NAPS Trustee Focus

A quarterly newsletter for our membership August 2014

BRITISH AIRWAYS PENSIONS

We are pleased to issue the latest Trustees' online quarterly newsletter to help keep you up to date with information about our current activities.

Funding Matters

In between each formal valuation (formal valuations happen every 3 years with the next one due to commence on 31 March 2015) the Scheme's actuary provides a yearly update on the Scheme's funding position. We have started work on reviewing the 31 March 2014 funding position and agreeing the assumptions to be used. We analysed early results and further actuarial analysis is currently being carried out which we will review at our next meeting. We will report the position to you as soon as we can, usually in the next edition of In Focus.

You will recall from the March 2012 valuation update provided in our September 2013 letter to you, copies available on the 'News' page of the website www.mybapension.com, that the Schemes have certain additional protection measures in place which were agreed between the Trustees and the Company during earlier valuations. One of these measures is a cash sweep arrangement (described in our September 2013 letter). We recently received £23m from the Company in respect of the March 2014 cash sweep payment for NAPS. This is in addition to normal scheme contributions which continue to be paid to the Scheme by the Company.

Legislation Changes

We have written to AVC account holders regarding new legislation which came into force on 24 July 2014 and affects how the in-house AVC benefits are defined. A copy of the letter is available on the 'News' page of www.mybapension.com.

Under the new legislation, Mixed Portfolio Fund (MPF) Accounts continue to be classed as 'money purchase' benefits whereas Short Dated Gilts Fund (SGF) and Equity Biased Fund (EBF) Accounts, because they contain an element of guaranteed return, now become 'cash balance' or 'non-money purchase' benefits. Non-money purchase benefits are given lower priority than money purchase benefits in the event of a Scheme wind up. This change would only potentially affect members with these Accounts should the Scheme wind up with insufficient assets to cover the benefits due. The legislation is complex and was draft at the time of writing our letter but we wanted to follow up on our earlier warnings in In Focus and remind members of this change. We have continued to analyse the impact with our lawyers including how the Department for Work and Pension's (DWP) definition of money purchase benefits interacts with HM Revenue and Custom's (HMRC) definition of defined contribution (DC) schemes.

Since our letter, the Government has confirmed it will not ban transfers from defined benefit schemes such as NAPS to DC schemes. As both money purchase and non-money purchase benefits continue to come under the definition of defined contribution schemes, this flexibility therefore remains available and switching savings between the in-house AVC Accounts can continue.

Other changes announced in the 2014 Budget, such as the change to trivial commutation limits, have been previously reported to you in the May edition of the quarterly newsletter. Current retirees with a capitalised pension value below £10,000 within NAPS are now being offered an additional option of taking all of their benefits as cash subject to tax.

We continue to work with our advisers on the Budget 2014 changes and are due to review further aspects of this at our September and October meetings. We will write to members with details once these are known. For example, we are seeking further clarification around the government's increased flexibility for DC 'pots' to be drawn as cash (subject to *Lifetime Allowance* limits and marginal rate of tax) and the applicability of this to our in-house AVC schemes, particularly where members have deferred drawing all or part of their AVC benefits having already drawn some of their benefits at retirement.

AGENDA WATCH

At the June 2014 Quarterly meeting:

- We received our quarterly investment update from *BAPIML* and details of various financial transactions that had been considered.
- As usual, we reviewed and made appropriate decisions on the quarterly reports from each of the Governance and Audit, Investment and Operations Committees.
- We noted the annual bonus declaration for investments held in the Equity Biased (EBF) AVC Fund of 9.2% as at 31 March 2014 for the period to 31 March 2015. We reviewed the methodology for calculating this return and agreed the investment strategy remained appropriate and we ensured the level of cost for providing the guaranteed returns remained reasonable.
- The method and assumptions for calculating transfer values are reviewed regularly by the Trustees together with advice from the *actuary*. Following the 2014 Budget announcement regarding increased flexibility for defined contribution schemes which may increase transfer activity, it was prudent for us to bring the usual review of transfer values forward. Following the review, we are satisfied that the existing assumptions underlying the transfer calculations remain appropriate and there is no need for any changes at this time. We will however keep this under review.
- The Scheme's auditors KPMG have completed their yearly audit of the Scheme's financial processes and controls and its compliance with the financial requirements of the Pensions Acts 1995 and 2004 and related regulations and The Pension Regulator's guidance. They presented their audit and financial controls reports and we were pleased to note that no significant issues or matters had been identified. This work will feed into the Scheme's Annual Report and Accounts due to be published later this year.
- We had also directed KPMG to carry out some extended assurance work on the monitoring of certain of the Scheme's complex and sophisticated investment classes. KPMG reported that processes were broadly in line with other investment managers and were able to recommend some areas of enhancement to the documentation of existing processes.
- Following the appointment of Freshfields Bruckhaus Deringer LLP as a secondary legal adviser to NAPS, with Eversheds remaining as the primary legal adviser, we finalised the structure and procedures for how all parties will work together and introduced a new protocol to support this.
- On limited occasions where a Trustee is unable to attend a meeting they will appoint a fellow Trustee to act on their behalf. We revised our process for appointing alternate Trustees including to cover the rare scenario where the alternate Trustee is also absent.
- We completed the usual quarterly review of the risk framework and confirmed risks were being controlled. We have described the purpose of the risk framework in previous editions of the Trustee newsletter.

Glossary

We will try to avoid using unnecessary jargon but there may be occasions where technical words or phrases are used. Where this happens we will provide further explanation in this box.

- *Actuary* – the Scheme's actuary is James Wintle of Towers Watson.
- *BAPIML* – British Airways Pension Investment Management Ltd. who manage the day to day investment of the Scheme's assets on our behalf.
- *Lifetime Allowance* - set by HMRC, total combined 'value' of benefits from UK registered pension schemes allowed before a tax charge is due, unless protection has been arranged.

Availability of Information

The Trustees meet quarterly with additional meetings being held as required. Much of the detailed work is undertaken by the Committees (Governance and Audit, Operations and Investment). In addition, sub groups are convened to look at specific issues.

We will seek to provide information on as many items as we can however there are some issues we won't be able to disclose. For example, if it involves an individual member, if the matter is commercially sensitive, if disclosure could undermine the Trustees' negotiations with third parties or where the information concerns planned investment actions.