The AVC Plan

BRITISH AIRWAYS PENSIONS

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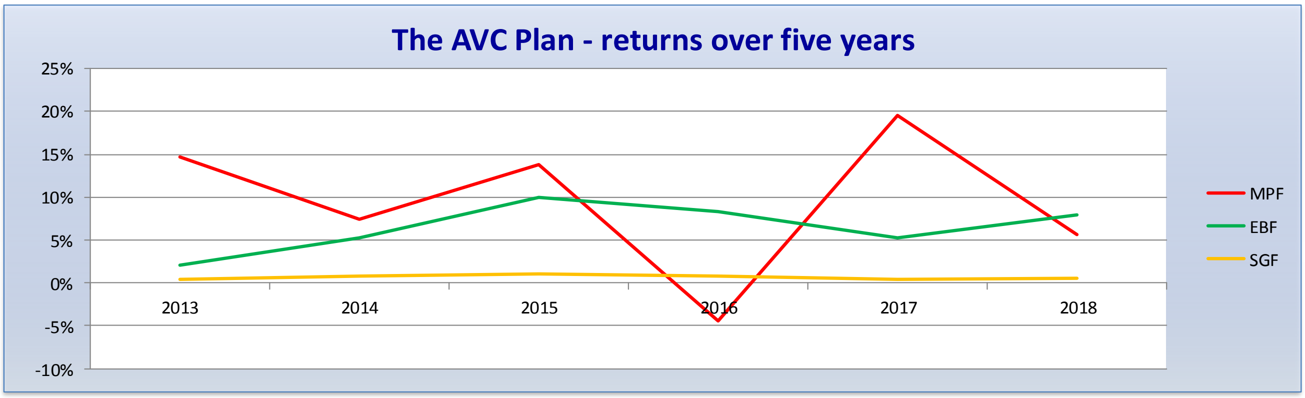
The New Airways Pension Schemes (NAPS)

AVCs are additional voluntary contributions.

NAPS members could save them on top of their main NAPS benefits, contributing a percentage or fixed amount of salary into one or more of the three funds available, until the Scheme closed to future pension build-up on and from 1 April 2018.

NAPS members can no longer save AVCs but can switch the investment of their existing AVCs into alternative Funds within the AVC Plan.

- You can change the investment of your existing AVCs between the three AVC funds available.
- There are currently no investment charges that have to be met by members.
- Each fund has a different type of return. You can choose from a lower-risk fund with a guaranteed return or a higher-risk fund in which any returns you get are linked to the value of your investment, which can rise or fall, or you can split your money across more than one fund.
- When you retire you can choose to take your AVC fund as part of your retirement lump sum, which is tax-free within HM Revenue & Customs (HMRC) limits, or use it to buy extra pension.
- Or, you can choose to transfer some or all of your AVCs to a different pension provider (independently of your APS or NAPS Scheme benefits if you want) instead of drawing them from the Scheme.
- Our AVC funds are managed by the BA Pensions team and are only available to APS and NAPS members.



This leaflet is not a full description of the AVC plan. Details are shown in the trust deeds and rules of NAPS and announcements issued from time to time (all available on our website). You will automatically get a yearly statement to show the value of your AVC account.

British Airways Pensions

July 2018

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BRITISH AIRWAYS PENSIONS

Your investment choices

We offer three AVC investment funds.

The Short-Dated Gilts Fund (SGF)
The Equity Biased Fund (EBF)
The Mixed Portfolio Fund (MPF)

You can divide your AVC investments between any of these funds. You can switch from one of the funds to another on the first day of any month. We must receive your written instruction by the 20th of the month and the switch will take place from the first day of the next month.

Each fund has different investment returns and level of risk and the table below summarises these. Green shows a lower risk, red shows a higher risk.

