

Airways Pension Scheme

Summary funding statement

Updating you on the funding position as at 31 March 2020



Glossary

Wherever the following terms are used in this document, they have the meanings set out below.

Agreed valuation basis (AVB)	The AVB is an agreed method of using assumptions to calculate the Scheme's technical provisions. We agreed the assumptions with BA as part of the settlement agreement of 8 April 2019. The AVB does not include any allowance for future discretionary increases but does include discretionary increases that have already been granted.
Agreed valuation basis plus proposed pattern (AVB + PP)	The AVB + PP is another method of using assumptions to calculate the Scheme's liabilities. The AVB + PP is based on the AVB but also assumes that future discretionary increases are granted in line with the proposed pattern of discretionary increases set out in the settlement agreement of 8 April 2019.
Assets	The total market value of the investments and cash held by the Scheme, built up from contributions made by BA and the Scheme members plus investment returns.
Buy-in	An insurance policy that covers a proportion of a pension scheme's liabilities and is held as an asset of the pension scheme. The scheme pays a premium to an insurance company in return for the policy, and the policy pays an income that is related to the liabilities insured. This removes the risk that the value of a scheme's assets won't be enough to meet future liabilities. The trustee and BA have ultimate responsibility for making sure the Scheme can meet members' benefits.
Buy-out	An insurance policy which replaces a pension scheme's obligations to pay members' pensions with individual annuity policies between the insurer and each member. The policy will reflect exactly the benefits provided under the pension scheme. As funding levels improve and pension schemes continue to mature, many schemes see buy-outs as the final step in reducing the risks involved in pensions.
Deficit	The difference between the value of a scheme's assets and its liabilities, if the value of the assets is not enough to cover the scheme's liabilities. Deficits are also sometimes referred to as shortfalls.
Funding level	This measures a scheme's progress towards having enough money to pay all promised benefits. The funding level is given as a percentage and is calculated by dividing the assets by the liabilities.
Illiquid assets	An illiquid asset is an asset that is designed for longer-term investment, so is usually difficult to sell quickly without losing a lot of value. Examples of illiquid assets include property or shares in a private (unlisted) company.
Investment risk	The risk of investments not performing as well as expected or the value of the assets changing by a different amount to the liabilities, which would result in a higher deficit. Investment risk tends to be higher in certain assets (such as equities, illiquid assets and property) than others (such as government bonds and cash).
Liabilities	The value placed on expected future benefit payments and expenses, calculated using actuarial methods and assumptions.

Glossary (continued)

Wherever the following terms are used in this document, they have the meanings set out below.

Liability-matching investments	These invest contributions in assets which have similar characteristics to a pension scheme's liabilities, for example, income that matches the scheme's expected benefit payments.
Longevity insurance	Insurance policies that protect a pension scheme from longevity risk, in return for an agreed schedule of insurance premium payments to an external insurance company.
Longevity risk	The risk that a pension scheme will need to pay pensions for longer than expected, due to increasing life expectancy.
Responsible investment	An investment strategy and practice which considers both financial returns and environmental, social and governance (ESG) factors.
Return-seeking investments	Investments in assets which aim to increase the value of a pension scheme's investments (capital growth) with a lower income stream and typically produce higher returns over the long term, but with a higher level of investment risk.
Solvency position	The actuary estimates how much an insurance company would charge to take over responsibility for paying all of a pension scheme's benefits, for example, if the Scheme was wound up (ended). Comparing this estimate with the value of the Scheme's assets gives the solvency position.
Statement of investment principles	A document which sets out the investment principles that govern decisions about a pension scheme's investments. We must prepare the statement of investment principles under the Pensions Act 1995. A copy of the statement of investment principles is available on the 'Scheme documents' page of our website.
Surplus	The difference between the value of a pension scheme's assets and its liabilities, if the value of the assets is higher than its liabilities.
Technical provisions	A method of calculating the Scheme's liabilities which uses assumptions we have agreed with BA. By law, these assumptions must be cautious.

Summary funding statement

As the trustee of the Airways Pension Scheme (referred to in this document as ‘the Scheme’) we are responsible for making sure that the Scheme has enough funds to pay your benefits. We carry out a detailed financial health check of the Scheme’s funding position, known as a valuation, at least every three years and issue yearly updates (summary funding statements) in between. This summary funding statement provides an update on the Scheme’s position following the 31 March 2020 yearly funding update.

In the year to 31 March 2020

Between 31 March 2019 and 31 March 2020, the funding level reduced from 112.5% to 105.4%. The Scheme was still in surplus, but the surplus had reduced from £881 million to £387 million.

