

## Additional Voluntary Contributions (AVCs)

### We're changing how the EBF Bonus Component is calculated

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The total interest rate that is applied to money held in the Equity-Biased Fund (EBF) is made up of a Guarantee Component and a Bonus Component.

From 1 April 2019, we're changing how the Bonus Component is worked out.

#### Summary

- ◆ The Guarantee Component is not changing.
- ◆ The Bonus component will be announced for each month at the end of that month (instead of being announced in advance for the whole of the year).
- ◆ The interest rate for the Bonus Component will use different investment assumptions.
- ◆ The cost of ensuring the EBF return cannot be less than zero will be lower.
- ◆ You do not need to do anything unless you wish to change your current investment choices.

#### **How will the Bonus Component be worked out from 1 April 2019?**

We'll announce the Bonus Component rate monthly, in arrears (the rate for each month will be worked out on the last day of that month). The Bonus Component interest rate will also be based on an independent range of investments, instead of the New Airways pension Scheme (NAPS) investment fund, and we'll review this regularly.

#### **How is the Bonus Component worked out now?**

Currently, the Bonus Component rate is announced in advance and the rate applies from 1 April for the whole of the Scheme year ahead. The Bonus Component interest rate is based on the investment returns achieved by the main investment fund for NAPS over the past five years. The rate is smoothed out over time so that some of the investment returns in years of good performance are kept in reserve to cover years when returns may not be so good. This makes sure that the return in the EBF can never be lower than zero and it is guaranteed never to be less than the return achieved by the Guarantee Component. The cost of providing this guarantee is currently 4% a year, which is deducted from the Bonus Component rate.

#### **Why the change?**

Most members of APS who have an AVC account choose to take their AVCs as part of their tax-free lump sum entitlement when they draw their pension. The NAPS investment fund is expected to move into safer, less volatile investments over time. This could mean that NAPS investments grow at a slower rate but they will be more protected from sudden changes in world stock markets. We are moving the calculation away from the NAPS investment fund to an independent range of investments so that it will continue to provide returns from a mixture of different assets, with the largest investments related to stock markets. This change means that we will continue to provide a range of AVC funds offering different levels of risk and return.

This change will also improve the cost of providing the guarantee to ensure the overall EBF return is no lower than the Guarantee Component. From April 2019, we expect this cost to reduce from 4% to 2.3% a year.

#### **How is the Guarantee Component worked out?**

We're not changing how the Guarantee Component is worked out. This will continue to receive interest based on the return during a given calendar month on the Sterling Overnight Index Average (SONIA). The Guarantee Component rate can go up or down each month but it cannot be less than zero.

#### **Where to find out more about your AVC funds**

You can find the latest interest rates for all three of our AVC funds on the [AVC Funds](#) page.

#### **Do I need to do anything?**

You don't need to do anything unless you wish to change your current investment choices. You should review your investment choices regularly to make sure they are suitable for your personal circumstances.

#### **Check your latest AVC fund values and investment choices in our online AVC e-Form**

For your latest AVC fund values, simply [login](#) and select the 'Smart Additional Voluntary Contributions (SmartAVCs)' under 'Your e-Forms'. The form displays your latest available AVC fund values. You can also use this e-Form to send your instructions to us electronically if you wish to change your investment choices. Just follow the on-screen instructions and click to send your instructions directly to the BA Pensions team.

#### **How do I change my investment choices?**

You can divide your AVCs between any of the three AVC funds available. You can switch from one fund to another on the first day of any month using the AVC e-Form (above). If we receive your instructions by the 20th of the month the switch will take place from the first day of the next month. We include details of any investment switches you make during the year in your yearly AVC statements.

#### **British Airways Pensions**

**6 March 2019**