

In Focus

For NAPS Pensioner members
February 2017

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Welcome

Welcome to the new look In Focus newsletter for 2017 in which we look back on another very busy year which saw the end of 'contracting out' for pension schemes, completion of the formal scheme funding valuation and a move to a Corporate Trustee structure. We've also included in this edition; managing your pension information online, State Pension changes, pension increases along with useful information around protecting yourself from scams and lots more.

New look – we're reviewing our communications

You'll notice that this edition of In Focus looks different to previous versions. This year we've produced a version for pensioner members and one for active and deferred members so that we only provide you with the information you need. There'll be further changes to future editions as we aim to ensure we're communicating in the best, most effective and efficient way to members.

Around 78% of NAPS members view In Focus online and are able to access it at any time. This year we've launched a new interactive online In Focus, which allows you to hover over certain parts of the newsletter and drill down for more information if you want this. You can access websites and links direct from the newsletter and watch a video of one of our Trustee Directors discussing the impact of State Pension changes. We're also able to run surveys and ask you questions which is something we'll be introducing in next year's edition.

You can take a look at this year's more interactive In Focus by going to the 'News' page of our website (www.mybapension.com/naps).

Get communications quicker by switching to receive online communications – registering is easy!

If you have a computer/tablet with access to the internet and an email address, it's really easy to register to receive communications online – just go to the 'Register' button at the top of our website (www.mybapension.com/naps).

We'll then keep in touch by email sending you updates and links to communications you should be aware of.

We hope you find the information in this newsletter useful and encourage you to tell us about any items you'd like featured in future editions. Send us your feedback/ comments to enquiries@bapensions.co.uk

What does contracting out mean?

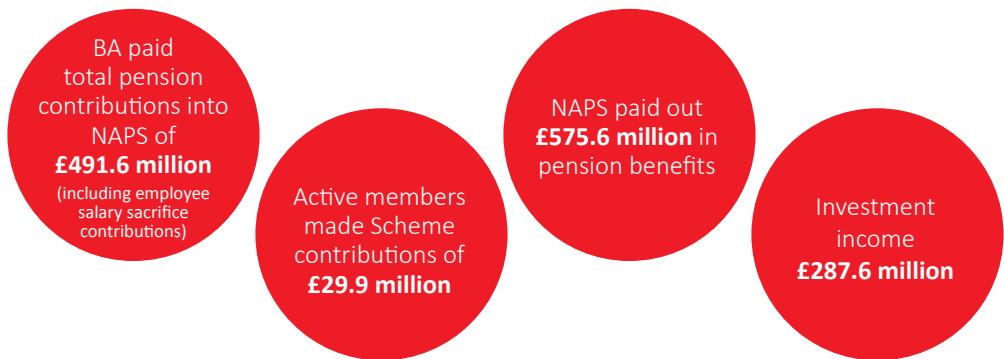
Prior to April 2016, most active members were contracted out of the State Second Pension (S2P), formerly the State Earnings Related Pension (SERPS), meaning you paid lower National Insurance (NI) contributions and didn't build up benefits in the S2P. Instead, the Scheme agreed to pay a pension that was at least as much as the S2P. With effect from 6 April 2016, the Government replaced old State Pension arrangements with a new flat-rate State Pension for those reaching State Pension Age (SPA) after 5 April 2016. Pension schemes can no longer contract out and as a result employees and employers NI payments increased.

Good to know - membership numbers

On 31 March 2016, the total membership of NAPS was 66,561, made up of:

| | 2016 | Change from 2015 |
|----------------------|--------|------------------|
| Active members | 19,604 | ▼ 1,115 |
| Deferred members | 22,046 | ▼ 307 |
| Pensioners | 21,035 | ▲ 757 |
| Dependant pensioners | 3,876 | ▲ 186 |

At a glance - contributions paid in and out over the year to 31 March 2016



Manage your NAPS pension online

More than 49,000 NAPS members receive their pension communications online and benefit from being able to make changes and updates to their pension options, as well as access to do lots more.

