Welcome

Welcome to the latest In Focus. This year has seen a change of Trustee Chair, and in this issue, we update you with the latest details of the current Trustee board on page 9.

In the last year, the Government has made further changes to pensions laws and regulations which may affect our members, and we tell you how on pages 3, 4, 5 and 6.

The Scheme is currently undergoing its formal Valuation as at 31 March 2015. We are aiming to complete this by 30 June 2016 in line with our statutory requirements, and will update you on this as soon as we can. In the meantime, in this issue of In Focus, we give you an update following the completion of the Scheme’s annual report and financial statements as at 31 March 2015 on page 7. Helpful reminders are also provided on page 12 including a reminder to keep your Notice of Wish form up to date, particularly if you are an active member.

We hope you find the information in this newsletter useful. We have included ‘jargon busters’ to help you understand the topics covered. Remember you can also keep up to date by reading the Trustee quarterly newsletters, available from the ‘News’ page of the member website www.mybapension.com

Online communications

12,273* members, pensioners and deferred pensioners now access many of their pension scheme communications online via www.mybapension.com

We would encourage you to register for online communications if you haven’t yet done so. Simply go to the home page of www.mybapension.com and click on ‘register’ at the top of the page. You will need the details we sent to you in January 2015 or call us and we will help you through the registration process. Once you have registered we will email you each time a communication becomes available for you on the member website.

If you have forgotten your log on details – don’t worry – just click on ‘forgotten your password’ and this will guide you through resetting your password.

If you have forgotten your password and changed your email address – simply call us for assistance.

New! Address changes online

As well as accessing many communications online, (payslips, P60s, benefit statements, AA statements etc.) pensioners and deferred members (but not active members) can now inform us of address changes online rather than in the post – speeding up the process for all concerned and saving postage. Active members must still change their address via British Airways who hold their employment records rather than by contacting the Pension Scheme.

More online transactions are planned over the next year – watch out for details!

* as at end November 2015
Scheme updates

Changes to the State Pension

April 2016 is fast approaching and as you will be aware from previous 'In Focus' and Trustee quarterly newsletters, a single tier New State Pension (NSP) will replace the Basic State Pension and earnings related State Pensions for those members who reach State Pension Age (SPA) on or after 6 April 2016. This will affect you if you are a man born after 6 April 1951 or if you are a woman born after 6 April 1953.

If you reach SPA before 6 April 2016, or you are already receiving your State Pension, you will not be affected by these changes.

The Government has recently confirmed that the full NSP will be £155.65 a week although you will need 35 qualifying years to receive the full amount and an adjustment is made for members of schemes that contracted out of the earnings related State Pension – such as APS.

We explained last time how your starting amount of NSP at 5 April 2016 will be calculated by the Government. Please see the February 2015 ‘In Focus’ available on the ‘News’ page of the website.

State Pension increases

Another aspect of the Government’s changes is how annual increases will be paid by the State. For members reaching SPA from 6 April 2016 the Government will change the way it pays increases as the old State Pension arrangements will cease to exist. Instead an individual’s NSP will receive ‘triple lock’ increases which promise to pay the higher of the increase in average earnings, CPI or 2.5% and will be in place until at least the end of Parliament in 2020.

APS will still provide pension increases in the same way that it always has. The Government has said that the NSP will provide an improved overall benefit for most individuals. For members who reach SPA shortly after 5 April 2016, it may not be possible to offset the change to State Pension increases by building up further NSP. We have raised this issue with the Pensions and Lifetime Savings Association (PLSA), (previously known as the National Association of Pension Funds) and DWP.

It is not possible for us to provide exact details of the personal impact to you as these are changes to the Government’s State Pension provision but the Government has published a series of fact sheets [https://www.gov.uk/government/publications/state-pension-fact-sheets](https://www.gov.uk/government/publications/state-pension-fact-sheets) and you can request a State Pension forecast or check your SPA at [www.gov.uk](http://www.gov.uk).