The Scheme’s assets reduced from £7,922 million to £7,608 million. It paid out £396.1 million in benefits to members, including transfers out of £16.9 million. BA paid £3.7 million into the Scheme and active Scheme members paid in £0.1 million in normal contributions and £1.2 million in AVCs. The return on investments was lower than in 2019, but still added £82.1 million to the Scheme.

The downturn in the Scheme’s funding position over the year to 31 March 2020 was largely due to the cost of pension increases awarded under the settlement agreement, the cost of the 2020 discretionary increase we awarded, and updated expectations of future inflation.

Since late February 2020, the stability of the pensions market has been affected by the coronavirus (COVID-19) pandemic. However, as the Scheme is not invested in publicly listed equities and holds insurance contracts and other liability-matching assets which have similar characteristics to the Scheme’s liabilities, the pandemic has had a limited effect on its funding position.

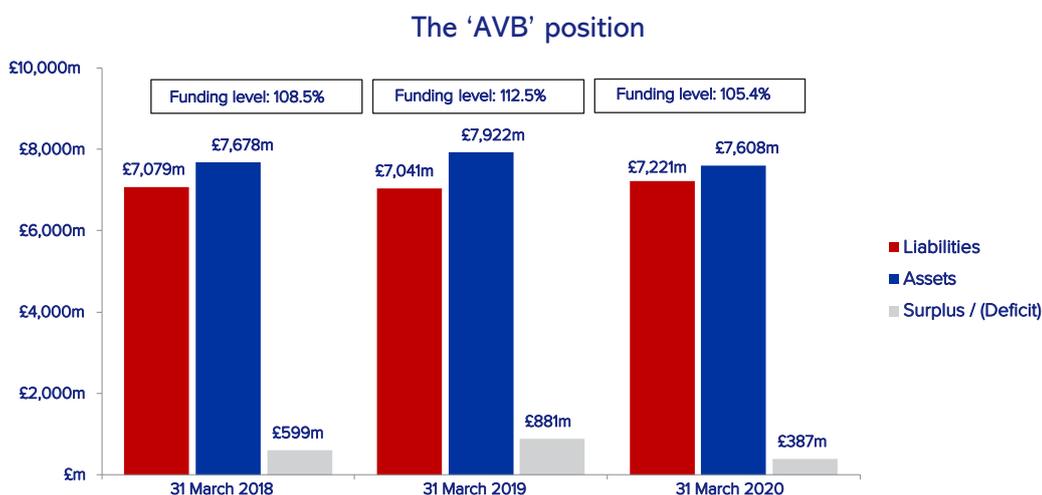
	31 March 2018	31 March 2019	31 March 2020
Assets	£7,678m	£7,922m	£7,608m
Liabilities	£7,079m	£7,041m	£7,221m
Surplus	£599m	£881m	£387m
Funding level	108.5%	112.5%	105.4%

All figures shown on technical provisions basis

How has the funding position changed since the 2019 update?

In between full valuations, the Scheme actuary provides a yearly update on the development of the Scheme’s funding position. Between 31 March 2019 and 31 March 2020, the funding level reduced from 112.5% to 105.4%, the surplus falling from £881 million to £387 million.

On the AVB + PP basis, the funding level at 31 March 2020 was 97.8% and there was a deficit of £173 million. At 31 March 2019, the funding level was 98.8% and there was a deficit of £96 million.



How the funding position is worked out

To assess the funding position of the Scheme we look at the following two things.

- The funds built up from contributions made by BA and the Scheme members plus the investment returns. These are known as the Scheme's assets.
- The total value of future pension payments promised to Scheme members. These are known as the Scheme's liabilities.

The value of the Scheme's assets is the value of all the Scheme's investments at the valuation date. This is relatively straightforward to work out.

For more details about the Scheme's assets, see our **2020 annual report and financial statements** available on the Scheme Documents page of our website. The Scheme actuary works out the Scheme's liabilities in a number of ways using various assumptions, for example about the life expectancy of members and the investment returns we might achieve in the future.

We compare the assets and the liabilities to work out the Scheme's funding position under different scenarios in line with the Pensions Act 2004. These include the technical provisions, which are currently calculated using a set of assumptions known as the agreed valuation basis (AVB) and provide an estimate of the Scheme's liabilities assuming it will continue into the future and that BA will continue to

operate and to support the Scheme. The AVB does not include any allowance for future discretionary increases but does include discretionary increases already granted. Following the Scheme's discretionary increases settlement agreement on 8 April 2019, we also assess the funding position assuming future discretionary increases are granted in line with the proposed pattern (PP) set out in the settlement agreement we have in place with BA. We refer to this as the 'AVB + PP.'

