



President: George Bell

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ASSOCIATION OF BRITISH AIRWAYS PENSIONERS

c/o BALPA House, 5 Heathrow Boulevard, 278 Bath Road, West Drayton, UB7 0DQ

CHAIRMAN'S INTRODUCTION

At the time of writing, in early April, there is still no news of when the judgment will be handed down on the BA v APS Trustees Discretionary Increase case. The case was heard in the High Court from 26 October to 9 December 2016. There will no doubt be considerable media interest when the judgment does enter the public domain, so be alert. The Trustees and Scheme Advisers who gave evidence in the hearing deserve our thanks for taking part on our behalf in what were clearly arduous proceedings.

In early March ABAP's Life President, George Bell, and I were invited to meet Fraser Smart, the new Chief Executive of British Airways Pensions under Chair, Virginia Holmes. It was a useful meeting and we hope that it will be the start of improved communications and relations between ABAP and BA Pensions.

Chris Knowles, ABAP's Treasurer, very kindly took over the job at very short notice in 2015 owing to Jack Shill's ill health. I am pleased to report that Jack has bounced back and attended our last committee meeting. Chris has given sterling service, not least in the legal actions of 2013 to 2014, as well as his considerable input into the ABAP Constitution which was approved by you all last year, but has now decided to stand down from 1 May. Graham Tomlin, who is a long-serving former APS Trustee, has volunteered to take over as Treasurer from Chris. Graham has excellent credentials for the post being one of the founders of the Plane Saver Credit Union and the current Chief Executive of Credit Union Solutions. For economy and speed, please use email for all correspondence with ABAP if possible. However, since Graham lives very near to BALPA headquarters the committee has decided that ABAP's postal address will revert to:

Association of British Airways Pensioners
c/o BALPA House,
5 Heathrow Boulevard,
278 Bath Road,
West Drayton, UB7 0DQ

Email addresses, which can also be found on our website, are:

Captain Mike Post, Chairman - chair@abaponline.org

Graham Tomlin, Treasurer - treasurer@abaponline.org

Dave Gunner, Membership Secretary - membership@abaponline.org

David Waddington, General Secretary - gensec@abaponline.org

Membership enquiries through the Royal Mail (use email if possible) is:

ABAP Membership
Unit E2, Omega Enterprise Park
Electron Way
Chandler's Ford
Eastleigh SO53 4SE

Finally a plea. We are all getting older. Please may we again ask for volunteers to serve on the ABAP committee?

PENSION INCREASES FOR 2017

British Airways Pensions will shortly be sending us the pension increase information for early April 2017. The basic increase is now based on the year-on-year increase for the CPI in the previous September. It should be the RPI – the CPI was not invented until 1996. It is perhaps worth mentioning that CPI was a measure first introduced in 1996 as the Harmonised Index of Consumer Prices (HICP). HICPs were developed across the European Union for the purpose of assessing whether prospective members of European Monetary Union would pass the inflation convergence criteria and of acting as a measure of inflation used by the European Central Bank to assess price stability in the Euro area. It seems incongruous that an index devised to assess suitability to join a currency the UK stayed out of, and which is enshrined in EU law, when Mrs May has recently triggered Article 50 which will take the UK out of the EU altogether, is being used to determine our pension increases.

This means that this month both APS and NAPS will receive a 1% increase in line with the CPI. Under the Rules of APS the Trustees are now required to, at least once a year, consider a discretionary increase above the basic increase. Had the RPI been used since 2011, as both APS and NAPS were promised in 1984 in the preparation for privatisation, the basic increase would be 2% - 100% greater than the 1% increase that will actually be paid. This means that an APS pensioner on a £10,000 p.a. pension in 2010 will be receiving a pension in 2017 that is £630 per annum lower than had it been protected by RPI. The difference for NAPS is slightly smaller because the 5% cap came into effect for the 2012 increase. Compounding is really starting to hurt. You might like to point this out to your MP! Ask him or her if he or she understands compounding and the devastating effect it can have on pensions.

RESPONSE TO THE GREEN PAPER ON THE SECURITY AND SUSTAINABILITY OF DEFINED BENEFIT PENSION SCHEMES

In February the Department for Work and Pensions (DWP) published its Green Paper on the Security and Sustainability of Defined Benefit Pension Schemes. See:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/595103/security-and-sustainability-in-defined-benefit-pension-schemes.pdf

The Association of British Airways Pensioners (ABAP) welcomes the publication of this Green Paper since BA is the sponsor of two defined benefit schemes, APS and NAPS. Most BA pensioners of APS and NAPS rely overwhelmingly on their British Airways pension and their state pension for their

incomes during their retirement. Their APS and NAPS pensions are highly prized. In 1984, APS and NAPS members were given a clear undertaking by British Airways that pensions in payment would be protected by RPI increases with NAPS increases capped at 5%.