Fund name	Type of fund	Returns you get	2017 / 18 returns
Short-Dated Gilts Fund (SGF)	Earns interest. The value of your fund cannot go down.	The SGF has an investment objective to produce returns related to government gilt-edged securities. Interest is added on 1 April each year and is calculated depending on how long a contribution has been held in the SGF (for example, July contributions will receive eight-twelfths of the current yearly interest rate). The rates of interest vary from year to year, but the value of your investment cannot go down. SGF investors are guaranteed the average rate from the three highest-yielding, gilt-edged securities, which have less than five years to maturity.	The interest rate for money held in the SGF for the year to 31 March 2018 was 0.48%. The total return on money held in the SGF over the five years to 31 March 2018 was 3.63%.
Equity Biased Fund (EBF)	Earns interest. The value of your fund cannot go down.	The EBF has an investment objective to produce a return, which has two parts – a 'guarantee component' and a 'bonus component'. Money that is invested in an EBF account for the whole of a calendar month receives interest for that month at a rate that is made up of the guarantee component for that month plus one-twelfth of the bonus component declared for the Scheme year. The value of your investment cannot go down. **Guarantee component** – this rate can go up or down each month but it cannot be less than zero. It is the interest that would have built up in a seven days' notice local authority deposit account during the previous month. The guarantee component is set in line with returns on the Sterling overnight index average (SONIA). **Bonus component** – this rate is usually announced by the end of April each year. It is effective from 1 April and stays the same for the whole of the Scheme year ahead. The Schemes' actuary calculates the bonus component. The returns will rise and fall in line with the performance of the stock market. However, the actuary smoothes the return declared for the EBF (they keep some of the investment returns in years of good performance in reserve to cover years when returns are not so good). This makes sure that the return in the EBF can never be negative but it is possible for the bonus component to be zero. The bonus component contains an allowance for the cost of making sure that the overall EBF return is no lower than the guarantee component. We review this from time to time and it is currently 4.0%.	During 201718, the rate for the guarantee component varied between an equivalent yearly rate of 0.192% and 0.492%. The total return for money held in the EBF for the year to 31 March 2018 was 7.88%. The bonus component for the current year, 2018/19, is 6.6%. Over the five years to 31 March 2018, the bonus component has varied between 4.8% (2013/14) and 9.2% (2014/15). The total return on money held in the EBF over the five years to 31 March 2018 was 42.37%.
Mixed Portfolio Fund (MPF)	Stock-market based. The value of your fund can go down as well as up.	The MPF is like a unit trust fund, which means your investment is used to buy units of (mainly UK and overseas) stocks and shares. This means that the value of your investment can go down as well as up depending on the performance of the stock market in future years. We review the investment objective for the MPF every three years. It sets the framework for the types of investments the MPF can hold, what percentage of the MPF should be invested in each type of investment and also sets a target for investment returns measured over a five-year period. Full details of the investment objective for the MPF are available in the 'MPF – Fund Investment Objectives'. MPF returns can be negative.	The unit price at 31 March 2018 was £187.24. Over the five years to 31 March 2018, the unit price has varied between £197.00 (January 2018) and £125.21 (June 2013). The total return on MPF money invested at 1 April 2013 up to 31 March 2018 was 47.56%.

There is more information about the performance of the three AVC funds in the 'AVC Investment Commentary'. We also publish rates of return each month on our website (click on 'Latest AVC Fund Rates' and then choose 'AVC Funds' from the left-hand menu).

The Mixed Portfolio Fund (MPF) in detail

The value of an SGF or EBF account cannot go down. However, an MPF account can fall in value and we explain this further below.

The MPF is similar to a unit trust. Members' AVCs are used to buy units within the MPF. The price of units changes each month and is calculated by dividing the value of the investments held within the MPF on the last day of the month by the number of units in issue on that day. This unit price will apply to any AVCs switched to or from the MPF on the first day of the following month. It is also used to value the MPF accounts of members drawing or transferring their AVCs in that month.

The type of investments held by the MPF are based on the stock market and are mainly UK and international shares. Details of the investments held each 31 March are available in the 'AVC investment commentary' and we will provide you with a copy of this with your yearly AVC statement. As the MPF is based on the stock market, the unit price can go up or down. This will directly affect the value of your MPF account when you draw or transfer it.

When you draw or transfer your AVCs, the value of your AVC account is calculated by multiplying the number of units in your account by the unit price that applies at that time. If the unit price is low due to falls in the stock market, the value of your MPF fund may also fall. You will need to consider carefully whether this type of AVC fund is suitable to your needs bearing in mind the date you expect to retire and whether you might want to switch to one of our other AVC funds (where the value of your investment cannot fall) in the run-up to your retirement. We recommend that you take independent financial advice.

