

ABAP

Caring for BA pensionable people today and tomorrow

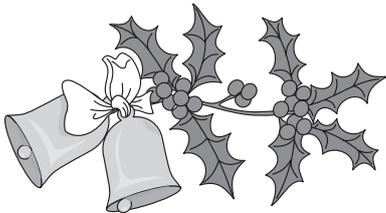


President: George Bell

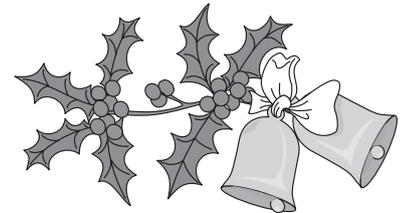
www.abaponline.org

Chairman: Captain Mike Post

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Newsbrief No. 104 December 2016



CHAIRMAN'S MESSAGE CHRISTMAS 2016

2016 has been an eventful year for members of the British Airways Pension Schemes. On 26 October 2016, the hostile claim which British Airways had made against the APS Trustees in 2013 finally reached the High Court. BA is trying to stop the APS Trustees returning to the payment of RPI increases using annual discretionary increase payments – the first discretionary increase being 0.2% in 2013. It has not yet been paid. At the time of writing this message, there have already been 26 days of legal argument in the Court. The final submissions are due to be heard in the week starting 5 December and judgment is not expected to be handed down until early 2017. On ABAP's behalf, I should like to thank all the Trustees' witnesses and advisers for their contribution to the defence of the APS Trustees.

On 26 October, the day that the APS High Court case started, BA announced that it had agreed the 2015 NAPS Triennial Valuation Result with the NAPS Trustees. By statute, the Valuation should have been agreed by 30 June 2016. On the following day, 27 October, BA announced the payment of an interim dividend. Rumours are starting to be heard (see below) that BA intends to close APS and NAPS to current employees for future pension accrual. This will only affect current employees and not pensioners. Perhaps more will be known about this by the time that you receive this Newsbrief.

It is hoped that the new email system of distributing Newsbriefs will become active with this edition of the Newsbrief. Please sign up to receive electronic mail and Newsbriefs from ABAP if you can.

We are living through a hostile time for pension schemes and their pensioners with a lot of wild and inaccurate talk about intergenerational fairness. Please continue to urge your BA and former BA friends and colleagues to consider joining ABAP so that we can continue to represent BA pensioners' interests - <http://www.abaponline.org>

A Merry Christmas and a Happy and Prosperous New Year to You All.

CHARIMAN'S 2016 AGM ADDRESS (ABBREVIATED)

First, welcome everybody to the 2016 AGM particularly ABAP's Life President, George Bell.

The AGM had been delayed this year until November this year because we had hoped to have something to report on the litigation between British Airways and the APS Trustees.

Unfortunately the case was not settled before it went to Court and the hearing actually started in the High Court last Wednesday, 26th October. It is scheduled to last until early December but the latest information that we have is that BA's QC has completed his opening address, taking 5 days when it was planned to be 2 ½, so who knows when the hearing will actually end? Christmas perhaps? At the time of writing the case is expected to end on 9 December and we cannot expect a judgment to be handed down until sometime in early 2017. In the meantime as the case is *sub judice*, I am constrained and can say nothing about the hearing. Let us hope for a successful outcome.

I would, however, now like to pay tribute to the APS Trustees, especially those being called as witnesses, who are in the High Court at this very moment defending themselves against BA's attack on the Trustees' 2013 decision to pay a Discretionary Increase of 0.2%. This agreed Discretionary Increase payment was part of the process to carry through the repeated undertakings that the Trustee Board had given that it would return to paying RPI increases to APS pensioners as rapidly and prudently as possible. I should also like to thank Mark Fielder who has been representing the APS beneficiaries interests in the run up to the current High Court hearing. He is here today and has offered to give a short talk on his duties as our Representative Beneficiary. I am very pleased to say that Mark has agreed to become an ABAP Committee member.

I should like to thank all of the ABAP Committee for their continued valuable service and to especially thank Dayne Markham who has stood down from the Committee after years of faithful service and Nikki Jones who has stood down because she has set out, or is about to set out, on her long-planned round the world sailing trip. Dayne has sent his apologies today owing to a family medical problem.