Key

Look out for the following icons in the Scheme updates section, which highlight news stories for our different types of member:

![Active members](image)

![Deferred pensioners](image)

![Pensioner members](image)

Jargon buster

**CPI** | The Consumer Price Index (CPI) is the official measure of inflation of consumer prices of the United Kingdom.

**Triple lock increases** | The higher of the increase in average earnings, CPI or 2.5%. 
Scheme pension increases
Pensions Increase (Review) Orders (PIRO) issued by the Government are expected to show a zero increase for April 2016 meaning for most pensioners there will be no standard increase to their Scheme pension in April 2016. APS pensions are increased in line with the Orders which are currently based on the change in the consumer price index (CPI) over a given period. The change in the CPI as at September 2015, which is the relevant date for the April 2016 adjustment, was -0.1% (negative 0.1%). Despite the period of negative inflation, pensions in payment will not be reduced, instead the standard pension increase is set at zero. If you chose to buy an increasing pension from APS with your AVC account at retirement, this portion of your total pension payment will continue to receive a 5% increase in April. We will write to all pensioners as usual towards the end of April to confirm the amount of pension payable from April 2016.

Discretionary increase update
We have been keeping our pensioners and deferred pensioners up to date, through our Trustee quarterly newsletter, with developments on whether or not it will be possible for us to pay additional pension increases above those set out in the PIRO. BA is challenging the Trustees over the power to pay discretionary increases. A trial date had been set for February 2016 but in September 2015 the court agreed to an application from BA for the trial date to be put back and this is now set for October 2016. Please see our October 2015 news article on www.mybapension.com

Pensions taxation update
This section updates you on reductions to the amounts that members can save into and draw from pensions that benefit from tax relief. These limits usually only affect higher earners, members with long service who have a promotion or members saving large amounts of AVCs. If you think you may be affected, read on to find out more.

Lifetime Allowance
The Lifetime Allowance (LTA) limits the maximum amount of benefits that can be drawn from UK registered pension schemes before an additional tax charge is due.

The LTA will reduce from £1.25m to £1m with effect from 6 April 2016. Your benefits are tested against the LTA when they are drawn (or transferred overseas) and amounts exceeding the LTA are subject to tax in the form of an LTA charge. We have written to those APS members likely to be affected but if you have benefits in other pension arrangements you may wish to take note.

Protections are available from HMRC
Individuals with benefits valued at £1m or more as at 5 April 2016 can apply for Individual Protection 2016 (IP16) through the HMRC website from July 2016 to protect their benefits up to a maximum of £1.25m, while continuing to build-up further pension benefits.

Fixed Protection 2016 (FP16) will also be available. Individuals who expect the value of their pension benefits to exceed £1m by the time they draw their pension may apply for FP16, whatever the value of their benefits as at 6 April 2016. Unlike IP16, anyone who has FP16 cannot build-up any further pension benefits from 6 April 2016. Members will be able to apply for FP16 retrospectively but they must cease the build-up of their pension by 5 April 2016.
In last year’s In Focus we told you about IP14, similar to IP16 but enabling individuals with benefits valued at £1.25m or more as at 5 April 2014 to protect their benefits up to a maximum of £1.5m whilst continuing to build-up further pension benefits. Individuals can apply for this protection up to 5 April 2017, so there is still time to apply if you qualify to do so. See www.gov.uk/tax-on-your-private-pension/lifetime-allowance

Annual Allowance

The Annual Allowance (AA) is the maximum value of pension growth allowed in a particular year before an additional tax charge is due. The AA reduced from £50,000 to £40,000 from April 2014 and we issued AA statements in summer 2015 to those active members whose pension growth in APS, including any AVCs, exceeded the AA during 2014/15.

From 6 April 2016 a ‘Tapered AA’ will be introduced, which may affect active members who have earnings (defined by HMRC as Threshold Earnings) of £110,000 or more.

