

# ABAP

Caring for BA pensionable people today and tomorrow



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[www.abaponline.org](http://www.abaponline.org)

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## **Newsbrief No. 103 June 2016**

### **UPDATE ON BRITISH AIRWAYS' PENSION SCHEME VALUATIONS**

International Airline Group's subsidiary, British Airways, has been in discussions for several months with the trustees of its main UK defined benefit pension schemes over the schemes' latest actuarial valuations as at March 31, 2015.

The discussions, initially focused on British Airways' largest scheme (the New Airways Pension Scheme), have been constructive. However further work is required beyond June 30, 2016 (the date set by the statutory framework) to finalise the valuations and conclude a satisfactory agreement. A further update will be given as and when appropriate.

IAG Investor Relations  
1 July 2016

### **Chairman's message**

I am writing this message on 24 June following the result of the referendum to leave the European Union. No doubt there will be changes that will affect our pensions, but the only observations that I will make are that the RPI is an inflation index which was specifically designed in 1940s Britain to protect wages and benefits against inflation. In the 1950s, 60s, 70s and 80s the RPI was often called the Cost of Living Index. On the other hand, the CPI is a EU macroeconomic inflation index which was invented, not to protect wages and benefits, but to allow inflation in different countries' economies to be compared. The CPI was introduced into the UK in 1996 to help the UK to join the euro. The UK now never will join the euro. The CPI almost always produces a lower measure of inflation than the RPI – it is now running over 1% lower. That is why George Osborne changed from the designed-for-purpose RPI to the controversial CPI for public sector pension increases in his June 2010 emergency budget. Knowledgeable and numerate BA pensioners, of whom there are many, appreciate Einstein's observation that compound interest is the eighth wonder of the world. The compounding effect is especially damaging when you are on the wrong end of the equation. This is why the change

from RPI to CPI for pension increases was so destructive to the planned and paid for retirement prospects of BA pensioners.

The 31 March 2015 Triennial Valuations of both APS and NAPS are required by law to be finalised by 30 June 2016. It is my understanding that the Trustees are required to report the results to the beneficiaries within 3 months, so we can expect to be informed by the Trustees of the APS and NAPS Valuation results by 30 September 2016. However, I suggest keeping your ears to the ground since, starting from 30 June, there will be many inquisitive financial journalists trying to discover the Valuation outcomes. BA's High Court claim against the APS Trustees is now scheduled to start on 26 October 2016 and the anticipated duration of the hearing has been extended from 5 to 6 weeks.

This should be the last "paper copy to everyone" Newsbrief before the new Jetnet internet system comes into operation – there will be some testing of the system with this Newsbrief. I should like to encourage you to use electronic means to communicate with ABAP if at all possible because there are considerable cost savings for ABAP. However, as the BA Welfare and Benevolent Fund has found (see article below), it is not acceptable to disregard and disenfranchise pensioners who do not have access to the internet (e.g. with the cessation of the paper version of Touchdown) and ABAP will continue to send paper versions of Newsbriefs to members who do not change to electronic communications.

ABAP's membership renewal is due on 1 July 2016, and renewal details and a form for those who wish to use mail are included with this Newsbrief. I look forward to welcoming you for another year defending the pensions that we earned and paid for during our working lives.

### **APS Trustee**

The term of office of APS Pensioner-elected Trustee, Paul Douglas, comes to an end on 30 September 2016. Paul has, with his fellow Trustees, given invaluable and selfless service over the past five years. Paul has informed the ABAP committee that he is submitting himself for reappointment for another term as an APS Trustee. Paul has considerable experience as a Trustee. He was for several years a BA-appointed Trustee of both APS and NAPS - an appointment which ended when he retired from BA in 2007. However, in 2011 Paul was one of the first APS pensioners to offer his support when the inflation index used to uprate APS pensions was changed from the RPI to the CPI.

As an experienced and fully trained Trustee he was an obvious candidate for elected trusteeship in 2011. He has subsequently worked with the other APS Trustees, including two independent Chairmen, to ensure that the Board acts in the best interests of the APS beneficiaries which includes the policy of restoring RPI increases to APS pensions as rapidly and prudently as possible. Paul is a member of the APS Trustee Board which is the subject of the current hostile litigation in which British Airways is attempting to stop APS pensioners receiving pension increases precisely according to the rules of the scheme, as the late Lord Marshall had promised in 1984.