New! We've added new online forms so you just need to click to send your instructions to us - no need to post a paper form although we'll still accept paper forms if you prefer.

Once registered you can:

- View your pension payslips, annual pension increase statements, P60 certificates and Additional Voluntary Contribution (AVC) statements (if you usually receive these).
- Update your postal address.

New! Switch your existing AVC investments (if you have a BA AVC account).

New! Register a surviving dependant.

New! Notice of Wish, nominate beneficiaries for anyone you wish the Trustee to consider for any lump sum when you die – a lump sum may apply if you die a short time after drawing your pension and no Adult Surviving dependant's pension is payable. The lump sum is the difference between benefits you have received and what you have paid in plus interest.

Coming soon! Update your UK bank account details for your pension payments.

How do I register?

If you haven't already, it doesn't take long to register to manage your pension online – here's what you'll need:

1. Your pension reference number (you'll find this on any pension statements we've sent to you recently).
2. The password we originally sent to you (don't worry, call us on 020 8538 2100 if you don't have your password and we'll help you with a reminder).

Register at www.mybapension.com/users/sign_up

You have your own section on the website – take a look!

Pensioners have their very own section of the member website. Even if you haven't registered for online communications you can still use the pensioner section of the website for general information.



1. Go to www.mybapension.com
2. Click on NAPS
3. Click on 'Pensioner members' for information about how your pension is paid, when it's paid, pension increases and what your dependants should do when you die.

Copies of all our newsletters, including the quarterly newsletter, are available on the 'News' page of our website.

Register a surviving dependant

Did you know?

If you have paid higher contributions to the Scheme to build up an Adult Survivor's pension, but you are not married or in a civil partnership when you die, the Trustee can decide to pay the Adult Survivor's pension to a 'surviving dependant'. Broadly speaking, a surviving dependant is someone who is financially dependent on you at the time of your death. You can find out more about eligibility for dependant's pensions and register a surviving dependant on the 'Scheme information' page of our website (www.mybapension.com/naps).

Changes to GMP increases

We mentioned in the last edition of In Focus that the Government has changed the way it pays increases on Guaranteed Minimum Pensions (GMP).

If you were a member of NAPS at any time between 6 April 1978 and 5 April 1997 (except married women or widows who paid a special reduced rate of NI contributions), you will have a GMP. Your GMP is the minimum amount of pension we must pay you from GMP Age (60 for women, 65 for men), or set aside and increase if you choose to draw your NAPS pension later than this. The GMP is paid as part of your total NAPS pension, rather than being paid on top.

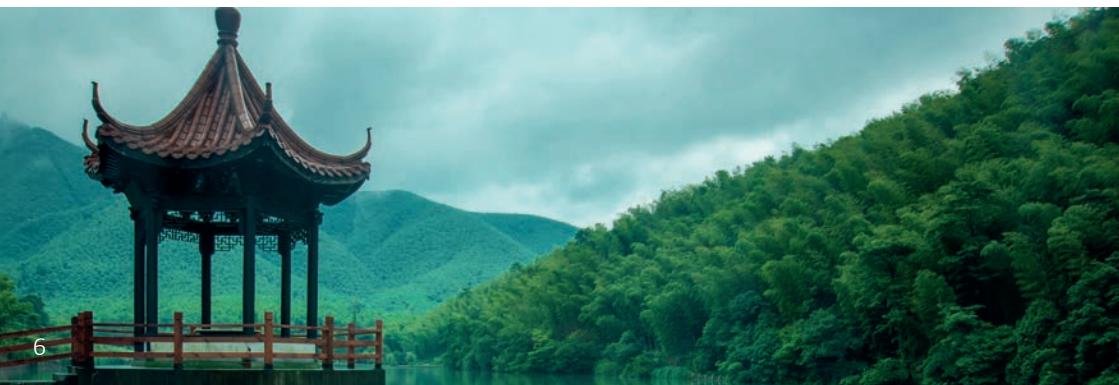
So, what has changed?