For 2015/16, to facilitate the change to the tapered AA in April 2016, pension growth between 1 April 2015 to 8 July 2015, and between 9 July 2015 to 5 April 2016 will be tested in a different way. A member will have an £80,000 AA available for the first period and none for the second – although up to £40,000 of any unused AA from the first period can be carried through to the second period together with any unused AA from the previous three years. More information and examples can be found on the ‘what do I get?’ ‘tax allowances’ ‘annual allowance’ page of www.mybapension.com. We will issue AA statements for 2015/16 in summer 2016 to those members affected.

You should take time to consider if you will be affected, as we currently understand HMRC will hold members responsible for calculating any tapering of the AA for the 2016/17 tax year, as the pension scheme does not hold income information. Even if you do not receive an AA statement from us for the 2016/17 tax year (due to be issued in summer 2017) onwards you may still be affected if your Threshold Earnings exceed £110,000.

You can find out more information on the AA at www.gov.uk/tax-on-your-private-pension/annual-allowance

If you are an active member and wish to rely on FP16 you must write to Whitelocke House by the end of February 2016 to request to opt-out of the Scheme from 1 April 2016 as a calendar month’s notice is required.

If you are intending to draw your pension after 6 April 2016 but before July 2016 and wish to rely on IP16 or FP16 you can apply to HMRC in writing for temporary protection, but you must then make a full online application via HMRC’s website once the online facility becomes available in July 2016.

Jargon buster

Threshold earnings | All earnings including salary, bonuses, savings interest, investment income and rent less pension scheme contributions and AVCs.
BA’s consultation

The Company has recently completed its consultation with employees who are under State Pension Age (SPA), regarding the Government’s new State Pension arrangements which will see National Insurance contributions (NICs) for employees increasing by 1.4% of band earnings* and BA's NICs increasing by 3.1% of band earnings* from April 2016. Legislation allows employers to pass the increase in their NICs onto employees.

Active members can choose a new lower pension build up rate of 1/54 (Flying Staff), 1/58 (Ground Staff) for future service, with the Company then covering the cost of the additional employer’s NICs. Members choosing the lower pension build up rate will pay the same level of contributions as for the current standard pension build up rate plus 1.4% additional personal NICs. The Company sent full details of this change to employees on 1 February 2016.

If you wish to change your pension build up rate (and hence the amount you pay into your pension) you should complete the Company’s online election process by 7 March 2016, details of which have been emailed to most eligible employees or you can visit www.bapensionchoices.com

If you are an active member under your SPA and take no action, your pension will continue to build up at its current rate and you will automatically pay additional contributions to the Scheme equivalent to BA's NICs of 3.1% of band earnings* and additional personal NICs of 1.4% of band earnings*.

Valuation update

The Scheme's formal Valuation, which we must carry out at least every three years, remains in progress and will assess the funding level as at 31 March 2015. Carrying out a Valuation is complex and takes time. In addition, upcoming changes to personnel at BA mean we will now be working with a new BA team. However, we expect to be able to share the results of the Valuation with you later in 2016, once the process has been finalised. In between formal Valuations the Scheme’s Actuary provides a yearly update on developments in the Scheme’s funding position and we updated you on this in the February 2015 edition of In Focus.

As a reminder, since the last formal triennial Valuation as at 31 March 2012, the deficit on a technical provisions basis had improved from £680m to £409m as at 31 March 2014. Although there had been an improvement, it is likely that the Trustees will seek to adopt revised and more cautious assumptions as part of the 2015 formal Valuation. This will reflect our intended progress towards holding a higher proportion of the Scheme’s assets in higher security investments, mainly Government bonds (gilts).

For further information on the work we are doing on the Valuation, please refer to the Trustees’ quarterly newsletters on our website www.mybapension.com under ‘News’.

* Band earnings – your total pay within a band set by the Government each year, currently between £5,824 and £40,040.

Jargon buster

Valuation | This is a detailed review of the Scheme’s funding position; how much money the Scheme has to pay pension benefits now and into the future. The Actuary carries out a full Valuation once every three years. As part of the Valuation process, detailed Scheme funding discussions take place with BA to determine, amongst other things, the level of contributions to be paid by BA to the Scheme.