Owing to a misunderstanding on my part, the indestructible Jack Shill was omitted from the list of committee members standing for re-election. My apologies to Jack. He has agreed to continue as a co-opted committee member until he can be re-elected again next year.

VPO

During the year Dayne Markham has continued to investigate how other schemes have treated their VPO pensioners. Unfortunately we come up against a brick wall because the legal guidance that we received was that we would be very likely to lose any claim that was brought against the Trustees in court. So we are obliged to continue to make the case to the Trustees Board and to argue for the Board to use their discretion when they consider it prudent to put an age cap on the pension reductions.

Change of Trustee Board Structure

In August, with unfortunate timing, the Trustees of APS and NAPS wrote to their beneficiaries to announce that the Structures of both Trustee Boards were to be changed from Boards made up of individuals to Corporate Trustee Structures. I say that the timing was unfortunate because, in local government, August and Christmas are the classic typical times when dodgy builders submit dubious planning applications when everybody is on holiday. It was not immediately clear in August whether

the letter from the Trustees was an announcement or a consultation. After writing to the new Chair of Trustees, Virginia Holmes, Chris Knowles, Mike McDonald and I were invited to meet her to discuss the proposed changes. It transpired that the Trustees had already decided to change and the consultation was only to ascertain that beneficiaries were content with a process in which individual Trustees would become Trustee Directors without costly new elections. It became clear at our meeting that the new structures would make doing investment business simpler for the Boards and also that BA's attempt to make the APS Trustees personally liable for the costs of the current court case had influenced the decision to change. Before our meeting with Ms Holmes we had submitted a list of questions which were answered to our satisfaction. We came away content that there was nothing sinister in the change which took effect a few days ago. It was good to meet the new Trustee Board Chairman at last, who we hope took away something positive from our meeting. We must now refer to the separate boards as the APS Trustee and the NAPS Trustee.

ABAP Constitution

The Committee has been working on the proposed ABAP Constitution, which was included in the pack of papers for this AGM. We will be voting on its adoption later.

To remind you, there is a simple need for a written constitution when an Association such as ABAP accumulates and spends significant amounts of money.

- Without a written understanding, people may become confused and things may not get done;
- A constitution will act as a point of reference and help resolve any problems or controversy that may arise;
- A constitution reassures the members that our Association is properly run and that its money is effectively managed;
- A constitution illustrates that the Association is democratic and accountable, with clear methods by which decisions are made.

I should especially like to thank Joel Kosminsky for his input to the revision and improvement of the original draft.

New State Pension

The introduction of the New State Pension from 6 April 2016, whilst admirable as a long-term aspiration, has produced perverse results for a group of British Airways pensioners. The subject is very technical and only affects younger pensioners or soon-to-be pensioners. ABAP and Mike's List have covered, and will be covering, the issues in Newsbriefs and mailings. The issues are far too complicated to cover in this address but I will try to summarise them. This is not advice but a suggestion that people who may be adversely affected should make their own enquiries to the DWP about ways to enhance their State Pensions.

The issues surround the fact that for a considerable period of time both APS and NAPS were contracted out of the State Second Pension. The consequence is that affected BA pensioners' New State Pensions will be lower than they would have been had APS and NAPS been "contracted in".

Apparently some affected BA pensioners **can, in some cases,** materially, increase their state pension to the new £155 a week by paying in extra NI contributions.

There are 2 categories:

Those qualifying for the old state pension *before 6 April 2016* can apparently still enhance their state pension, even if they are already drawing it, by paying extra, voluntary Class 3A NI contributions before

5 April 2017. A 65-year-old has to pay £890 to raise his state pension by £1 a week, the maximum rise allowed is £25 a week (almost all the gap between the old and the new state pension). You then have to live for a further 17 years to make this worthwhile (assuming no tax paid, more years if tax paid). Those older than 65 need to pay less money. 50% of this extra state pension is payable to a surviving spouse or civil partner.