Example

A member has 200 units in his MPF account at a current unit price of £110. His AVC account is worth £22,000.

The following month he is due to retire and the unit price has dropped to £95 per unit. His AVC contribution for that month has bought two more units, bringing his final number of units to 202. However, as the unit price has dropped to £95, his AVC account is now only worth £19,190 when he retires.

Are there any risks?

World stock markets sometimes fall sharply in value. Younger AVC holders may feel able to withstand the risk that their MPF investment could suddenly drop in value as, in theory, the stock markets should have plenty of time to recover before they retire. However, this risk could be critical for AVC holders who are closer to retirement as there may not be enough time for stock markets to recover from a sharp fall in value.

You might want to consider switching your fund into a lower-risk investment choice (such as the EBF or the SGF) to reduce uncertainty in the run-up to your retirement. You should get independent financial advice about your choice of investment fund and the timing of any switch.

What happens to AVCs if APS or NAPS ever close or are wound up?

Under legislation introduced in July 2014, EBF and SGF accounts (but not MPF accounts) are classed as non-money-purchase or 'cash-balance' arrangements. This is because both EBF and SGF have an element of investment return that is guaranteed. The MPF continues to be classed as a money-purchase arrangement.

If the Scheme is ever wound up, money-purchase benefits would be paid out as one of the first benefits and so would usually be fully protected. However, if the Scheme is ever wound up without enough funds to pay all of the promised benefits in full, the new rules which reclassify EBF and SGF accounts as non-money-purchase benefits could mean there is a risk that SGF and EBF accounts might be used, in full or in part, to pay other promised Scheme benefits. The exact effect would depend on the funding position in the Scheme at the time. (The latest funding position is featured in our 'In Focus' publication, which is available on the 'News' page of this website.) You can read more about this in the 'Important change to legislation affecting AVCs' article on the 'News' page of our website. You can still switch your SGF and EBF accounts to the MPF.

Switching funds

You can switch your existing AVC balances you have built up into one or more of our other AVC funds. If you receive your pension communications online, you can now just click to send your AVC instructions to us after logging in to the secure area of our website. If you prefer, you can switch your AVC investments by filling in an 'AVC investment switch form', available on the 'Forms' page of our website, and posting it to us.

If we receive your instructions to switch AVC funds by the 20th of the month, we will carry out the switch from the first day of the following month.

Fees and charges

Some charges may apply to transactions involving the MPF. This is because dealing in the MPF investments means costs for the Schemes. However, since 1 November 1996, BA has paid the expense charges for MPF contributors.

There are currently no charges in the EBF or SGF. So, whichever fund you invest in, all of your AVC savings are invested on your behalf.

Please remember that returns vary from year to year and you should not rely on past performance as a guide to future performance. We give the current rates of return every month on the 'Latest AVC fund rates' page on our website.

Are there any disadvantages?

AVC money is locked in until you reach the minimum retirement age (set by the Government).

The AVC Plan explained in this guide includes the options and benefits available under the BA Schemes only. There are other types of pension arrangements available, which may provide different benefits and options. For example, you can contribute to a stakeholder pension, a personal pension or a free-standing AVC policy.

We, the Scheme administrators and the Scheme's Trustee cannot give individual advice about such arrangements. If you are not sure about anything, you should get independent financial advice.

What will I get from the BA Scheme when I retire?

You can take your AVC account as a cash lump sum or as extra pension, or a combination of the two, depending on HM Revenue & Customs (HMRC) limits. Or, you can transfer some or all of your AVCs to a different pension arrangement to access them under the Government's flexible access rules.

In most cases, you can take your whole AVC balance as cash, up to 25% of the value of your BA pension benefits (or 25% of your available, standard lifetime allowance (LTA), if this is lower).

If you have built up an AVC account which is worth more than the maximum tax-free lump sum you can take when you retire, you can use the extra AVCs to buy extra pension – either when you take your Scheme pension or later – or you can transfer them to a different pension provider.