Actuary | The Scheme’s Actuary is Michael Pardoe from Willis Towers Watson. Michael is a qualified professional who uses his knowledge and expertise to help the Trustees estimate the amount of funds needed to be able to pay future benefits from the Scheme in full when they become due.

Technical provisions basis | A method of measuring the funding position of a Scheme that assumes contributions will continue to be paid by the employer into the future. The Scheme Actuary also measures the financial position of the Scheme to understand whether there are sufficient funds; to immediately secure the Scheme benefits should it be discontinued; and to cover the benefits payable from the Pension Protection Fund should BA become insolvent.

Deficit | A shortfall between the money available in the Scheme and benefits expected to be paid.
Money going in and out of the Scheme

The Scheme’s annual report and financial statements for the financial year to 31 March 2015 were finalised in October 2015 and showed that at 31 March 2015, the Scheme had assets of over £7.5bn.

The annual report and financial statements show the financial position of the Scheme on a particular day and are different to a Valuation which looks at the longer term position of whether the Scheme is likely to be able to pay the benefits that are due to be paid.

The following table is taken from the annual report and financial statements and summarises the financial position of the Scheme as at 31 March 2015, including:

- income (member and employer contributions, and investment income);
- expenditure (outgoings such as payment of pensioner and dependant benefits); and
- the change in the market value of the Scheme’s investments during the period.

The Scheme’s Auditors, KPMG, gave its opinion that the Scheme’s report and financial statements provide a true view of the financial transactions of, and the investments held by, the Scheme.

Want to know more?
The full annual report and financial statements for the year ending 31 March 2015 are available on our website, www.mybapension.com under the ‘Scheme documents’ link.
The Scheme’s investments

British Airways Pension Investment Management Limited (BAPIML) manages the day to day investment decisions for APS on behalf of the Trustees. The Scheme’s assets are invested in line with the Trustees’ Statement of Investment Principles, available on the ‘Scheme documents’ page of www.mybapension.com

Investment update

Over the year to 31 March 2015, returns on the APS investments, which include stocks, equities (shares) and bonds (gilts), continued to be positive.

The table below shows that the actual investment returns over one year and three years were slightly below the target benchmark, the returns over five and ten years remained slightly higher than the benchmark.

How APS investments performed

<table>
<thead>
<tr>
<th>Financial years to 31 March 2015</th>
<th>APS returns (% a year)</th>
<th>Benchmark returns (% a year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015 1 year</td>
<td>14.32</td>
<td>14.80</td>
</tr>
<tr>
<td>2013/2015 3 years</td>
<td>7.81</td>
<td>7.84</td>
</tr>
<tr>
<td>2011/2015 5 years</td>
<td>8.93</td>
<td>8.92</td>
</tr>
<tr>
<td>2006/2015 10 years</td>
<td>8.06</td>
<td>7.97</td>
</tr>
</tbody>
</table>

Investment Strategy

The Trustees aim to choose investments that meet the cash flow needs of the current membership, by providing the right mix of growth and security. We do this by investing in a mixture of assets. APS is a mature Scheme and so most of its investments are held in Government bonds (gilts) as the returns from these closely match the high proportion of pension benefits the Scheme is paying out. The investments held by APS as at 31 March 2015 are shown below:

How APS is invested

Want to know more?

The full annual report and financial statements for the year ending 31 March 2015 are available on our website, www.mybapension.com under the ‘Scheme documents’ link and show a further breakdown of the Scheme’s investments, including on page 13 a detailed Investment Report on how they performed over the year to 31 March 2015.
Who manages APS?

