

# ABAP

Caring for BA pensionable people today and tomorrow



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## Newsbrief No. 102 March 2016

### Chairman's Message

Last month, BA's owner, IAG, announced a record operating profit in 2015 of €2,318m, up 125.3% from 2014's €1,029m. The profit after tax was up 51.1% at €1,516m. This is good news for shareholders but also very good news for employees and pensioners. These excellent results knock on the head any excuse for BA failing to honour its obligations to its pensioners. In April neither APS nor NAPS will receive any pension increase at all because the September 2015 CPI annual increase was negative. In 1984 BA undertook to pay APS and NAPS pensioners RPI increases. Had that undertaking been honoured our pension increase in April would be 0.8%. We look forward to the High Court case in which BA is suing the APS Trustees which is now scheduled to take place over five weeks in October at a cost of tens of millions of pounds which will, despite the best efforts of BA, be borne by BA. It is heart-warming that following the September debate in the House of Commons so many BA pensioners wrote to their MPs seeking their support and that so many MPs responded. Thanks to the actions of many BA pensioners, MPs of all parties are aware of the problems that BA has with treating its pensioners fairly. Keep up the good work. The ABAP Committee would like to thank all members for their support.

Finally, if you are current cabin crew and a member of NAPS, you will be disappointed to learn that no nominations were received by BA Pensions from any current cabin crew who wish to become the cabin crew-elected Trustee on the NAPS Board when the present cabin crew-elected Trustee steps down on 31 March 2016. Under the NAPS Rules therefore, the NAPS Trustees are re-advertising the vacancy – see the My BA Pension website. Nominations must be received by 5.00 pm on 11 April 2016. It cannot be stressed too strongly how important it is for obvious reasons that there should be an equal number of Member-Nominated Trustees as BA-Nominated Trustees on the NAPS Board.

### State Pension Reform & GMP

This article should be read carefully if you will not have reached State Pension Age by 5 April 2016. If you are already in receipt of a State Old Age Pension on 5 April 2016, you are not affected.

By now, most of us should be aware that the state pension system is being reformed from April 2016. The current two-tier system with the basic state pension and SERPS (now known as the state second pension) will be replaced by a new simplified single-tier state pension.

At the same time, contracting out for all defined benefit pension schemes ceases, the effect of which for active members of APS & NAPS was outlined in the December newsletter.

From 6th April 1978, employers and employees were permitted to contract-out from SERPS provided their occupational pension scheme met a set of criteria known as Guaranteed Minimum Pension (GMP). This reduced state expenditure on SERPS and the benefit in return was a reduction on employers' and employees' National Insurance contributions. This was attractive enough to cause concern about the government being able to process the considerable number of applications in time for the start of the new tax year.

British Airways contracted out APS as it readily met the GMP criteria. Subsequently, when NAPS was introduced in 1984, it too was also contracted out right from day 1. Those of us who currently receive APS or NAPS pensions or who will eventually receive APS or NAPS pensions and reach state pension age on or after 6 April 2016 will have part of their annual BA pension inflation rise reduced. Those who reached state pension age before 6 April 2016 are not affected. Here is a summary of what we think will happen and a few examples.

Being contracted out, APS and NAPS have to guarantee to pay their members a pension from the qualifying GMP age (65 for men, 60 for women) of at least as much as the earnings-related State benefit they would have built up had they not been contracted out. This amount is known as the Guaranteed Minimum Pension. GMP is not in addition to our APS/NAPS pension but included within it.

GMPs cover two periods:

- Pre 88: 6 April 1978 to 5 April 1988
- Post 88: 6 April 1988 to 5 April 1997

If you did not work for BA in these periods, your APS/NAPS Pension is not affected.

For those reaching State Pension Age on or after 6 April 2016, once they reach GMP age, APS/NAPS will no longer be responsible for increasing Pre 88 GMPs, and for Post 88 GMPs APS/NAPS is only responsible for any increases due up to 3% a year.

Under the current State Pension arrangements, from State Pension Age (SPA) the State assesses the earnings related pension that would have applied had the member not been contracted out (referred to as the Additional Component (AC)). When the State pays annual increases, the increases apply to the total AC amount which in effect broadly provides for increases on an amount equivalent to the Pre 88 GMP and any increases over 3% a year on the Post 88 GMP. These increases apply from the state pension age rather than the GMP Age. As SPA can be later than GMP Age, there can already, under current State Pension arrangements, be a period of time during which the GMP portion of an APS/NAPS pension is not receiving equivalent increases from the State.