The old State Pension arrangements were replaced with the New State Pension (NSP) from 6 April 2016 for anyone who reaches State Pension Age (SPA) after this date. If you reach your SPA on or after 6 April 2016 the Government will no longer pay increases to an amount equivalent to any GMP which built up before 5 April 1988 and any increase due above 3% on GMP built up after 5 April 1988. It used to pay these increases as part of your State Pension. Instead, it will now currently pay 'triple lock' increases to your NSP at the higher of the increase in average earnings, CPI or 2.5%.

Members who reached their SPA before 6 April 2016 are unaffected.

Your GMP is paid as part of your NAPS pension and the Scheme will continue to increase GMPs in the way it always has.

The Scheme must increase any GMP in payment until you reach your GMP Age. After this, the Scheme will increase your GMP built up between 6 April 1988 and 5 April 1997 by the lower of the rate stated in the Government's GMP increase orders (currently CPI) each year, or 3%.





Go to the ‘Videos’ page of our website (www.mybapension.com/naps) to hear Ian Heath, BA pensioner and Trustee Director, explain how this change impacts him.

The Department for Work and Pensions maintains that most individuals will be better off under the new arrangements as they will be entitled to the higher of the NSP or old State Pension arrangements at 6 April 2016. Individuals will then be able to build further NSP after 6 April 2016 if they are eligible to pay NI contributions or secure NI credits.

Your SPA

Your SPA is the earliest age you can start receiving your State Pension and is set by the Government based on your gender and date of birth.

Check your SPA

www.gov.uk/state-pension-age

Check your State Pension

www.gov.uk/check-state-pension

Scheme funding valuation

A detailed financial health check of the Scheme, known as a valuation, is carried out every three years. The NAPS valuation as at 31 March 2015 was agreed in principle by the Trustee and British Airways on 26 October 2016 and entered into formally on 13 December 2016.

Headline results

- Since the last formal valuation in 2012, the funding level of NAPS has increased to 82.7% (2012: 78.3%).
- The funding shortfall (called the 'deficit') slightly increased to £2,785 million (2012: £2,660 million).
- BA will increase its pension contributions to £300 million a year, to address the deficit. They will pay this as £25 million a month from January 2017 to September 2027 (plus a possible extra contribution each year, depending on specific financial conditions). As a result, the deficit is expected to clear 12.5 years from the valuation date (2012: 14 years).

Funding shortfall (Deficit)

| | Funding level |
|---------------|----------------|
| 31 March 2015 | £2,785 million |
| 31 March 2016 | £3,354 million |

**Funding level
82.7%**

**Funding level
79.6%**

Further information on the Scheme's funding

In between formal valuations, the Actuary provides an update on the development of the Scheme's funding. For the period to 31 March 2016 the funding level had decreased to 79.6% and the deficit had increased to £3,354 million over the year since 31 March 2015.

This deterioration is primarily caused by a reduction in the rate that is used to discount the Scheme's liabilities (pension benefits due to be paid now and in the future) back to a present day value, which is based on gilt yields. Salary increases were also higher than expected. As a result, the value of the Scheme's liabilities increased more than the value of the Scheme's assets. This was partly offset by ongoing deficit contributions and an additional payment of £227 million paid by the Company in June 2015.

Since 31 March 2016, gilt yields have continued to fall, increasing the value of the Scheme's liabilities further. The Scheme has experienced positive asset returns and the Company paid an additional contribution of £283 million in June 2016. Despite this, the deficit at the end of November 2016 increased by around £750 million when compared with the position at 31 March 2016.

How is the deficit being addressed?

The Scheme has a Recovery Plan in place to address the deficit. This runs to 2027 and includes measures such as BA paying additional contributions to the Scheme on top of its normal contributions and a ‘cash sweep’ arrangement which would bring a further payment to the Scheme of up to £150 million a year should BA’s cash balance at 31 March each year exceed a certain level. More information on the Recovery Plan can be found on page 2 of the 2016 annual report and financial statements, and on page 7 of the 31 March 2015 valuation report available on our website (www.mybapension.com/naps) under ‘Scheme documents’.