Paul Spencer departed as Trustee Chair after five and a half years chairing the APS and New Airways Pension Scheme Trustee boards. The Trustees expressed their appreciation of all his efforts utilising his experience, skills and knowledge. Virginia Holmes was appointed by British Airways as the new Trustee Chair from 1 October 2015. Virginia has first-hand experience of some of the largest UK pension schemes and extensive knowledge of investment and pensions and we welcome her on board. Other Trustee changes occurred during the year and the current position is shown below.

APS is currently managed by twelve Trustees. Six of the Trustees are elected by the active and pensioner members of APS and six are appointed by BA. The current Trustees are:

<table>
<thead>
<tr>
<th>Name</th>
<th>Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Virginia Holmes</td>
<td>Chair (Independent Trustee)</td>
</tr>
<tr>
<td>Andrew Fleming</td>
<td>(Head of Legal and BA Company Secretary)</td>
</tr>
<tr>
<td>Nick Goddard</td>
<td>(Head of Risk Management &amp; Internal Audit IAG)</td>
</tr>
<tr>
<td>Ian Howick</td>
<td>(Director of Heathrow) BA Appointed</td>
</tr>
<tr>
<td>Charlie Maunder</td>
<td>(Head of Flight Operations) BA Appointed</td>
</tr>
<tr>
<td>Philip Osmond</td>
<td>(Director of Airport Transformation) BA Appointed</td>
</tr>
<tr>
<td>Tom Mitchell</td>
<td>Active/Pensioner elected</td>
</tr>
<tr>
<td>Paul Douglas</td>
<td>Pensioner elected</td>
</tr>
<tr>
<td>Phil Hogg</td>
<td>Pensioner elected</td>
</tr>
<tr>
<td>Stephen Mallett</td>
<td>Pensioner elected</td>
</tr>
<tr>
<td>Sandra Sellers*</td>
<td>Pensioner elected</td>
</tr>
<tr>
<td>Graham Tomlin*</td>
<td>Pensioner elected</td>
</tr>
</tbody>
</table>

*Ian Heath and Frances Axford will replace Sandra Sellers and Graham Tomlin as pensioner elected Trustees from 1 April 2016.
Our members
Below we show you how many members are in APS:

**Membership as at 31 March 2015**

- **661** Active members
- **1,459** Deferred pensioners

**Total** 18,315

- **6,833** Pensioners in payment
- **1,459** Dependant pensioners

**Total** 27,268

**Other changes to Scheme Rules**
Partners may now share maternity leave rights and Scheme Rules have been amended to provide the same level of pension protection for members on shared parental leave as for those on maternity leave.

New financial advice requirements now apply to members wishing to transfer their APS pension to another provider. If your transfer value is £30,000 or above you are required to seek independent advice and provide evidence of this to Whitelocke House before the transfer can proceed. We now include a transfer value in each leaving pack and further guidance is available in our transfer leaflets available from the ‘forms’ page of [www.mybapension.com](http://www.mybapension.com)

The following websites can help you find financial advisers in your area:
[www.findanadviser.org](http://www.findanadviser.org), [www.unbiased.co.uk](http://www.unbiased.co.uk) and [www.vouchedfor.co.uk](http://www.vouchedfor.co.uk)

Members considering transferring out their AVCs or APS pension (or both) in order to access them as cash under the Government’s DC flexibility arrangements introduced in April 2015, should read the Pensions Regulator’s ‘risk warnings’ a copy of which is also available on the ‘forms’ page of [www.mybapension.com](http://www.mybapension.com) and use the free Pensions Wise guidance service which can be accessed online ([www.pensionwise.gov.uk](http://www.pensionwise.gov.uk)), over the telephone (from The Pensions Advisory Service 0300 330 1001) or face-to-face (from various Citizen’s Advice Bureaux).
An update on unfreezing pensionable pay

As active members will be aware, elections to unfreeze pensionable pay in exchange for a 4.5% salary deduction had to be received by 31 December 2014 and were on a one-off basis. Any decision as to whether this option will be made available again is at the discretion of BA.