Paul is one of the Trustees who has borne the brunt of BA's hostility on behalf of the APS

beneficiaries. Both the ABAP Committee and Mike's List will be offering Paul our support. Should there be the need for an election, the anticipated timetable would be: Nominations close 5/8; ballot papers out 22/8; ballot closes 23/9.

## **The British Airways Welfare & Benevolent Fund (BAWBF)**

The Trustees of the BA Welfare and Benevolent Fund (BAWBF) have asked ABAP and Mike's List to remind all of you that this fund exists to help BA people, serving, former, and retired, in times of financial hardship. All details can be found on the BA Touchdown website, or by calling the BA Touchdown team on 020 8513 2528 or by email at [batouchdown@baclubs.com](mailto:batouchdown@baclubs.com).

The background to this request is that the paper version Touchdown is no longer sent to BA pensioners. As a consequence, the BAWBF trustees are now unable to advertise its services directly to older, perhaps less well-off, pensioners who are least likely to have access to the internet and the most likely to need help from the BAWBF. BA Pensions is apparently unable to help.

The BAWBF is a charity set up by British Airways some years ago to help current and former employees of British Airways and its predecessor companies, and their dependents, who are experiencing financial hardship. The Fund is governed by a 'trust deed', registered with the charities commission, which defines its scope and constitution. The Trust Deed is dated 1981.

There are six trustees comprising current and former employees of British Airways who meet bi-monthly to review applications. Grants are awarded to assist with the purchase of necessary goods or services that cannot be afforded from normal income. Almost any one-off cost will be considered, although the Trust cannot provide support such as pension top-ups or help with care home fees.

Examples of items for which grants have recently been awarded are mobility aids and special equipment, appliances for the home and necessary property maintenance and adaptations, and help with funeral costs.

There is a means tested application process and the Trustees are not able to consider applications for help to clear debts or for private medical treatment or private education. All applications are treated in strictest confidence and reviewed on their individual merits.

The BAWBF is a registered charity and as such its details may be found at:

<http://opencharities.org/charities/282480> and

[http://apps.charitycommission.gov.uk/Accounts/Ends80/0000282480\\_AC\\_20141231\\_E\\_C.PDF](http://apps.charitycommission.gov.uk/Accounts/Ends80/0000282480_AC_20141231_E_C.PDF)

In the last financial statement available as at 31 December 2014, the Trustees held funds amounting to £2,089,946 and in 2014 made grants totalling £76,597.

Please help spread the word, especially to BA pensioners who may not have access to the internet, that these funds are available to help needy BA pensioners.

## **ABAP response to the DWP consultation on British Steel pensions**

The ABAP response below was sent on 23rd June 2016:

Pensions Consultation Team  
British Steel Pension Scheme Public consultation  
Department for Work and Pensions  
1st Floor, Caxton House  
6 – 12 Tothill Street  
London  
SW1H 9NA  
E-mail: [bsps.consultation@dwp.gsi.gov.uk](mailto:bsps.consultation@dwp.gsi.gov.uk)

Dear Sirs

British Steel Pension Scheme – Public Consultation 26th May 2016

This response is submitted on behalf of the Association of British Airways Pensioners (ABAP) which represents the interests of British Airways pension beneficiaries. British Airways has two defined benefit pension schemes, the Airways Pension Scheme (APS) and the New Airways Pension Scheme (NAPS).

As of 31 March 2015, there were 27,268 APS beneficiaries of whom 661 were active members, 18,315 were pensioners, 6,833 were dependant pensioners and 1,459 were deferred. There were 67,040 NAPS beneficiaries of whom 20,719 were active members, 20,278 were pensioners, 3,690 were dependant pensioners and 22,353 were deferred.

Both schemes are closed to new members. In December 2013, the Employer, British Airways, launched a hostile case against the APS Trustees in an attempt to prevent them paying discretionary increases to move to honour an undertaking made in 1984 that pensions would receive unlimited inflation protection in line with the cost of living index. In 1984 the cost of living index can only have meant the RPI because the CPI was a macroeconomic inflation index not imported from the EU until 1996 to enable the UK to join the euro. The High Court case is scheduled to start on 26 October 2016 and to last for six weeks.

ABAP is currently in transition to using email communications. In the short time available for consultation (especially for a volunteer group), ABAP has made the existence of the consultation and the proposed response available on its website but many pensioners without email, typically the older and the poorer pensioners, will not have been in a position to respond.