Company consultation

British Airways announced on 26 October 2016 that it intends to consult with employees and trade unions on future plans for NAPS. The Trustee and BA Pensions will work with the Company to understand any potential impact to members’ future pension build-up but we have no further information just yet. Members should be reassured that the benefits they have already built up in NAPS to the date of any potential change are unaffected.

Other measures

As part of every formal valuation, the Actuary is also required to consider whether there is enough money within the Scheme to buy out benefits built up to date with an insurance company and, if not, to estimate what proportion of the benefits could be secured in this way. This is known as the solvency level.

This doesn’t mean that consideration is being given to winding up the Scheme. The solvency level is just another piece of financial information that helps with understanding the Scheme’s financial position. The NAPS solvency level as at 31 March 2015 was 50.2% (51.3% at 31 March 2012).

How are my benefits protected?

The Pensions Regulator acts as a watchdog, working with pension scheme trustees, scheme managers and employers to help protect your pension. The Pensions Regulator has powers to intervene in the running of schemes if necessary and can issue directions to trustees and companies operating pension schemes which require the employer (or a person associated with the employer such as a holding company) to pay money to the scheme or put in place another form of financial support. We are required to report to you that the Pensions Regulator has not issued any such directions to the NAPS Trustee, and that the Scheme has not made any payments to the employer in the year to 31 March 2016.

“The detailed financial health check of the Scheme as at 31 March 2015 has been completed. The funding shortfall has slightly increased.”

Scheme funding valuation continued...

Money going in and out of the Scheme

The Scheme's annual report and financial statements for the financial year to 31 March 2016 were approved in September 2016 and showed that at 31 March 2016, the assets of NAPS were just under £13.1 billion.

The annual report and financial statements show the financial position of the Scheme on a particular day and are different to a valuation. A valuation 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.

| | Million |
|---|------------------|
| Value as at 31 March 2015 | £13,279.7 |
| + Income (member and employer contributions, and investment income) | £809.1 |
| - Outgoings (such as payment of pensioner and dependant benefits) | (£590.4) |
| - Change in market value of investments | (£403.3) |
| Value as at 31 March 2016 | £13,095.1 |

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

Scheme's investments

British Airways Pension Investment Management Limited (BAPIML) manages the day to day investment decisions for NAPS on behalf of the Trustee. The Scheme's Statement of Investment Principles is available on the 'Scheme documents' page of our website (www.mybapension.com/naps).

Investment update

The Fund's investment returns are measured against a strategic benchmark. The NAPS Trustee has set a target for the Fund's investment managers to beat the investment returns of the benchmark by 0.5% over a five-year rolling period. Over the year to 31 March 2016, returns on the NAPS investments that are measured against the benchmark, including stocks, equities (shares) and bonds (gilts) were positive.

The actual investment returns over one year and ten years were better than the target benchmark but returns over three and five years were below the target benchmark (due mainly to the significant falls in yields on bonds, with shorter term bonds continuing to underperform the benchmark). The Investment Report on page 14 within the annual report and financial statements is available on the 'Scheme documents' page of our website and describes investment performance in detail.

How NAPS investments performed

| Financial years to 31 March 2016 | | NAPS returns (a year) | Benchmark returns (a year) |
|----------------------------------|----------|--------------------------|-------------------------------|
| 2016 | 1 year | 0.47% | 0.03% |
| 2014/2016 | 3 years | 6.92% | 7.37% |
| 2012/2016 | 5 years | 8.10% | 8.22% |
| 2007/2016 | 10 years | 6.61% | 6.53% |

What is a benchmark?

The performance of each of the main asset classes is measured against a market index. For example, the performance of UK equities is measured against the FTSE All Share. The indices are selected to ensure that the investment performance objectives are linked to the liabilities of NAPS. The aim is to meet this level of return and investment performance is judged against this target.

