

NAPS Trustee Focus

A quarterly newsletter for the NAPS membership August 2016



Your Feedback Required

Welcome to the latest Trustees' online quarterly newsletter. We have spent time this quarter reviewing the purpose, style and content of this newsletter. As you know, we issue a full 'In Focus' newsletter once a year. The quarterly newsletter on the other hand, is designed to provide you with more frequent updates on issues affecting your Scheme, but in a lower cost format. Due to confidentiality it is not always possible to include details of all of the projects the Trustees are working on however, we hope the quarterly newsletter provides a useful insight into the Trustees' current activities. It would assist us greatly to receive your feedback on how useful you find the quarterly newsletter. If you have any comments please [contact us](#).

March 2015 Valuation

In July we published an announcement on the website informing members and pensioners that it has not been possible to conclude the Scheme's formal valuation prior to the 30 June 2016 date set by the statutory framework. A copy of our announcement can be viewed [here](#). The delay does not affect pension build up or pension payments and until the 2015 formal valuation is concluded, British Airways must continue to pay contributions in accordance with the contribution arrangements agreed as part of the 2012 valuation. The purpose of the valuation is to assess the funding levels within the Scheme at the date of the valuation by comparing the value of the Scheme's assets against its liabilities. A Schedule of future Contributions to be paid by active members and by the Company going forwards must also be agreed and where there is a funding deficit a plan put in place, known as a recovery plan, with the aim of ensuring there is sufficient money available now and in the future to pay pensions when they are due. The Pensions Regulator is fully aware that we have not concluded the 31 March 2015 valuation and we continue to keep him up to date as our ongoing discussions with the Company progress. We will provide you with a further update as soon as we can.

Brexit

You may be wondering what impact the UK's recent vote to leave the European Union (EU) might have upon your pension. As far as the payment and administration of your pension benefits are concerned, there is no change and it is very much business as usual.

The immediate impact to the Scheme has been the short term volatility in investment markets, which was expected and this is predicted to continue as the Government negotiates the terms of the UK's exit from the EU. Ahead of the referendum result, [BAPIML](#), the Scheme's investment managers, monitored market conditions and took steps to minimise the impact on the Scheme's funding level of a 'leave' vote as much as practicable. In the first few weeks following Brexit the impact on the funding level was broadly neutral. Pension scheme liabilities (benefit payments due now and in the future) are long term in nature and so are expected to be able to weather short term fluctuations in market conditions. The Pensions Regulator in its statement on 14 July, urged trustees to remain focused on the longer term and not be overly influenced by short term market fluctuations. The Trustees, together with their advisers, will continue to closely monitor and manage the Scheme's investments in line with their agreed investment strategy, with the aim of ensuring the Scheme has sufficient monies to pay benefits now and over the years to come. As the UK's exit from the EU is negotiated, the Trustees will continue to analyse the situation and will make amendments to the long term investment strategy as appropriate. In addition, consistent with the recent Pensions Regulator's statement, the Trustees will look to the Scheme's [covenant](#) adviser to understand how the vote to leave the EU could affect the sponsoring employer's business.

Equity Biased (EBF) AVC Fund

The Equity Biased Fund is one of three in-house additional voluntary contribution (AVC) funds offered by British Airways Pensions. AVCs enable active members of APS and NAPS to save more for retirement on top of their basic Scheme pension, with each AVC fund offering different investment returns. The AVC funds and the returns each provide are explained further in the [AVC leaflet](#).

The interest applied to monies saved within the Equity Biased (EBF) AVC Fund is made up of a Guarantee Component and a Bonus Component. Money that is invested in the EBF for the whole of a calendar month receives interest for that month at a rate comprising the Guarantee Component for that month plus one-twelfth of the relevant Bonus Component declared for

the Scheme year. The annual Bonus Component for the period 1 April 2016 to 31 March 2017 has been announced as 4.9%. As Trustees, we are required to agree the Actuary's approach to the calculation of the return and ensure the level of cost for providing the guaranteed return remains reasonable.

The Guarantee Component has historically been set in line with returns on a 7-days' notice local authority deposit account. This index has been discontinued and we have agreed a change to the Scheme and EBF operating rules to base the Guarantee Component on, currently, the Sterling overnight index average (SONIA). Members have been notified of this change through their 2016 AVC statements. Further details can be found in the [EBF operating rules](#). You can quickly check AVC rates at any time by visiting the [AVC fund rates](#) page.

The Guarantee and Bonus Component rates for the [British Airways Money Purchase Scheme \(BAMPS\)](#) match those of the EBF and we have recently notified BAMPS members of the changes to these rates in their 2016 annual statements. BAMPS is an old part of NAPS and has been closed since 30 September 2012. There are only 110 remaining members with BAMPS accounts and these accounts can no longer accept contributions. BAMPS members have the option to draw their accounts as cash from age 55, can transfer their accounts to the NAPS final salary pension section or use their account to buy a pension at retirement. If you are a BAMPS member and require further details of your pension options, please [contact us](#).

Lifetime Allowance Protection—New Online Service

HMRC has launched its new online service for individuals to apply to protect their pension savings from the lifetime allowance (LTA) charge. This is relevant to members and deferred pensioners who have not yet drawn their pension benefits and expect the value of total benefits to exceed the LTA, currently set at £1 million. From now on, those who want to apply for individual protection 2016 (IP16) or fixed protection 2016 (FP16) must do so online and the interim paper-based application process in force since 6 April 2016 is no longer available.

Before applying, you will first need an HMRC Online Services Account (this is the same account as used for self-assessment – if you do not have an existing account you can create one when you start your online application). You can access the online LTA application service through www.gov.uk/guidance/pension-schemes-protect-your-lifetime-allowance. HMRC has also published further guidance for members on GOV.UK, including guidance on valuing pensions for individual protection. Successful applicants will be able to view their protection details in their HMRC Online Services Account – HMRC will not send paper certificates. If you wish to rely upon protection you will need to provide details of your valid LTA protection status to Whitelocke House before drawing your benefits.

