

APS Trustee insures more than £4 billion of pensioner benefits

Update to members

We're pleased to give you the good news that we have invested in insurance to protect pensions that are already in payment. This is known as a 'buy-in'.

This significant move helps to reduce risks and improves the security of your benefits.

It insures the Airways Pension Scheme (APS or the Scheme) against potential increases in liabilities in case our pensioners live even longer than currently expected – known as 'longevity risk'. It also removes financial risks such as interest rate and inflation changes.

The buy-in follows a thorough test of the pensions insurance market and sees us investing just under £4.4 billion in an insurance policy with Legal & General Assurance Society Limited (LGAS), which is one of the principle operating subsidiaries of the Legal & General Group.

This now insures a significant proportion of our pensions already in payment that were not previously insured and for as long as APS is required to pay them. The insurance policy is an asset of the Scheme, which means we will receive income from it to pay pensions, just as we do from the Scheme's other assets such as shares, property and bonds. It also provides a more precise match to the pensions we expect to pay to you.

Along with our previous insurance agreements, this means all APS pensions that were already being paid by 31 March 2018 are now fully insured against longevity risk, and materially insured against financial risks.

We'd like to put your mind at ease and emphasise that we are not changing the way your pensions are worked out or paid, and you're not directly affected by this arrangement except that we believe this insurance makes your pension even more secure. All pensions will continue to be paid by the team at British Airways Pensions in exactly the same way and at the same rate they have always been.

Please see the Q&As below for extra information.

A handwritten signature in blue ink, appearing to read "Virginia Holmes".

Virginia Holmes

Chair of Airways Pension Scheme Trustee Limited

Date: 13 September 2018

Q & A

◆ **How does this investment help us meet our objectives?**

This Spring we launched our new vision and objectives, which helps us make sure your Scheme is managed in the best way for you, our members.

Our vision is to pay the right benefits to the right people at the right time, and one of our most important objectives to help us meet this goal is to manage risk.

◆ **What is a buy-in?**

A buy-in is an insurance policy issued by an insurer to the Trustee. It covers a proportion of a scheme's liabilities and is held as an asset of the Scheme. Buy-ins are used to secure members' pensions and reduce volatility by transferring longevity and financial risks to the insurer.

◆ **How much of the Scheme's liabilities are covered by this insurance policy?**

The policy covers approximately 60% of all benefits APS expects to pay out in the future. Along with existing insurance products (the asset swap and longevity swaps with Rothesay Life, known as the Artemis and Concerto contracts), this means that APS is now 90% protected against all longevity risk and fully protected in relation to all pensions that were already being paid as at 31 March 2018. It is also more than 90% protected against interest rates and inflation (on a Retail Price Index (RPI) basis).

◆ **Why has the insurance been purchased from LGAS?**

LGAS is authorised and regulated by the Prudential Regulation Authority and regulated by the Financial Conduct Authority. It is regarded as one of the leading insurers for de-risking solutions and has entered into this type of arrangement with many other schemes.

As part of the investment decision process we considered a range of product options and providers, the price of the policy and any change in other risks to which the Scheme might be exposed.

◆ **Does this affect the ongoing discretionary increase litigation?**

This is a Trustee investment decision and is separate from the litigation.

◆ **Why is the policy based on the RPI?**

This is because insurers currently provide the best terms on this basis. Insurer pricing for pension increases based on the Government's Pensions Increase (Review) Orders is expensive and uncertain due to the political risk of the reference index (which currently uses the Consumer Price Index (CPI)) changing in the future. Insurer pricing for CPI does not represent good value when compared with actual CPI.

This investment decision is similar to how the Scheme currently purchases RPI-linked bonds due to availability and pricing within the financial markets.

◆ **Who were your advisors?**

We would like to thank our advisors for their support, diligence and professional advice:

- Allen & Overy – transaction legal advisers
- Eversheds Sutherland – Scheme legal advisers
- PwC – transaction investment advisers
- Willis Towers Watson – Scheme Actuary and funding and investment advice.

◆ **How does the transaction affect the privacy of my data?**

We have updated our [Privacy Notice](#) to include LGAS. As explained in the notice, we may share your personal data with LGAS and its reinsurers who will act as data controllers when handling any information we share with them during the lifetime of the insurance policy. LGAS and its reinsurers fully comply with the General Data Protection Regulations (GDPR) introduced in May 2018. You can view the [LGAS privacy notice](#) and [LGAS' reinsurers' privacy notices](#) through the [LGAS website](#).