Investment strategy

The Trustee aims to choose investments that meet the cash flow needs of the current membership by providing the right mix of growth and security. This is done by investing in a mixture of assets.

NAPS investments as at 31 March 2016

| | |
|------------------------------|-------------|
| UK equities | 15.9% |
| Overseas equities | 37.1% |
| Private equity | 4.4% |
| Alternative investments | 4.2% |
| Property | 9.8% |
| Real assets (infrastructure) | 2.0% |
| Bonds fixed | 14.8% |
| Bonds indexed | 10.8% |
| Cash | 1.0% |
| Total | 100% |

Want to know more?

The full annual report and financial statements for the year ending 31 March 2016 is available on our website, under the 'Scheme documents' page and show a further breakdown of the Scheme's investments, including on page 14 a detailed Investment Report on how they performed over the year to 31 March 2016.

Who manages NAPS?

Move to a Corporate Trustee structure

NAPS is now managed by a Corporate Trustee, New Airways Pension Scheme Trustee Limited. This change brings NAPS in line with best practice of other large pension schemes. The individual Trustees are now Trustee Directors of the Corporate Trustee and remain responsible for managing the Scheme through the Corporate Trustee. You can read more about this on the 'News' page of our website (www.mybapension.com/naps).

The Trustee Directors

NAPS is managed by twelve Trustee Directors. Six Trustee Directors are elected by the active and pensioner members of NAPS (as Member Nominated Directors) and six are appointed by BA (as Employer Nominated Directors).

The current Trustee Directors are:

Employer Nominated Directors

Virginia Holmes – Chair, Independent Trustee

Andrew Fleming – Head of Legal and BA Company Secretary, BA

Bill Francis – Head of Group IT, IAG Group

Ian Howick – Director of Heathrow, BA

Charlie Maunder – Head of Flight Operations, BA

Jude Winstanley – Head of Network, Alliances and Compliance, IAG Cargo

Member Nominated Directors

Neil Blackburn – Cabin Crew

Ian Bretherton – Pilots

Graham Fowler – Pensioners

Ian Rycraft (until 31 March 2017)* – Engineering, TMGs, Ground Services

Dave Southcott – Administration and the rest of Management

Jack Wheale – Pensioners

*Christopher Daw will be the Trustee Director for this constituency from 1 April 2017.

Wishing Teresa a happy retirement and welcome to our new Scheme Secretary and CEO, Fraser.

After 38 years with British Airways Pensions, Teresa Suriyae retired from her roles as Managing Director and Scheme Secretary of NAPS. Succeeding Teresa is Fraser Smart. Fraser is a qualified actuary with over 25 years' experience in pensions. Fraser joins us as Scheme Secretary and Chief Executive Officer of BA Pensions, with responsibility for administration and investment teams.

Good to know

Pension increase update

Most pensions within NAPS increase each year, as described in the Scheme Rules. The increases are set out in the Government's yearly Pensions Increase (Review) Orders, limited to 5% in any year. These Orders broadly reflect the increase in the Consumer Prices Index (CPI). The actual increase won't be confirmed until Orders are published in late March 2017 but we expect it to be around 1%. We will provide pensioners with a pension increase statement as usual by the end of April 2017 to confirm the new pension amount that will apply from 10 April 2017, along with a P60 certificate for the year to 5 April 2017. Pensioners from British Caledonian or Davies & Newman/Dan Air who have different increase arrangements will continue to receive the relevant increase applicable to the rules of their arrangement.

Pensionable dependants

The following point of law was clarified: where a pensioner's pension commenced after 1 July 2008, legislation restricts the Scheme paying an Adult Survivor's pension to an adult child over age 23 unless the adult child is mentally or physically impaired. Payment outside of the legislation would be an unauthorised payment with tax implications for the dependant and the Scheme. Adult Survivor pension applications are considered on an individual basis by the Trustee. You can register a surviving dependant by logging on to '[mybapension](#)' on our website (www.mybapension.com/naps) and submitting details online. If you can't log on you can print a paper form from the 'Forms' page of our website, complete it and send to us. Our contact details are on the back page.

