

COMMUNICATION - GIVING YOU THE INSIDE STORY

Welcome to the Trustees' on-line quarterly newsletter in which we give you up to the minute information on what we are currently working on.

Valuation

The 31 March 2012 triennial Scheme valuation has now been completed. This was a lengthy process involving negotiation with the Company. Agreement in principle was reached with British Airways on 11 June 2013 and the valuation itself was finalised on 28 June 2013. IAG made a regulatory announcement, details of which can be viewed from the [news](#) page on the member website www.mybapension.com. An individual communication is being sent to all members and pensioners detailing the outcome of the valuation and explaining the objectives underpinning our approach to the valuation process. The full valuation report is also available on the member website.

Scheme Audit

KPMG, the Scheme's auditor, undertook their yearly audit of the Scheme. This work will feed into the Annual Report and Accounts due to be published later this year. During the audit, KPMG analyse the Scheme's accounting and audit processes, they compare the financial systems and controls in place to those of other similar schemes and assess the Scheme's compliance with the financial requirements of the Pensions Acts 1995 and 2004 and related regulations, and guidance issued by the Pensions Regulator (tPR). KPMG presented their audit results and financial controls benchmarking reports and we were pleased to note that the statements were unqualified with no significant issues or matters identified.

Trustee Matters

We continue to monitor Trustee training requirements in line with tPR's Code of Practice on Trustee Knowledge and Understanding. All Trustees are asked to undertake appropriate training and are requested to complete personal skills records forms which are used to prepare personalised training plans. A skills analysis is carried out every two years and the 2013 review has just been completed, with training plans now being compiled for the year ahead.

New NAPS option date

To assist members in their pension and tax planning we have agreed to introduce a second NAPS option date of 1 April each year in addition to the annual 1 October date. Members will now have two opportunities each year to consider changing their NAPS pension build up rate or Plan. The Company will shortly be sending its 'September is Pensions Month' communication to active members regarding the 1 October 2013 date. Further information and NAPS option forms are available on the member website on the [How do I get more?](#) page and the [forms](#) page.

Rule 11

You may be aware from previous newsletters that Rule11 allows active members to permanently surrender part of their own pension in order to provide additional dependant's pension on top of the standard two thirds dependant's pension available under the NAPS Rules. This is subject to the member passing a medical examination at the time of making the election. The Rule11 allocation can be cancelled, or either the amount surrendered or named dependant changed, at any time before the commencement of the member's pension, by writing to Whitelocke House. The allocation is automatically cancelled if the member dies or the named dependant dies before commencement of the member's pension. If the named dependant dies once the member's pension has commenced then the Trustees have discretion to consider an alternative dependant. In this case the *actuary* will recalculate the amount of dependant's pension accordingly. We considered such a case recently. Further details of the Rule11 option are available from Whitelocke House, if required.

Tax allowance changes

The *Annual Allowance (AA)* and *Lifetime Allowance (LTA)* 2014 changes reported in our last newsletter affect only a small number of members who are still building up pension benefits in the BA or other UK registered pension schemes, however we have been reviewing our administration processes and communications planning ahead of this change.

Two new protections are being offered by HMRC in respect of the LTA: Fixed Protection 2014 (FP14) and Individual Protection 2014 (IP14). Members will have until 5 April 2014 to apply for FP14 to maintain an LTA of £1.5m. FP14 will be lost if the member builds up future benefits. Members with benefits valued over £1.25m on 5 April 2014 may apply for Individual Protection 2014 (IP14). This allows the benefit value at 5 April 2014 to be protected, subject to a maximum of £1.5m. Members can continue to build up future benefits without losing IP14 but amounts built up after 5 April 2014 will be subject to an LTA charge. Members will have 3 years to register for IP14 and must forfeit any existing Primary Protection or Enhanced Protection. HMRC has published a consultation on LTA protections which we are monitoring.

AGENDA WATCH

At the June 2013 Quarterly meeting:

- We received our quarterly investment update from *BAPIML* and noted the work that had been undertaken by the Investment Committee during the period which had included updates from our Private Equity and Alternatives Fund Managers. Following completion of the valuation the Investment Committee will now be in a position to finalise the review of the NAPS investment strategy, including the Statement of Investment Principles.
- We considered the quarterly reports from each of the Governance and Audit, Investment and Operations Committees.
- We noted the annual bonus declaration for investments held within the Equity Biased (AVC) Fund of 4.8% from 1 April 2013 onwards. Further details regarding the EBF and the other AVC funds are available in the AVC Plan leaflet on the [forms](#) page of the member website www.mybapension.com.
- The methodology and assumptions for Statutory Money Purchase Illustrations (SMPIs) had been updated and the *actuary* reviewed the rates used within the illustrations for the BA AVC funds. SMPIs must be provided to each AVC payer as part of their annual AVC statement and illustrate the amount of pension that the member's AVC fund might potentially provide at retirement using a prescribed set of assumptions and assuming the same level of AVC contributions and investment choice are continued. The revisions resulted in lower SMPI estimates for member's, primarily due to lower expectations of future growth and the equalisation of male and female annuity rates used to convert AVC funds into pension at retirement. The option for members to take their AVC fund as a lump sum within HMRC limits remains available.
- We reviewed the timescales for our Internal Disputes Resolution Procedure and agreed these remained appropriate and in line with tPR's guidance, at four months for responses to be sent to each of the two stages within this process. We will review this again in a year's time.
- The annual budget variance report was reviewed for 2012/13.
- We completed the usual quarterly review of the risk framework and confirmed risks were being controlled adequately. 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 seek to explain what is meant in this box.

- *Annual Allowance* – set by HMRC, maximum 'value' of pension growth allowed annually before a tax charge is due.
- *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.
- *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.

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.