ABAP will be responding to the consultation in due course. However, the Government states that it is seeking the views of everyone who has a stake in the efficient operation of DB schemes and their sponsoring employers. **It is particularly keen to hear directly from members of DB pension schemes** (along with employers, trustees and pensions professionals). ABAP would therefore like to encourage individual ABAP members to respond to the Green Paper before the deadline of 14 May 2017. You can respond to the consultation via www.gov.uk/government/publications, via email to defined.benefit@dwp.gsi.gov.uk or by writing to DB consultation, 1st Floor, Caxton House, 6–12 Tothill Street, London, SW1H 9NA. It is suggested that you also send a copy of your response to your MP. The message should be to the effect: “Don’t meddle with the deferred pay for which I paid during my working life!”

ABAP in particular welcomes and supports two observations in the Executive Summary of the Green Paper:

- The available evidence does not appear to support the view that these pensions are generally ‘unaffordable’ for employers. While DB pensions are more expensive than they were when they were originally set up, many employers could clear their pension deficit if required. There is also little evidence that scheme funding deficits are driving companies to insolvency, and it seems clear that the majority of employers should be able to continue to fund their schemes and manage the risk their schemes are running. The single biggest risk to the members of these schemes is the collapse of the sponsoring employer.
- We are not persuaded that there is a general ‘affordability’ problem for the majority of employers running a DB scheme. Consequently, we do not agree that across the board action is needed to transfer more risk to members, or indeed to reduce members’ benefits in order to relieve financial pressure on employers.

ABAP does not claim any special expertise in the operation or structure of defined pension schemes. ABAP represents the interests of British Airways pension beneficiaries including beneficiaries of the Airways Pension Scheme (APS) and the New Airways Pension Scheme (NAPS). APS was closed to new members in 1984 and employees, who were all then in APS, were offered large inducements – typically a year’s salary – to transfer to NAPS. 50% of employees (17,000) took the money and transferred to NAPS.

APS was closed to new membership in 1984. According to its 2016 Annual Report, on 31 March 2016 APS had 548 active members, 17,829 pensioners in payment, 6,702 dependant pensioners and 1,272 deferred pensioners. It had assets of £6994.4 million. At 31 March 2014 APS was funded to 94.7% on a technical provisions basis. The 2015 Actuarial Valuation has not yet been published because of the current litigation.

NAPS was closed to new membership in 2002. According to its 2016 Annual Report, on 31 March 2016 NAPS had 19,604 active members, 21,035 pensioners in payment, 3,876 dependant pensioners and 22,046 deferred pensioners. It had assets of £13,095.1 million. At 31 March 2015 NAPS was funded to 82.7% on a technical provisions basis but only 50.2% funded on a solvency basis.

ABAP would observe that in 1984 BA set up NAPS as a new, cheaper, less beneficial scheme to replace APS. BA’s then CEO promised that the schemes would be legally independent and that neither would

subsidise the other. In 1999 BA, now chaired by the 1984 CEO, proposed a merger of APS and NAPS in which APS would subsidise NAPS. At the time APS had disclosed a surplus of £1 billion whilst NAPS was in deficit. The merger proposal was defeated and withdrawn following a campaign by members. ABAP would therefore suggest to the Government extreme caution in merging schemes if that is what is being proposed. On the other hand, merging of the investment arms of smaller schemes to take advantage of investment cost efficiencies could make a lot of sense.

The current litigation between British Airways and the Trustees (now Trustee) of APS has shed light on the need for better “refereeing” between the Trustees and the Employer. Airlines are particularly vulnerable to geopolitical events such as 9/11 when customers and profits, and therefore security of pensions, can evaporate overnight. It is therefore imperative that due regard is given to minimising the length of any deficit recovery plans depending on the nature of the employer’s business and how it is impacted by external events. In 2009 the APS and NAPS Trustees were faced with the need to repair APS and NAPS pension deficits. They reached an agreement with BA with the help of their covenant adviser, PWC, to perform a “cash sweep” at regular intervals in which free cash above a certain level agreed with BA was paid to the pension schemes. In the year ended 31 March 2016, APS received £25.3 million from cash sweeps, and NAPS received £227.3 million. However, sometime after the cash sweep mechanism had been agreed in 2010 a new BA CFO who “did not like the agreement” decided to use free cash to buy aircraft (they are normally bought with finance) rather than to repair the pension deficits. It would seem that the Pension Regulator should have more power, or be obliged to use existing power that it has, to enforce agreements to repair pension deficits.

ABAP urges APS and NAPS pensioners to respond to the consultation in order to apply pressure to make sure that meddling politicians do not inadvertently or deliberately damage the pension schemes to which we belong which were set up as Trusts and which should be run according to Trust Law. Retirement can last a long time!