Guaranteed Minimum Pension (GMP) Increases

As you know, for some time we have been monitoring the Government's position that it will no longer pay the increases it has paid historically on an equivalent amount to the [Guaranteed Minimum Pension \(GMP\)](#) for those who reach their [State Pension Age](#) after 6 April 2016. We noted recently that the Government has since directed public sector schemes to meet the GMP increases historically paid by the Government for some of its members, those reaching [State Pension Age](#) between 6 April 2016 and 5 December 2018. Recognising this anomaly, we looked at whether this development would also apply to the BA Schemes. Confirmation has been received that this is a Government change affecting public sector schemes only and BA has advised that as this is a change created by the Government, it is not something that BA has the responsibility to remedy.

We discussed GMP increases in the [November 2015 newsletter](#) and the [February 2016 'In Focus'](#). As a reminder, most NAPS members have a GMP which is paid as part of their total NAPS pension, rather than being paid on top. The Scheme will continue to meet its obligation to pay increases on GMP amounts for all its members and pensioners. As explained previously, the Scheme is required to increase the total GMP in payment until GMP Age (age 60 women, age 65 men). From GMP Age the Scheme increases GMPs built up from April 1988 at the rate specified within GMP increase orders, up to a maximum of 3% a year.

Scheme Audit

The Scheme's annual audit has been completed. The purpose of the audit checks are to ensure that the Scheme's financial processes and controls are in order and that it complies with the financial requirements of the relevant Acts and regulations. This work leads to the production of the Scheme's Annual Report and Financial Statements, due to be published later this year. KPMG, the Scheme's auditors, reported to us on the audit work they have undertaken. We were pleased to note that no significant issues have been identified and that there remains a strong overall financial control environment with no regulatory breaches.

We have detailed processes in place to ensure the accuracy of the Scheme's membership data. It is useful to have an external check from time to time and an independent review by the Scheme's auditor of the Scheme's data quality and accuracy has confirmed that the quality of membership data, especially for such a large Scheme, is good. The team at Whitelocke House are committed to holding data of the highest quality and have robust controls in place for managing the quality of data. Nevertheless, it is very important for pensioners and deferred pensioners to keep us informed of changes to their circumstances for example, a change of address, or change in beneficiaries or marital status. Pensioners and deferred pensioners can now inform us of address changes via our website rather than in the post. Simply log in to '[Mybapension online](#)' and click on 'Change postal address' in the 'My account' panel. If you have not registered for online communications you can do so at any time by clicking on '[register](#)' at the top of the screen. Other changes to personal circumstances should be notified in writing to Whitelocke House. Details of changes for active employees are automatically fed to us by British Airways however all members should keep their [Notice of Wish](#) up to date.

Why is it important to keep your Notice of Wish up to date?

Particularly if you are an active member you should fill out a new [Notice of Wish](#) if your circumstances change. Many members completed one when they first joined the pension scheme but since then, may have married, become divorced or separated or had children, and have not completed a new one. Lump sum death benefits are usually paid when an active member dies and sometimes when a pensioner dies. The amounts paid are different depending on whether the death relates to a member or a pensioner and full details are provided [here](#). Under Scheme Rules, the Trustees use their discretion when determining the recipients of any lump sum death benefits. As these payments are discretionary, they are currently free of inheritance tax. The Trustees make thorough enquiries before determining who should receive any lump sum death benefit and will always refer to a member's [Notice of Wish](#) as a guide, if one exists. Sadly, we often find that a [Notice of Wish](#) has not been completed or is out of date, for example it may still show the member's parents as the preferred recipient and the member may have since married or it may not reflect that the member has recently separated from their partner. This can lead to delays in the payment of benefits whilst enquiries are made, sometimes with conflicting views being received from the family. We would urge active members to complete a new [Notice of Wish](#) if their circumstances change in the future or have changed since they first completed one.

AGENDA WATCH

Also at the June 2016 Quarterly meeting:

- ◆ We welcomed Neil Blackburn as a Member Nominated Trustee from 1 June 2016 as voted for by cabin crew members.
- ◆ We received our quarterly investment update from [BAPIML](#), including details of fund performance in the period pre and post the Brexit vote. We discussed various financial transactions that are currently being considered and undertook our annual review of fund performance.
- ◆ Automatic enrolment has been in place at BA since 1 January 2013. This is a government initiative designed to encourage people to save for their retirement and requires employers to enrol their employees into a 'qualifying scheme', every three years, if they are not already a member of such a scheme. NAPS has always met the requirements for a 'qualifying scheme' however the test changed when the Government abolished [contracting out](#) in April 2016. The Company recently wrote to crystallised active members to inform them that they would be enrolled into the British Airways Retirement Plan (BARP) from 6 April 2016 so that the Company continues to meet its 'automatic enrolment' responsibilities. Crystallisation is a Scheme option available to active members at or after their [Normal Retirement Age](#). It allows members to stop paying pension contributions and to delay drawing their pension to a later date. As crystallised members are not building up future benefits in NAPS they can no longer be classed as being a member of a qualifying scheme. Any member can choose to opt out of BARP if they wish to.
- ◆ We completed the usual quarterly review of the risk framework and confirmed risks were being controlled appropriately. We have described the purpose of the risk framework in previous editions of this newsletter.

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.

Issued by the NAPS Trustees. Any questions relating to the matters raised here should be forwarded to the Trustees at Whitelocke House [\[contact us\]](#). The information here is of a general nature, the Scheme Trust Deed and Rules govern options and benefits available from the Scheme.