Transfer-out factors

Scheme factors used to calculate certain Scheme options such as exchanging pension for cash, early payment of pension before normal retirement age, and transfer values, are reviewed from time to time typically every three years. Previously, this has taken place at the end of the formal Valuation process. However, due to the Government’s introduction of measures allowing greater access to defined contribution benefits, which we reported to you last time – we have carried out an earlier review of the factors used to calculate transfer values. As a result, transfer factors will change from 1 April 2016.

This change is likely to mean a decrease in transfer values for members close to, at or over normal retirement age and an increase for younger members. The size of the increase or decrease will depend on your age as well as financial market conditions at the time the final calculation is made.

Active members or deferred pensioners considering transferring their benefits out of the Scheme may wish to bear the change in transfer factors in mind and should always seek advice before making any final decision regarding their pension benefits.

Factors for other Scheme options will be reviewed during the Scheme Valuation process which is currently in progress and any changes will be communicated to members as soon as possible.

The Government has also changed legislation to allow members to request a partial transfer. For this right a member’s benefits are broken down into three categories:

1. money purchase (Mixed Portfolio Fund (MPF) AVCs);
2. defined contribution, not money purchase (Equity Biased Fund (EBF) and Short-dated Gilts Fund (SGF) AVCs); and
3. defined benefits (your APS pension).

A member now has a statutory right to transfer out any one or more of these categories of benefits separately from the others if certain conditions are met. Scheme Rules give members further flexibility as they allow members to transfer part or all of their AVCs independently of their APS pension. Please contact Whitelocke House if you require further details of this change.
Useful information

Other Scheme documents available
The following documents can be found on the ‘Scheme documents’ page of our website:
• 2015 Annual report and financial statements together with those from previous years;
• Full Valuation Report 2012;
• Statement of Investment Principles;
• Member’s Handbook;
• Trust Deed and Rules together with amending deeds;
• Scheme Operating Rules – DC flexibility; EBF; Flexible retirement; and Scheme Pays.

Notice of Wish
The Trustees are able to exercise their discretion as to who should receive a lump sum death benefit in the most timely way where the member has let the Trustees know who their preferred beneficiaries are by completing a Notice of Wish form and keeping this up to date if their circumstances change. Whilst not binding upon the Trustees, a Notice of Wish lets the Trustees know who you would wish to receive any lump sum benefits that are due.

It is not just beneficiaries of active members who could receive a lump sum death benefit. If a deferred pensioner dies and no adult survivor’s pension is payable, their beneficiaries could be entitled to receive a refund of the member’s contributions with interest up to the date of their death. If a pensioner dies and no adult survivor’s pension is payable, a lump sum death benefit could be due if the sum of pension payments is less than contributions paid with interest added.

Particularly active members – please complete a Notice of Wish form and especially if you consider your circumstances have changed, for example you may have married, divorced or had children; copies of blank forms are available on the forms page www.mybapension.com for you to print off, complete and return by post to Whitelocke House. If in doubt, fill one out.

Further information for pensioners
Useful contact information for pensioners is available from the ‘pensioner members’ section of www.mybapension.com including:
• the BA Welfare and Benevolent Fund, set up by British Airways (BA) to help current and former employees who are experiencing financial hardship. Contact them in confidence on 020 8513 2528
• BA clubs, whose website is www.ba-touchdown.com, maintains links to organisations working on behalf of former BA staff. This includes the Former Staff Liaison Council (FSLC) a long standing group that BA liaises with on relevant matters and who represent the views of pensioners and former employees. The FSLC has asked us to make you aware that application forms for vacancies in the annual selection process, which takes place in June every year, are available now. The Council meets four times a year so if you wish to join it to assist former colleagues please contact them at Liaison.1.council@ba.com

Contact us
We are always interested to hear any feedback on our communications. Any comments should be sent to:

 BA Pensions
 Whitelocke House
 2-4 Lampton Road
 Hounslow
 Middlesex
 TW3 1HU

For other enquiries you can contact our pensions team on:

 enquiries@bapensions.co.uk
 0208 538 2100

Designed and produced by like minds