

Welcome to the latest Trustees' online quarterly newsletter; designed to help keep you up to date with information about our current activities.

DC Flexibilities

As we reported in the November Trustee quarterly newsletter, the Government has announced new flexibilities from 6 April 2015 that will allow members of *defined contribution* (DC) schemes to draw these funds flexibly from Minimum Pension Age (age 55), either (1) as one or a series of lump sum payments - 25% of each lump sum will be tax-free with the remainder up to the Lifetime Allowance subject to the individual's marginal rate of tax at time of withdrawal; or (2) by allocating funds to a drawdown arrangement - 25% of this being available as a tax free lump sum and the rest to be drawn in amounts and at times to suit individuals and taxed at marginal rate. Schemes are not obliged to adopt the changes but we have now considered in detail whether to introduce the new flexibilities, which only potentially apply in relation to the Scheme's AVC Funds as these are classed as DC benefits for the purposes of the new flexibilities and also to the British Airways Money Purchase Section (BAMPS) which closed in October 2012 and has a few remaining deferred members. The flexible access options are complex and the likely take up from members will depend on the member's consideration of such matters as the size of any balance and retirement income requirements. The full range of options will be available in the external market and we have agreed to introduce a new Scheme option from April 2015 allowing members to transfer their AVC Funds independently of their main Scheme benefits, out of the Scheme to access the flexibilities externally if they decide this suits their needs. BAMPS members will have the option to draw their BAMPS Account as cash from the Scheme, 25% of which will be tax-free. New processes are being implemented to provide members approaching retirement with details of the transfer value of their NAPS pension within their retirement packs from April 2015. We encourage members to take independent financial advice before making choices about their pension benefits and from April 2015 the Government will require members to take financial advice if their transfer value exceeds £30,000. The exact details have yet to be confirmed in the legislation. Free guidance will also be available through the Government's Pension Wise: Your Money, Your Choice campaign which highlights the Citizen's Advice Bureau (face to face) and the Pensions Advisory Service (over the telephone 0300 123 1047) as guidance providers.

Money Purchase Benefits

We have written again to AVC Account holders with further details of the impact of a change in law that means that Short Dated Gilts Fund (SGF) and Equity Biased Fund (EBF) AVC Accounts are now classed as 'cash balance' or 'non-money purchase' arrangements. This will only impact members with SGF or EBF AVCs, in the event of a Scheme wind up, in which case SGF and EBF AVCs will now be treated with lower priority than previously. We are not aware of any consideration being given to winding up the Scheme and the information has been provided to give members the full facts about the change and the choices they have. The AVC only transfer option we are introducing from April 2015 provides an additional option for any members concerned about the change in definition of SGF and EBF AVCs. The Mixed Portfolio AVC Fund (MPF) is not affected by the change in definition and also currently remains available for members to switch any SGF or EBF AVC balances to if they determine the MPF investment type will suit their needs. Further details of all our AVC Funds can be found within the 'AVCs' page of our website, click on '[AVC Funds](#)' or go to the '[AVC Plan Information Leaflet](#)' available on the '[Scheme Documents](#)' page.

2014 Scheme Funding Update

The 2015 'In Focus' will be available shortly on the '[news](#)' page of the website and provides your annual funding summary update. The funding level had improved from 85.1% as at 31 March 2013 to 87.3% at 31 March 2014 and the deficit had fallen from £1.9bn at 31 March 2013 to £1.7bn at 31 March 2014. Although the March 2014 position showed an improvement, it does not take account of changes in investment conditions since March 2014, in particular the significant falls in yields available on Government bonds (gilts). If this were reflected in the 31 March 2014 funding position, the deficit would be larger, possibly significantly, than shown above. The Trustees will consider all of the assumptions in detail as part of the 2015 formal valuation which isn't expected to conclude until sometime in 2016. Further details on funding, including details of the Scheme's Recovery Plan, are available in the 2015 'In Focus'.

Member Data

In line with 'Record Keeping' guidance issued by the Pensions Regulator, the Trustees have targets in place that are used to measure the quality of NAPS data. Data quality is monitored daily by BA Pensions and we carry out an annual review against the targets we have set. The latest annual check shows that overall the targets were met, with the exception of addresses for historical deferred pensioners where mail has been returned to Whitelocke House and a very small number of National Insurance numbers. We are pleased that an extended tracing exercise has improved the quality of address data held for deferred pensioners and an additional address tracing project for deferred pensioners is due to be carried out. For your benefit, and for the Scheme, deferred pensioners and pensioners should keep Whitelocke House informed of all changes to their personal circumstances. Monthly screening of deferred pensioner and pensioner records against the death register forms an important part of the Scheme's approach to data quality and mitigates the risk of overpayment of pension and of potential fraud.

A further exercise that BA Pensions are carrying out in relation to data quality is a reconciliation of Guaranteed Minimum Pensions (*GMPs*). The Government is introducing a new single tier state pension, the New State Pension (*NSP*), from April 2016 and the option for occupational schemes to 'contract out' of the State Second Pension (*S2P* formerly *SERPS*) will no longer be available. Whilst you are an active member of *NAPS* both you and BA pay lower National Insurance (*NI*) contributions because *NAPS* is 'contracted-out'. *NAPS* must promise to pay you at least what you would have received had you remained in *S2P/SERPS* and this amount is known as the *GMP*. Ahead of April 2016 HMRC is providing schemes with their first opportunity since 1978 to reconcile their *GMP* data with that held by HMRC and the Scheme has commenced this process. Further details of the changes to state pension arrangements are discussed in the 'In Focus' newsletter, available shortly from the '[news](#)' page.

AGENDA WATCH

At the December 2014 Quarterly meeting:

- Nick Swift, BA's Chief Financial Officer, described BA's third quarter results and fleet replacement plans for the year ahead. Price Waterhouse Coopers (PwC), on our behalf, continue to monitor BA's financial position and transactions so we can consider any impact to BA's ability to make payments to the Scheme in line with the Recovery Plan.
- Preparations commenced for the Scheme's formal valuation at 31 March 2015. Towers Watson (TW) provided an update on developments in future mortality improvements and longevity risk within the Scheme. Mortality assumptions are used within the valuation to predict when pensions might become due and for how long pensions and dependant's pensions might be paid. The analysis presented by TW will contribute toward our considerations around which mortality assumptions we might wish to adopt for the 2015 Scheme valuation.
- We received our quarterly investment update from *BAPIML* and details of various financial transactions that had been considered and, where appropriate, actioned.
- We completed a review of our legal advisers and confirmed that Eversheds will continue as the Scheme's primary legal adviser.
- We began planning our activities and drawing up our business plan for April 2015 to March 2016.
- We completed the regular quarterly review of the risk framework and confirmed risks were being appropriately managed. We have described the purpose of the risk framework in previous editions of the Trustee newsletter.

Glossary

- *GMP* – guaranteed minimum pension, a minimum amount of pension *NAPS* promises to pay for service completed between April 1978 to April 1997.
- *Defined Contribution (DC)*– contributions are paid into a pension 'pot' which changes with investment return, 'pot' is exchanged for benefits at retirement
- *Defined Benefit (DB)* – e.g. *NAPS* pension, pension is calculated according to pay, build up rate and pensionable service
- *BAPIML* – British Airways Pension Investment Management Ltd. who manage the day to day investment of the Scheme's assets on our behalf.

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.