The introduction of the New State Pension (NSP) from 6th April 2016 removes the concept of contracting out and the AC, and replaces these benefits with a single flat rate State Pension. Consequently, as there will no longer be an earnings related element of the pension, the State will no longer apply annual increases in the manner described above. Future increases will instead be applied by the State to the NSP amount. APS/NAPS will continue to pay increases required by legislation on GMP amounts until GMP Age.

BA Pensions say the Government maintains that most individuals will be better off under the new arrangements: the NSP is higher than the current State Pension and both now will rise with a 'triple lock' guarantee (the highest of the CPI increase, the increase in National Average Earnings, or 2.5%). The

Government believes that these two elements will, for most members, mitigate the loss caused by the State no longer increasing the relevant amount to one's GMP.

However, APS/NAPS members reaching State Pension Age shortly after April 2016 will have limited time to build up NSP by paying National Insurance (NI) contributions or securing NI credits. There is an obscure calculation applied that seems to result in many who contracted out receiving a state pension amount equivalent to the old state pension, not the higher new state pension!

This is all very complicated, so here are some real examples.

Persons A, B and C worked for BA over a time period that included the entire Pre88 and Post88 periods (ie 6 April 1978 to 5 April 1997). Their Pre 88 GMPs are £2,938, £2,610 and £1,887 respectively. From 6 April 2016 that amount of their annual APS pension will rise by 0%, not CPI, once they have reached GMP age (this remains 65 for men, 60 for women), for the rest of their lives. Their Post 88 GMPs are £1,885, £2,040 and £1,628 respectively. From 6 April 2016 that amount of their APS pension will rise by CPI capped at 3%, once they have reached GMP age, also for the rest of their lives. Person A is 65 this August. If he lives another 20 years and CPI inflation is always 2% a year, he would lose about 3.6 months' APS pension due to the GMP effect. If he lives another 20 years and CPI inflation is always 4% a year, he would lose about 9.2 months' APS pension due to the GMP effect.

Person A and Person B reach state pension age in August 2016 and November 2016 respectively. Both their state pension quotes from the Department of Work and Pensions are at the old (ie current) state pension level, not the new state pension, due to their contracting out.

These 3 examples have good APS pensions. The ABAP committee is more concerned about those on lower APS/NAPS pensions. If their GMP is a higher proportion of their total APS/NAPS pension than our 3 examples, then the GMP effect will be bigger; more months' pension will be lost than the 3.6 months (2% CPI inflation) or 9.2 months (4% CPI inflation) for Person A.

BA Pensions stresses that the APS/NAPS rules have not been changed. The change has been made by the Government, not the BA Pension Trustees. BA Pensions is liaising with the Pensions and Lifetime Savings Association and the Department of Work and Pensions on this issue.

In summary, if you reach state pension age on or after April 6 2016:

- Your full APS & NAPS pension will increase by whatever annual rises are applied, up to age 65 for men and age 60 for women
- Subsequently, the GMP built up from 6th April 1978 to 5th April 1988 will cease to increase and the GMP built up from 6th April 1988 to 5th April 1997 will increase by a maximum of 3% per year.
- Having been contracted out, BA staff will most likely begin with an entitlement to the foundation rate of the new state pension (currently around £116 per week). Up to state pension age, additional state pension can be earned (up to the full amount, expected to be around £155 per week) by making qualifying National Insurance contributions from any form of UK employment.

While reform aimed at simplifying a complex pension system is welcome, it's apparent that there are significant losers in the process. Of particular concern is the discriminatory nature of the GMP ages for men and women.

The GMP calculations are complex and members who are affected by this are advised that whilst BA Pensions should be able to give general guidance on what their individual position may be on reaching GMP age, specific personal projections cannot be provided because not all the factors involved in individual calculations will be known. In a low inflation era, the effect of GMP may seem insignificant

but as we well know from the RPI vs CPI debate, the effect of compounding is considerable. Should inflation increase, then the effects of GMP become very much greater.

If you want to contact The Department for Work and Pensions for questions about the new State Pension or to ask for a statement you can ring the number shown in this link: <https://www.gov.uk/future-pension-centre> on Monday to Friday between 8am and 6pm.

### **Pension Increases 2016**

Yesterday, 25 February 2016, BA Pensions published Quarterly Updates for both APS and NAPS which reported that since the year-on-year increase in CPI was negative in September 2015, there would be no pension increase this April for APS or NAPS, but that pensions would not go down. Had the RPI been used rather than the controversial CPI, both APS and NAPS pensions would be receiving pension increases in April 2016 of 0.8%. Another £96 per £10,000 original pension has been lost to APS pensioners making the annual loss per £10,000 pension £540. The NAPS loss is slightly less because of the 5% cap which applied in one year. A pensioner emailed today to say that his phone provider had just announced a tariff increase of 1.3% in line with current RPI. The RPI is still being used to provide inflation protection to index-linked gilts and there is no prospect of the index being discontinued. The Bank of England's pensions continue to receive RPI pension increases.

