaction was a further opportunity to reduce risk within the Scheme at an attractive and affordable cost. The Trustees were advised by Towers Watson and Eversheds.

Although the longevity swap will remove a material element of the risk facing the Scheme there is not expected to be a significant impact on the funding level. The next formal valuation is due to take place as at 31 March 2012 with the results expected to be known in 2013. As with the other key assumptions that underpin the valuation, the mortality assumption will be reviewed as part of the 2012 valuation exercise.

Please be assured that in terms of your pension, nothing changes. The same payments will be made in the usual way and British Airways Pensions remains your point of contact for any assistance you need.