Top up your State Pension before 5 April 2017

If you have checked your State Pension forecast and it is less than the full amount you can choose to top up your State Pension by between £1 and £25 per week by making a lump sum payment if you reached your State Pension Age before 6 April 2016 (if you're a man born before 6 April 1951 or a woman born before 6 April 1953). To find out more visit www.gov.uk/statepensiontopup

If you have gaps in your NI record, it may be more cost effective to make voluntary contributions before topping up. You have until **5 April 2017** to make up for any gaps in the tax year 2010/11. There are later payment deadlines for years later than 2010/11. You can sometimes pay for gaps more than 6 years ago depending on your age. Visit www.gov.uk/voluntary-national-insurance-contributions for more information. Go to the 'Videos' page of our website (www.mybapension.com/naps) to hear a Trustee Director talking about this subject.



Are you scam proof?

You may have heard in the news about a growing number of people falling foul of pension scams. To help protect yourself and your savings, here's a few useful steps to follow:

1. Be cautious of cold calls and unwanted texts or emails.
2. Never be rushed into making a decision and take the time to do your research.
3. Make sure financial advisers are registered with the Financial Conduct Authority (FCA) to check if they are approved. You can also check the FCA's list of known scams. Check all of these by going to www.fca.org.uk
4. Avoid overseas investment deals and promises of 'guaranteed' high returns, even if they are communicated via professional looking websites and brochures. No matter how credible something appears, you should always question it!

If you have any doubts at all, contact The Pensions Advisory Service for free help and advice. You can reach them on 030 0123 1047 or visit www.pensionsadvisoryservice.org.uk.

If you've already signed something you're now unsure about, call Action Fraud on 030 0123 2040 and contact us immediately on 020 8538 2100. We may be able to stop a transfer that hasn't taken place yet.



Are we reaching everyone?

Please help us keep in touch!

Are you in touch with former friends or colleagues of British Airways? Have they received their In Focus (by email or in the post) or any other pension communications from us in the last year or two? Although it's hard to believe, some of our members and pensioners don't always notice they've not heard anything from the team at BA Pensions for a while. Often they've moved and forgotten to tell us, making it difficult for us to get back in touch.

If mail we send is returned to us we use a tracing service to try to reach members or pensioners but often, all it takes is a friend or neighbour mentioning In Focus in conversation. If someone you know has not received either an email alert or copy of In Focus, please ask them to call us on 020 8538 2100.

Useful contacts

The BA Welfare and Benevolent Fund

Set up by British Airways to help current and former employees who are experiencing financial hardship. Grants are awarded to assist with the purchase of necessary goods or services that cannot be afforded from normal income. Almost any one-off cost will be considered, although the Trust cannot provide ongoing support. Examples of items for which grants have recently been awarded are mobility aids or special equipment, appliances for the home, and property maintenance and adaptations.

Contact the BA Welfare and Benevolent Fund in confidence on 020 8513 2528.

The BA Touchdown Team

Looks after the interests of all former employees by maintaining and supporting the link between British Airways and its former staff by:

- representing the interests of former employees corporately
- authorising former staff ID cards and travel letters
- providing helpline advice and support for former staff
- communicating with former staff via the Touchdown website
- administering the BA Welfare and Benevolent Trust Fund

Visit: www.ba-touchdown.com, email: batouchdown@ba.com or call 020 8513 2528.

The BA Touchdown Team also works with the Former Staff Liaison Council (FSLC), who meet four times a year and are a long standing group that BA liaises with on relevant matters and who represent the views of pensioners and former employees.

If you wish to join FSLC to assist former colleagues you can contact them at any time by email: Liaison.1.council@ba.com

Contact us

British Airways Pensions is here to help all NAPS members and pensioners. You can contact us in the following ways:

Write to:

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

Call:

020 8538 2100
9am to 5pm Monday to Friday

Email:

enquiries@bapensions.co.uk

Visit our website:

www.mybapension.com/naps