Unfortunately, so far as APS Pensions are concerned, BA Pensions has not described in yesterday's Quarterly Update the full position under 'Pension Increase'. Under the amendment to Rule 15 (the Pension Increase Rule) which was introduced in 2011, the Trustees are required at least once a year to consider making a discretionary increase over and above the CPI. When the Trustees decided to pay a 0.2% discretionary increase in 2013 at a cost of £12m to APS, BA sued the Trustee Board to try to stop it paying that increase and future discretionary increases. The hearing at which BA attempts to stop the APS Trustees returning to honouring the 1984 undertaking to pay RPI increases is now planned for five weeks in October 2016 at an estimated cost to BA of ten of millions of pounds.

### **Please write to your MP again about Misinformation provided by BA to MPs**

I am requesting once again, as a matter of urgency, that you should write to your MP about how BA misled MPs about the consequence of the APS Trustees returning to the payment of RPI increases by 2023 in linear steps as agreed in the 2012 Triennial Valuation Assumptions. I attach a suggested letter to your MP to this mailing to correct the misinformation that BA has put out. Please modify the proposed template letter as appropriate. Your MP's contact details may be found at <http://www.parliament.uk/mps-lords-and-offices/mps/>

As you know, the 14 September 2015 adjournment debate in the House of Commons caused a stir amongst MPs, especially those with BA constituents. The debate had been sponsored with cross-party support by Kate Green MP, on behalf of Len Jones, a BA pensioner and Association of BA Pensioners (ABAP) member, who is one of her constituents. Kate Green made an excellent speech and was supported by numerous MPs of all parties, all of those who spoke vigorously supported the position of BA pensioners. The debate may be seen at <https://www.youtube.com/watch?v=x3B0jfdYiww>

A consequence of the debate was that some MPs wrote to BA; one MP who wrote was Oliver Letwin who has several BA pensioners on his patch in West Dorset. Shortly after the debate, Oliver Letwin wrote to Keith Williams, BA's Executive Chairman. Oliver Letwin asked Keith Williams, "whether BA

may in fact reconsider its position and allow the [APS] Trustees to proceed with the increases they have proposed”. These “increases” clearly referred to the discretionary increases by which the APS Trustees planned to return to the payment of RPI increases to APS pensions by 2023. The roadmap to return to RPI increases by 2023 had been agreed with BA as an integral feature of the 2012 Triennial Valuation Assumptions which may be found on page 4 of the APS Full Valuation Report 2012 at [https://www.mybapension.com/resources/schemeDocuments/full\\_valuation\\_report\\_2012\\_aps.pdf](https://www.mybapension.com/resources/schemeDocuments/full_valuation_report_2012_aps.pdf)

Keith Williams replied to Oliver Letwin on 29 September 2015. Mr Williams concluded his letter by writing: “Moving to RPI for APS would increase the deficit by many hundreds of millions. I’m afraid, in our view, this is not rational behaviour whilst the scheme is still in significant deficit given the competing financial priorities.”

Wondering whether Keith Williams’ assertion that moving to RPI for APS as the Trustees had proposed would increase the APS deficit by “many hundreds of millions” could be true, Oliver Letwin wrote to one of his constituents on 6 October 2015: “I would be very interested to know whether Mike Post and his colleagues think this is accurate or not.” I therefore explained in writing to Oliver Letwin as best as I could (as a former lay trustee) that Mr Williams’ claim was not correct. In fact the payment of the discretionary increases, “as the trustees have proposed”, would not increase the APS deficit by one penny because the existing deficit (of £680m) that had been disclosed at the 2012 Triennial Valuation was calculated as a consequence of including the “discretionary increases the trustees have proposed” in the 2012 Triennial Valuation Assumptions. In fact, the deficit as measured using the 2012 Assumptions reduced to £547m on 31 March 2013 and further reduced to £409m on 31 March 2014, as disclosed by the Trustees in their published interim valuations available on the BA Pension website <https://www.mybapension.com/>

Oliver Letwin therefore wrote to Keith Williams again on 30 October 2015 asking him how it could be the case, as he, Mr Williams, had suggested in his letter of 29 September 2015, that, “moving to RPI for APS would increase the deficit [ie the 2012 deficit of £680m] by many hundreds of millions – unless of course your [Keith Williams’] reference was to an immediate move to RPI rather than a linear transition as proposed by the trustees?”