The Scheme actuary must also provide an estimate of what the funding position would be if the Scheme had been wound up (brought to an end) at the valuation date. This is known as the solvency position and looks at whether the Scheme has enough money to buy insurance policies to provide all the benefits promised to members. There are no plans to wind up the Scheme. The solvency position simply helps us to understand the Scheme's financial position.

The last solvency position was calculated at the 2018 actuarial valuation. At 31 March 2018, the value of the Scheme's assets was enough to buy an insurance policy which would cover 91.9% of members' benefits. This estimate showed that BA would have had to make an extra final contribution of about £676 million to make sure that an insurance company could pay all members' pensions in full. This shortfall does not affect the pensions being paid out of the Scheme – we have always paid members their full pensions.

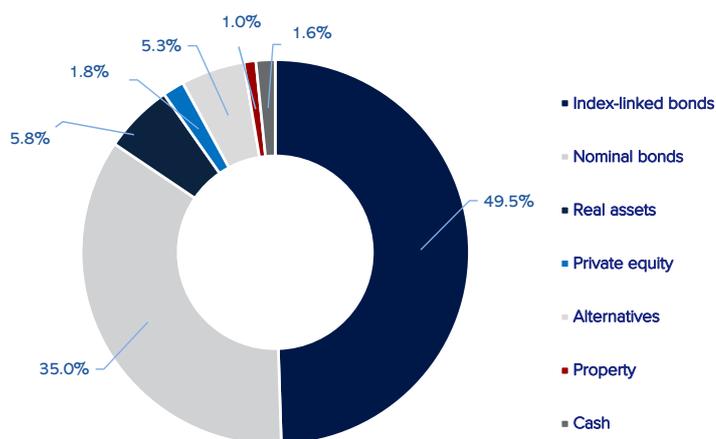


The funding and investment strategy

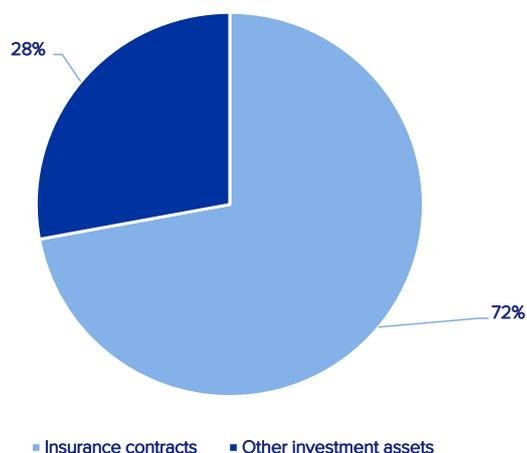
A substantial proportion of the Scheme's liabilities are already insured through a range of different contracts.

The uninsured part of the fund is invested in various assets, mainly those classified as liability-matching assets (such as cash and bonds). There is also a programme in place to reduce the illiquid assets (such as private equity and property). For more details on the investment approach and the Scheme's approach to responsible investment, see the statement of investment principles, available on the 'Scheme documents' page of our website.

How the Scheme's assets (not including insurance arrangements) were invested as at 31 March 2020



How the Scheme's assets were split between insurance arrangements and other investments as at 31 March 2020