STATE PENSION CHANGES

We have reported before on changes to the State Pension and the Guaranteed Minimum Pension (GMP) following confusing and apparently sometimes misleading advice reported from some offices of the DWP. Former ABAP committee member and current APS Trustee, Ian Heath, has investigated the correct position and has made two excellent videos which are more comprehensible than complicated text. The videos may be found on the top right-hand tabs of both the APS and NAPS My BA Pension website at:

<https://www.mybapension.com/aps/video/index>

and

<https://www.mybapension.com/naps/video/index>

The videos are entitled: “Your State Pension and how you may increase it” and “Effects of State Pension changes on pension increases” and only apply to people who reached state pension age after April 2016.

IAG SHARE BUY-BACK AND THE NAPS DEFICIT

On 24 February 2017 IAG announced that it was going to use €500 million (£575 million) of its spare cash during 2017 to buy its own shares back. One of the titbits that emerged from the evidence given in

the BA v APS Trustees High Court was that the APS Trustees were dismayed that BA had appeared to have broken an earlier agreement to use an element of its free cash to repair the pension deficits in APS and NAPS. The Trustees had agreed with BA in 2010 that on a regular basis there should be a “cash sweep” so that free cash could be used to repair the pension deficits. By far the greater proportion of the product of the sweep would go to NAPS with its massive deficit. As mentioned earlier, in the year ended 31 March 2016, APS received £25.3 million from cash sweeps, and NAPS £227.3 million. Evidence was given in the High Court that in order to reduce the amount of cash that would be released by the cash sweeps, BA had, in breach of the understanding between BA and the Trustees, used cash rather than more normal finance arrangements to buy aircraft.

It appears to ABAP that IAG’s share buy-back scheme that is presently in progress will have the same effect as buying aircraft for cash. The delayed 2015 NAPS Valuation Report states that NAPS was only funded to 50.2% on a solvency basis (i.e. if BA goes bust, there is only half the money to pay NAPS pensions) and the date for a return to solvency on an ongoing (technical provisions) basis has extended by 18 months to 30 September 2027. The airline industry is volatile. An event like 9/11 can bankrupt airlines. ABAP questions the use of €500 million of cash for an IAG share buy-back when NAPS pensioners in particular are so vulnerable, and will continue to be so for so long.

ABAP has therefore written to the APS and NAPS Trustee asking the following questions:

- Were the APS and NAPS Trustees aware of the current share buy-back scheme before it was publicly announced by IAG in February 2017?
- Was the buy-back proposal discussed by the NAPS and APS Trustees before it was announced by IAG?
- Are the Trustees’ covenant advisors, PWC, and all the individual NAPS Trustee Directors in particular content that, given that IAG is BA’s only shareholder and its major source of profit, IAG should be paying £868 million of free cash to shareholders via dividends and share buy-back schemes, rather than using a major part of the money to repair the NAPS deficit more quickly?
- Is the Pensions Regulator aware of BA’s and IAG’s actions (with the Trustee’s apparent agreement) and is the Regulator content that IAG’s shareholders, via IAG’s ownership of BA, are the preferred destination of IAG’s free cash rather than the large NAPS deficit when NAPS, its beneficiaries (and incidentally the PPF) are so exposed for so long?
- Can you also please expand on the “package of additional security and other measures aimed at improving the funding position and members’ benefit security over time which are documented in a separate legal agreement” to which the Scheme Actuary refers in the 2015 NAPS Valuation Report?

We shall let you know what happens next.

STAFF TRAVEL FOLLOWING SEVERANCE

ABAP has recently been approached by a pensioner who took severance under the so-called “Business Efficiency” scheme 1996. There seems to be an anomaly in the paperwork associated with this pensioner’s decision to take severance. Approximately 5,000 employees are reported to have accepted the 1996 severance package. We are looking for full sets of documents including the offer with its staff travel provision, the acceptance of the offer and the letters associated with leaving BA. Can anybody help please?

AGM VENUE

Following the sale of the Speedbird Club to Imperial College it has been necessary to find a new venue for the ABAP AGM. We researched postcodes of attendees at last year's AGM and concluded that a venue in the Staines area would be the most convenient. We realised that in autumn half-term schools might be available and we have booked the community theatre at the Magna Carta Secondary School, Thorpe Rd, Staines Upon Thames TW18 3HJ for the AGM. The provisional time and date is 11.00 to 14.00 on Thursday 26 October 2017. There is ample adjacent parking and the school is on a bus route. We are currently negotiating for the provision of light refreshments.

Please note that This is a provisional arrangement which will be confirmed by Royal Mail in the usual way, six weeks before the AGM.

NEWSBRIEF

This Newsbrief will be the first where those members who have indicated they wish to receive communications via email will not receive a hard copy. We sent invitations to all members for whom we have email addresses, but although we have had a good take-up of the new service, it does look as though perhaps some of our email addresses might have been out of date. If you think you ought to have received an invitation, firstly please check your junk-mail, and if there is nothing there, then please email gensec@abaponline.org putting "ABAP email" as the subject, and we will re-send your invitation and update our database.

The ABAP Committee, April 2017.