Keith Williams’ office responded on 17 November 2015 to say that Mr Williams was travelling but would be willing to meet Oliver Letwin in person “to explain it in more detail, if Mr Letwin would like to do so.”

Pension accounting is very much a matter of smoke and mirrors so I decided to ask Oliver Letwin if I could meet him before his projected meeting with Keith Williams. I asked him if I could bring a pensions actuary to our proposed meeting to help clarify matters. Oliver Letwin agreed so I engaged Bob Scott, Senior Partner of Lane, Clark and Peacock, to help me. Bob is the author of “Accounting for Pensions”, which has been published annually since 1994 and which is accepted as the authoritative survey of the FTSE 100 companies’ pension disclosures.

On 5 January 2016, Bob Scott and I, mostly Bob, spent 35 minutes going through the figures with Oliver Letwin. As a consequence, on 11 January 2016, Oliver Letwin wrote to Keith Williams in the following terms:

*“Following our earlier correspondence on the APS pension schemes, I have had a further discussion with representatives of my constituents about this and my impression as a result of this further conversation is that the difference between what BA would need to provide by way of funding for the APS if the indexation immediately reverted to RPI and the amount that BA have agreed to provide in funding for the scheme*

*as it continues on the current trajectory towards RPI indexation would in fact be less than £200m on the basis of the current, agreed valuation.*

*I would be grateful if you would confirm whether BA accepts that this is in fact the case or, if not, let me know what calculations lead BA to a different conclusion.”*

Keith Williams replied as follows in a letter dated 4 February 2016:

*“I think the answer to your question can be found in the last full actuarial report of the APS scheme, as at 31 March 2012, available publically on [www.mybapension.com](http://www.mybapension.com). This report includes a table (on page 8) tracking the changes from the 2009 valuation, which assumed the Government’s annual pensions order would be based on RPI. The scheme actuary’s calculation of the difference between the 2009 assumption and that used in the 2012 valuation was £199m.*

*However, I want to be clear that this does not mean that BA has agreed to the payment of discretionary increases assumed in that valuation, nor does it mean that the impact of the Government’s decision to change its annual review order from RPI to CPI is “only” about a figure of less than £200m – it is considerably more.”*

It seems that Keith Williams has conceded that the return to the payment of RPI increases in linear steps as the Trustees have proposed will not increase the APS deficit by “many hundreds of millions” as he had claimed in September. It is true however that the impact of the change from RPI to CPI on APS and NAPS pensioners taken together is a transfer of pension benefit of many hundreds of millions from BA pensioners to IAG shareholders.

It is, in my view, important to correct BA’s misleading, disingenuous and completely wrong assertion that the return to the payment of RPI increases to APS pensions, as the trustees’ wished to do (by linear discretionary increases to 2023), would “increase the APS deficit by many hundreds of millions.” Oliver Letwin kindly agreed that I should share as much of the correspondence with Keith Williams as I wished with other MPs who may have also been misled.

The continued refusal of BA to honour the 1984 undertaking to pay RPI increases should be seen in the light of the increasing profitability of BA’s owner, IAG.

Meanwhile it is all change at BA. The BA v APS Trustees case is now scheduled for five weeks in the High Court starting in October 2016 at a cost to BA of tens of millions. The current Executive Chairman, Keith Williams, and CFO, Nick Swift, are leaving BA in April 2016 to be replaced by Alex Cruz as CEO and Steve Gunning as CFO. Absurdly, the new CFO, Steve Gunning, was one of the BA-appointed APS Trustees who introduced the APS Discretionary Increase rule in 2011 which is the subject of the current litigation – his name may be seen on the amending deed on the My BA Pension website. He will be part of the BA Executive Team which is suing the APS Trustees to stop them implementing a Rule to which Steve Gunning himself was a party!

### **APS Pensioner-elected Trustees**

We are delighted to report that Frances Axford and Ian Heath, the two candidates supported by both ABAP and separately by Mike’s List, are to be the next APS Pensioner-elected Trustees. Their terms of office starts on 1 April. Since they were the only candidates for the two vacant positions, there will not be an election. ABAP would like to thank them both for undertaking their arduous roles.

A drawback of there being no requirement for an election, if past practice is followed, is that BA Pensions will not publish the candidates' Election Addresses. They are therefore published below so that you can be confident in your new Trustees. The ABAP Committee was pleased to meet Frances Axford in the New Year. Ian Heath has been an ABAP Committee member for some years. The Committee is confident that both Frances and Ian will make excellent Trustees.

