

## NAPS consultation - summary

**We stress that nothing in this document should be taken as constituting individual financial advice. It is a summary of results from a mathematical simulation based on the NAPS rules, the proposed DC scheme and Office for National Statistics Life Expectancy tables. The simulation has been prepared to give you a better understanding of the potential impact of the new BARPS options.**

**However, your individual circumstances may differ from the results of the simulation as it has understandably been built using certain assumptions which may not be borne out by your experience & circumstances in practice. Further, the simulation results have been averaged to provide the expected net lifetime income under various scenarios. As such, if you would like individual advice as to which of the available new BARPS options would produce the best outcome for you, you should consider taking financial advice. You can find an Independent Financial Advisor in your area by logging on to [www.unbiased.co.uk](http://www.unbiased.co.uk)**

Two major questions are posed by BA's proposals to stop NAPS for further accrual from 1<sup>st</sup> April 2018.

- What is the best of the various Defined Contribution (DC) options?
- How does this proposed DC scheme compare with NAPS as far as contributions and resulting pension are concerned?

To help answer these questions, we have built a simulation model. The model takes a typical NAPS member's personal characteristics (sex, date of birth, date of joining BA, salary etc). Then it simulates the rest of that member's life, so we can see what happens to their expected net total future income. This comprises Salary, NAPS/DC pension, State pension, minus that member's future NAPS/DC contributions, Income Tax and National Insurance contributions. We also include the member's spouse's NAPS/DC pension and State pension minus Income Tax, plus any child pensions. The simulation results are averaged to get the expected net lifetime income under various scenarios.

A range of member's incomes and ages have been evaluated for the possible DC options stated in the Plan4Pensions document and for the hypothetical case of NAPS continuing for accruals beyond 1<sup>st</sup> April 2018.

These are the main conclusions from the model, and again we must stress that you should not rely on them when you make your own choices – your circumstances may be different:

- The DC scheme is a smaller one than NAPS; less money is implicitly paid in by BA and less money explicitly paid in by the member, resulting in smaller pensions coming out.
- It is usually in the member's interest to pay as much as possible into the new DC scheme; the maximum 5% contribution was therefore the best level.

- Transitional arrangement 3 is usually the best option for the member; sometimes it is Transitional arrangement 2, but probably never Transitional arrangement 1.
- If inflation is always below 5%, the proposed zero-inflation pension from the DC account gives a better return for the member than the proposed RPI-inflation pension (this is also true for some inflation rates higher than 5%).
- The ratio of member's pension to contributions, though still greater than 1, falls when NAPS is replaced by the DC scheme. Both NAPS and the replacement DC scheme are generous in that they give back more than the member pays in, however, NAPS is more generous.

One example: a NAPS member joined BA, and NAPS, on the last day NAPS was open for new members, in 2003, when they were aged 18. They now have a salary of £40,000 per annum. They are married, with 2 children, and plan to work for BA until they retire at 65. Here is what happens if NAPS is replaced by the best-option DC. The expected net total future income falls from £2,461,000 to £2,009,000. The member's NAPS/DC contributions paid after 1<sup>st</sup> April 2018 fall from £153,000 to £98,000. The BA gross pension paid due to contributions made after 1st Apr 2018 falls from £942,000 to £467,000. All figures are in today's pounds. It is assumed salary rises and DC investment returns are those used in the Plan4Pensions document.

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The detailed analysis is available in a PDF document; [link here](#)

All the results are in this spreadsheet; [link here](#)