The second apparently more dramatic improvement affects those qualifying for the “New” State Pension *on or after 6 April 2016* who can also now enhance their state pension, *we think, even if they are already drawing it*, by paying Class 3 (not Class 3A) NI contributions for any of the past 6 years when they have not paid NI contributions. This has to be done by various dates, depending on the financial year, but the earliest deadline appears to be April 2017. The payments are roughly £700 per financial year. Importantly, each year’s payment raises the state pension by about £4.41 per week, so one only has to live for roughly a further 3 years to make this worthwhile (assuming no tax paid, more years if tax paid).

If a pensioner or soon to be state pensioner thinks that they may be affected, the first thing to do is to contact the DWP and to ask for a Pension Forecast. It is up to the individual pensioner to seek the DWP’s guidance. It might be necessary to challenge any advice that the DWP gives since there are reports that some DWP advice has been contradictory.

Here is the experience of one BA pensioner:

“My wife is one of those women who thought she would get her state pension at the age of 60 !!! . We asked [the DWP] for a State Pension Forecast and were told that despite having paid 36 years NI contributions she would only get £120.65 per week and not the full amount of £155.65 per week. However by paying extra voluntary NI contributions of £733.20 per annum this will increase her pension by £4.45 per week or £231.40 per annum .If we do this for the next 3 years the total cost of £2199 would increase her pension by £13.35 per week or £694 per annum. Thus it would seem this expense would be recovered in about 3 years.”

Lastly, there is an aberration in the state pension system that **will** affect APS and NAPS pensioners, but only those qualifying for the state pension *on or after 6 April 2016*. A part of the APS or NAPS pension is called the GMP (Guaranteed Minimum Pension) and can be up to around £5,000 a year for those working for BA from 1978 to 1998. The Government, **not BA Pensions**, is responsible for the inflation rise in this GMP, even though it is part of the APS/NAPS pension, not part of the state pension. From the next inflation-rise date, April 2017, roughly half of this GMP will have 0% inflation rise and the other half will have a cap of 3% inflation rise. For ever! This is due to Government policy, **not BA Pensions**. Annoyingly for us, the Government will be correcting this anomaly for those on **public sector pensions**, for at least those reaching state pension age by October 2018, but currently APS and NAPS pensioners will still lose out. It is reckoned that the inflation effect on pensioners with smaller APS and NAPS pensions will be **far** greater than that due to CPI replacing RPI.

Let me stress again that this GMP anomaly only affects those reaching state pension age on or after 6 April 2016. ABAP will be lobbying the Government over the next few months, aiming to have this anomaly rectified.

Thank you, Communication and Membership

I should like to thank all the ABAP committee for their contribution over the year. We continue to work to modernise and improve ABAP’s communications. I should like to thank our General Secretary, David Waddington, Membership Secretary, David Gunner, and Treasurer, Chris Knowles for their particular work on this project. David Waddington will be saying something shortly on. It is not easy and takes a significant amount of time. We continue to lose our members by the natural process of attrition and are

always looking for ways to attract new members. Please do your bit to persuade friends and colleagues to join. Without the membership, ABAP is nothing. Thank you.

Mike Post 3 November 2016

THE NEW STATE PENSION & GMP (CONTINUED)

This should not affect those who reached state pension age before 6th April 2016, and will have a minimal effect on those currently well below state pension age. It mostly affects those reaching state pension age on or after 6th April 2016 and who were contributing into contracted out pension schemes (eg APS and NAPS) during some or all of the time between 1978 and 1998.

We have recently had letters shown to us by some members who reached State Pension age on or after 6 April 2016; the letters are from HM Revenue & Customs and are entitled “About your private pension(s)”. The letter tells the recipient how much their Guaranteed Minimum Pension (GMP) is. This GMP amount is or will be part of one’s total APS or NAPS pension but this guaranteed amount has different rules on future inflation rises compared to those for the rest of the APS/NAPS pension.