For the avoidance of doubt, I should like to reiterate that the ABAP Committee fully understands that a Trustee's duty is to act impartially for the benefit of all scheme members. In supporting the election of any individual Trustee, ABAP seeks to ensure that BA pensioners have the best person for the position. The main qualification for a Trustee is soundness and the main asset is common sense. The ABAP Committee fully understands and accepts that it has no control whatsoever over any Trustee.

### **Election Address of Frances Axford**

I am a pensioner of APS living near Oxford and I joined BOAC in 1969 after university. At BOAC/BA I worked in Productivity Services, Market Research and Eastern Division, where my last position was Marketing Planning Manager. I worked in Engineering, Commercial, Ground Operations, Flight Operations & Management Accounting in Productivity Services & both my Market Research & Eastern Division experience demonstrate competence in the Commercial Area.

In 1982 I left the airline to have a baby & subsequently worked in various freelance roles including teaching on the Open University's MBA programme. In the early 1990s I trained as a chartered accountant with Grant Thornton, auditing a variety of large & medium sized businesses & moved on to work in industry. From 1997 to retirement in 2011 I worked for Unipart, a warehousing & logistics company in a variety of roles both client facing (including contract negotiation) and the full range of financial management. My qualifications for a trustee appointment are that I have a BSc in Mathematics and am a Chartered Accountant.

I am standing for this position because I am keen to ensure active members, deferred members, pensioners and the dependents of APS receive the best possible deal from both the Airways Pension Scheme & British Airways within the terms of the Trust Deed. In this regard my experience both as a Chartered Accountant & my career outside the airline industry would provide the Trustees with a relevant & wider skill set. In particular I feel that these skills will be beneficial in relation to the RPI/CPI court case, & here I want to help achieve the best outcome.

The role of a Trustee is a weighty one and accountability for Scheme decisions rests with the Trustees. I realise I need to complete specialised training & am working my way through the Trustee Toolkit training as evidence of my commitment. I am about half way through this at the time of writing.

In sum, I hope that you will consider voting for me if you want a fresh face as a trustee who can offer both professional financial competence & varied working experience both inside & outside the travel industry and who will act with integrity, responsibility & independence on behalf of all members of the Scheme.

I would like to thank ABAP and Mike Post for their endorsement of my candidacy. END

### **Election Address of Ian Heath**

I am 64 years old and retired from BA in September 2006. I live in Egham, Surrey with my wife Kwai Lin Lim, who is also an APS pensioner, and our 17-year-old son Stephen.

I have a BA degree in Mathematics from Oxford University, an MA in Operational Research from Lancaster University and, through BA, an MBA, also from Lancaster University.

I joined BA in 1974, in Operational Research (OR). I worked in a variety of OR areas for nineteen years with departments such as Scheduling, Corporate Planning, Revenue Accounts, Relationship Marketing, Brands, Sales and Cargo. I became an OR Manager. In OR, we use mathematical modelling and statistics to help evaluate the past and hence forecast the future under different scenarios. This helps BA make robust decisions on important areas such as schedules, pricing, booking policy and aircraft purchases. In 1993, I moved to Revenue Management to coordinate and prioritise its various system developments that help optimise booking and pricing decisions.

I joined Fleet and Network Planning in 2002. I did much analysis evaluating the best future schedules, aircraft purchases, configurations, and possible alliances and mergers.

I have been a committee member of the Association of BA Pensioners (ABAP) since 2010 and represent it on the Royal Statistical Society's RPI/CPI User Group, which lobbies for greater accuracy in both the Retail and Consumer Price Indices. I coordinated ABAP members' feedback to the UK Statistics Authority (UKSA) reviews: on RPI and CPI, in 2012 and "Measuring Consumer Prices", in 2015.

I am grateful for the support of ABAP and Mike's List should there be an election.

Since retiring I have also stayed active by tutoring maths, writing maths A-level questions for one of the examining boards, cycling, playing football and running an allotment.

I am seeking election because I have long had an interest in APS. I built a decision support system in 1984 on the BA Dec10 computer to evaluate APS and NAPS options, given variable forecasts of future inflation, pay and life expectancy. Though certainly not a trained actuary, I understand the maths and statistics behind actuarial work.

If I am elected as a Pensioner Trustee of APS, my mathematics and statistics background will help me in that role. I would throw my full energy into the learning required. I understand the duties and responsibilities of a Trustee and would be honoured to become one. END