Finding out more

How the Scheme's benefits are protected

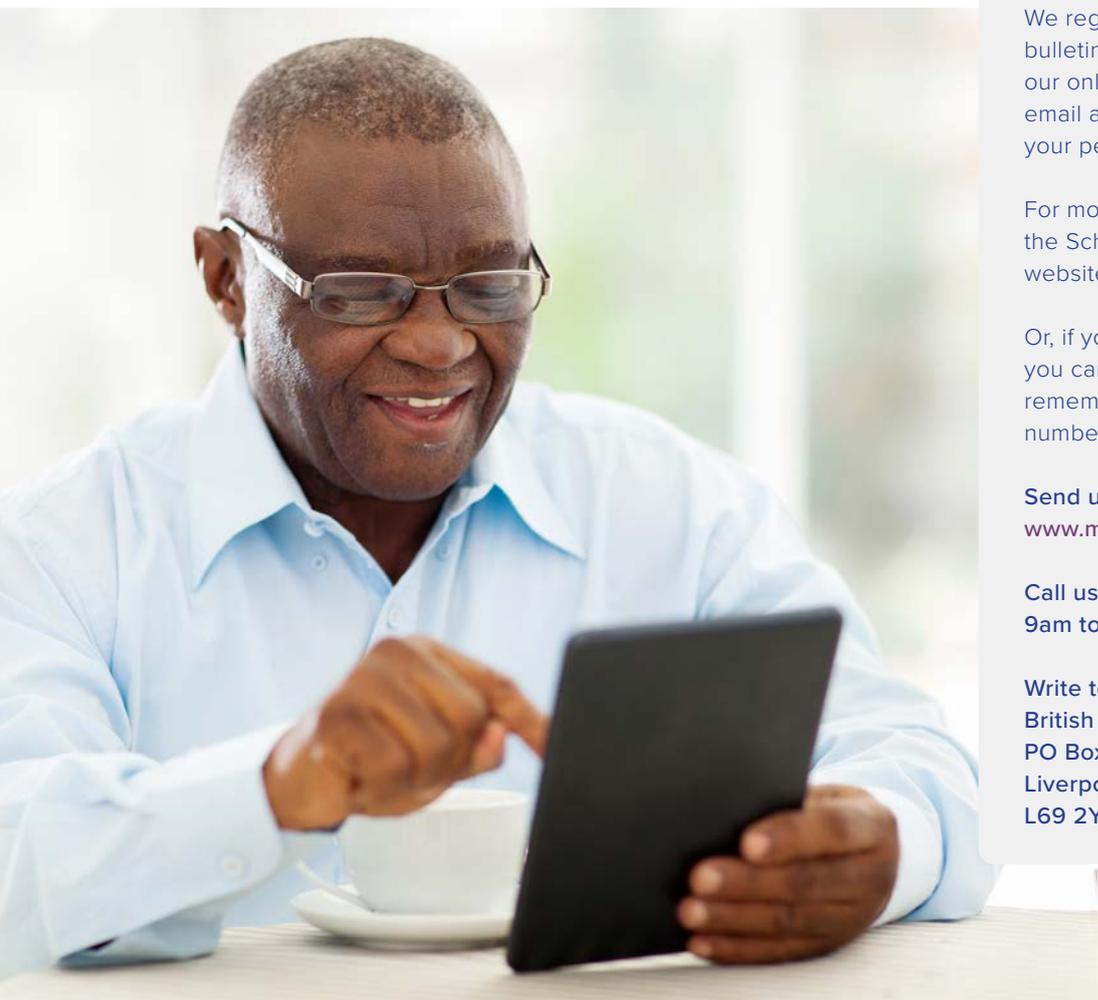
Pension providers are regulated by a watchdog called The Pensions Regulator. The Pensions Regulator can intervene and issue directions to trustees and companies to make sure employers pay money to a scheme or put another form of financial support in place.

As part of this statement, we must tell you if the Scheme has made any payments to BA since the last valuation update as at 31 March 2019. We can confirm that no payments have been made. We are pleased to say that The Pensions Regulator has not enforced an approach for calculating the Scheme's AVB liabilities and has not set a schedule of contributions.

The Pensions Regulator has more information about valuations and funding statements on its website at www.thepensionsregulator.gov.uk.

The Pension Protection Fund

The Government set up the Pension Protection Fund to pay compensation to members of occupational schemes if their employer becomes insolvent and cannot cover the cost of providing the scheme benefits. You can find more information at www.pensionprotectionfund.org.uk.



Important to know

Transfers

If you are thinking about transferring your savings out of the Scheme, we recommend you get financial advice first. During these difficult times we are aware that there is an increased risk of pensions scams. If you are considering transferring your benefits out of the Scheme or someone approaches you with pensions advice you haven't asked for, we strongly recommend that you get financial advice before making any decision. Please also read the useful information the Financial Conduct Authority provides on its website about pension scams at <https://www.fca.org.uk/scamsmart> before deciding to go ahead with a transfer from the Scheme.

Use of personal information

As the trustee of the Scheme, we (Airways Pension Scheme Trustee Limited) hold and process personal information about Scheme members and beneficiaries so that we can run the Scheme. In doing so, we keep to relevant data-protection legislation. Our latest [privacy notice](#) is available on our website.

Find out more

You can find the Scheme's full valuation report for 2018, as well as trustee reports and financial statements, on the '[Scheme documents](#)' page of our website.

We regularly publish news and our trustee bulletins on our website. If you're registered for our online communications, we will send you email alerts whenever new information about your pension is available.

For more information about your pension or the Scheme, please visit the [FAQs](#) page of our website.

Or, if you have a question about your pension, you can contact us in several ways (please remember to include your pension reference number or British Airways staff number).

Send us a message through our website at www.mybapension.com/aps/contact-us.

Call us on 020 8538 2100 (Monday to Friday, 9am to 1pm).

Write to us at:
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Liverpool
L69 2YL.