The HMRC letter doesn’t say that roughly half of the GMP will have no future inflation rise and that roughly the other half of the GMP will have a CPI-capped-at-3% per year inflation rise. Let’s say inflation is never higher than 3% in future. Some GMP amounts are roughly £5,000 per year, so in that case half of this, £2,500 will have no inflation rise. If CPI inflation is always 3% in the future, then one’s total APS/NAPS pension inflation rise will be 3% of £2,500 (= £75) less than it would have been with full (CPI) inflation applied to the entire GMP (as it is to the rest of the APS/NAPS pension). This effect of course compounds, so the loss in the second year is a bit more than £150, and so on. The effect worsens as inflation rises from 0% to 3%, then this worsening accelerates when inflation rises above 3%, because the other half of GMP is capped at 3% inflation.

The effect is worse for those on lower APS/NAPS pensions, because their GMP could well be a much higher proportion of their APS/NAPS pension; it could even result in a worse effect than that due to CPI replacing RPI.

We stress again that this is due to the New State Pension legislation and is the responsibility of the Government, not BA Pensions.

Public sector pensions were also contracted out, but the Government has said this inflation capping of the GMP part of those pensions will not take place until December 2018, and there is a discussion document proposing ways of ensuring the GMP inflation capping never happens for public sector pensions.

ABAP will be writing to MPs soon to point out this unfair discrimination against some BA pensioners (and others). We are particularly interested in understanding the size of the effect on pensioners, so if you have received a letter similar to the one we mentioned above could you tell us your date of birth, start and (if it now exists) end date of BA employment and the GMP figure quoted in the letter? We will treat this with the strictest confidence but this data from a few of you would be very useful in supporting our lobbying argument.

OUTLOOK FOR 2017

It is looking like 2017 will be a very significant year for both NAPS and APS. Following on from the results of the NAPS 2015 triennial valuation, BA has stated that the cost of future accrual for NAPS is unaffordable. The APS result awaits the outcome of the current court action but it is reasonable to assume that a similar view would be taken by BA as it considers its defined benefit scheme pension costs in the round. BA is continuing to make payments towards the deficit recovery plans.

It is too early to draw any firm conclusions but one possibility is closure of NAPS & APS to future accrual.

Obviously this is very bad news for serving staff who still have many years service ahead before retirement. BA has bucked the trend by keeping its defined benefit schemes open to accrual for longer than other comparable organisations but this has been at some cost to members, via reduced accrual rates or higher personal contributions. There may be further options, which could, at some cost, keep the schemes open to accrual.

It's important to distinguish between closure to accrual, which is primarily an industrial relations matter between staff and the company, with little or no impact on members either in benefit or deferred, and complete scheme closure, which would render BA liable for huge costs to make good any deficits in short order. BA has indicated that the agreed recovery plans for NAPS & APS will continue.

No doubt there will be considerable discussion and debate between BA and staff via joint trade union channels. We will be keeping a close eye on this subject and will bring further news as it develops.

RECORD OF 2016 AGM

The meeting opened at 11.05.

Mike Post gave the Chairman's address, after which the 4 resolutions were put to members:

Resolution	Proposer	Secunder	Result of vote
1.) To receive the report of the Treasurer and approve the Accounts for the year ended 30th June 2016	G. Bell	M. McDonald	Approved - unanimously
2.) To approve subscription levels for the coming year 2017-2018	G. Short	L. Jones	Approved - unanimously
3.) To elect the Members of the Committee for the coming year and consider the co-option of other members	D. Reynolds	R. Ewart	Approved - unanimously
4.) To adopt the ABAP Constitution	G. Bell	TBC	Approved - unanimously

David Waddington gave a short presentation on developments in ABAP's information systems.

The meeting was then opened up to questions from the floor, and this session incorporated an update from Ray Smith on the OPA, and the NPC. Points discussed included:

- Trustee costs during the court case
- The changing nature of BA – i.e. IAG
- What has historically led us to the current position – the court case – a summary from G. Bell
- The new ABAP constitution
- A request for more information to be presented graphically on the ABAP website
- The ABAP fighting fund
- The redaction of minutes of Trustee minutes
- Brexit implications for BA pensioners
- The court case (NB, no comments were made on the court case by Committee Members)

A vote of thanks to the Committee was proposed from the floor by M. Hegarty, which was greeted with considerable applause. No formal vote was required or taken.

The meeting closed at 12.37.