As far as BA Pensioners' interests are concerned, ABAP would not want any precedence set. Getting agreement on a modified scheme, albeit usually better for BSPS pensioners than PPF would give, will set a precedent. A slight possibility we must then consider is that IAG (the owners of BA) could in the future enter financial difficulties and want to modify NAPS and APS (the two defined benefit pension schemes) rules to make them affordable to IAG/BA. If this took place, BA Pensioners would be worse off. The BA schemes could collapse into PPF of course, but the risk to BA Pensioners is that a BSPS modification as proposed could increase the probability of NAPS and APS pensioners having a worse deal in the future than their current deal. We want

British Steel Pensioners to continue to have their current benefits. TATA would have known of the pension liability when it bought the former British Steel part of Corus. British or Foreign-owned companies who take over companies with pension liabilities should not later be allowed to walk away from these liabilities. We would welcome a reduced-benefit scheme that was better for BSPS members than the PPF, only if it were not prejudicial to any future arrangements on other Defined Benefit pension schemes; we think however that a precedent would then be set.

**ABAP is therefore against any modification to the BSPS to help the chances of TATA selling its UK steel interests.** TATA should be encouraged to make the BSPS fully-funded (the gap does not seem massive compared to others) prior to a sale, or, regrettably, put a case for the scheme entering PPF, before selling its UK steel interests.

ABAP would also wish to associate itself with the response submitted by COUP – the Unilever Pensioners’ Association.

Yours faithfully

Captain Mike Post      Chairman, Association of British Airways Pensioners

### **Measuring Consumer Prices**

The UKSA (UK Statistical Authority) published its report on consumer prices on 23 Nov 15 and asked for feedback. We published a link to the report on the ABAP website, an ABAP reply, and we also encouraged individual replies. Here is the summary of responses:

[https://www.statisticsauthority.gov.uk/wp-content/uploads/2015/12/images-summaryofresponse\\_sconsumerpricesconsultatio\\_tcm97-45027.pdf](https://www.statisticsauthority.gov.uk/wp-content/uploads/2015/12/images-summaryofresponse_sconsumerpricesconsultatio_tcm97-45027.pdf)

There were 83 respondents to the UKSA; 12 of these replies were from BA pensioners (1 of which was the ABAP submission); enough response for “BA Pensioners” to be considered a separate group in the UKSA summary of responses, alongside “Government”, “Trade Unions” and “(Other) Pension Groups”. We have punched above our weight in this report.

Nearly all respondents to the consultation disagreed with the decision to freeze RPI developments, saying it cannot be discontinued therefore it should be as accurate as possible. Criticism of “index shopping” is mentioned: “the CPI is used for state pension and RPI is used for all rail fare increases and student loans” (this was quoted from the ABAP reply in the summary). The Bank of England (whose pensions are on RPI) argues for CPIH (a new, modified CPI that includes housing costs). There are strong arguments for RPI and criticism of the ever-changing reasons for the supremacy of CPI.

RPI was the most popular index (for the respondents). Household inflation index (a new proposal) was also preferred to CPI. There was “Very little support for continuing to use CPI as the main measure of price change”.

The BA pensions switch from RPI to CPI is mentioned in the summary. One (non-BA) pensioner said he uses RPI to measure his public sector pension loss.

More quotes from the UKSA summary of responses: “The British Airways pensioners say “if RPI is flawed, then it should not be used”, however, they are “not convinced that it is flawed and there remain strong academic arguments in favour of RPI over CPI””. “Some users (including the British Airways pensioners) feel “council tax does not depend on income and should be included in CPIH””.

The National Statistician summarised his view of the way forward, following the report and the feedback, to the Chair of UKSA in March 2016.

<https://www.statisticsauthority.gov.uk/wp-content/uploads/2016/03/Letter-from-John-Pullinger-to-Sir-Andrew-Dilnot-090316.pdf>

He said CPIH should become The Office for National Statistics (ONS) preferred measure of inflation and focal point of ONS commentary. This could not take place until the UKSA is satisfied that CPIH is in a position to be re-designated as a national statistic. He also reiterated his view that RPI is not a good measure of inflation and that its use should be strongly discouraged. The RPI would continue to be produced, as required by legislation, and maintained through routine changes. A number of users had advocated the development of a Household Inflation Index (HII). After carefully listening to views in favour the National Statistician has confirmed that the ONS will publish proposals and a timetable for the development of a HII.