Buying extra pension with your AVCs means buying an annuity from an insurance company of your choice. You can buy an AVC annuity when you take your Scheme pension or at any date after that.

The amount of AVC lump sum or AVC pension that you get when you retire will depend on the amount of your AVC fund, your choice of AVC investment funds, the investment returns achieved by these funds until you draw your benefits and, if you choose to buy extra pension with your AVCs, the type of AVC pension you choose and the cost of these pensions when you retire.

What happens now that I have left the Scheme?

Your AVC account will continue to receive any investment returns until you draw it or transfer it to an arrangement with a different pension provider. You can still choose to switch your AVC account balance between funds.

What happens to my AVCs if I die?

If you die before you retire or before you have taken your AVC benefits, your AVC account will be paid as a lump-sum death benefit. The Trustee will decide who to pay this to after referring to any Notice of Wish form recorded on your pension records.

The Government's flexible rules for defined contribution (DC) benefits

People with defined contribution (DC) benefits have greater flexibility over how they access their pension savings from age 55. AVCs saved in the Scheme are DC benefits, but you will have to transfer your AVCs out of the Scheme to one or more different pension providers if you want to access them under the Government's flexible access rules.

You can choose to transfer just your AVCs out of the Scheme or you may choose to transfer your main Scheme pension out as well. Before transferring benefits out of the Scheme you should get free guidance from Pension Wise (www.pensionwise.gov.uk) to make sure any new arrangements meet your needs and that you fully understand how this will affect any tax you have to pay.

The full range of DC options is complicated and whether the options are suitable for you depends on the size of your DC pot and what you are expecting from your retirement income.

Although the new flexibilities are not available within the BA Scheme, we introduced a new option in April 2015 which allows you to transfer your AVCs out of the Scheme independently of your main Scheme pension. The option allows you to use any BA AVCs to access the full range of flexibilities outside of the Scheme on the open market. The standard tax-free cash option is also still available within the Scheme if you have not yet drawn your main Scheme pension.

If you have BA AVCs, you have one opportunity to transfer part (or all) of your AVC account at the time of, or before, drawing your main Scheme pension. You then have a further opportunity to transfer any remaining AVCs, either when taking your main Scheme benefits, or later if you choose to put off receiving your AVC benefits when you retire. You can continue to change your remaining AVC investments after you have transferred your AVC balance out of the Scheme.

If you are considering transferring your AVC benefits out of the Scheme, you should read your AVC statement and get financial advice before contacting the BA Pensions Team.

How drawing DC benefits flexibly can affect your future pension savings

If you choose to draw any DC benefits under the Government's flexible access rules (for example, if you transfer your AVCs out of the Scheme so that you can access them as cash), a Money Purchase Annual Allowance (AA) of £4,000 a year will apply to any future DC pension savings you make. If you make DC savings over the MPAA in any pension input period, you will have to pay a tax charge and the AA for any defined benefit pension scheme savings will reduce to £36,000 a year.

Your lifetime allowance (LTA)

All members of UK-registered pension arrangements have an LTA, which is set by HMRC. It is £1.03 million for 2018/19.

You must pay a lifetime allowance tax charge on the value of any pension benefits over your LTA when you retire. The 'value' of your Scheme pension benefits for LTA purposes is worked out as 20 times your yearly rate of Scheme pension plus the cash value of your AVC account. The total value of all benefits you have in any other UK-registered pension arrangements, including any pensions already being paid to you, must be also be taken into account when you retire.

See our website for more details about how the LTA works.

The Pension Advice Allowance (PAA)

It's important to get financial advice before making decisions about your pension so that you make the right decisions for you and your family. You can now use your AVCs to pay for retirement financial advice. This is known as the Pension Advice Allowance (PAA).

- More information, including how to apply for the allowance, can be found on the 'Financial Advice' page on www.mybapension.com
- You can use the allowance once in any tax year up to a total of three times overall. With each use, you can draw up to a maximum of £500.
- The allowance must be paid directly by NAPS to your financial adviser, who must be registered with the FCA - we can't pay the allowance directly to you.

For further details about the PAA, or to apply for a PAA payment to be made from your AVCs, download our online Pension Advice Allowance (PAA) pack.