

Airways Pension Scheme

Summary Funding Statement

Updating you on the funding position as at 31 March 2018 and 31 March 2019 including a summary of the 31 March 2015 valuation and interim updates as at 31 March 2016 and 31 March 2017



Summary Funding Statement

As the Trustee of the Airways Pension Scheme (APS - 'the Scheme') we are responsible for ensuring the Scheme has enough funds to pay your benefits. A detailed financial health check of the funding position of the Scheme, known as a valuation, is carried out at least every three years with annual updates in between. The litigation in relation to the Discretionary Increases meant that the 31 March 2015 formal valuation and subsequent annual updates were delayed. Following the High Court's approval of the Settlement agreement in November 2019, the 31 March 2015 and the 31 March 2018 formal valuations were finalised, along with the 2016, 2017 and 2019 annual updates. This Summary Funding Statement focuses on the most recent formal valuation of 31 March 2018 and the annual update of 31 March 2019 but includes a summary of the results for earlier years.

How the funding position is worked out

To assess the funding position of APS we look at two components:

- Firstly, at the funds built up from contributions made by BA and Scheme members plus the investment returns – known as the **assets**;
- Secondly, at the total value of future pension payments promised to Scheme members – known as the **liabilities**.

Working out the assets is easy, it is the value of all the Scheme's investments on a particular date (in this case at 31 March 2018 and 31 March 2019). You can find more details about the Scheme assets in our [2018](#) and [2019](#) Annual Report & Financial Statements. The liabilities are worked out by the Scheme Actuary in a number of ways and require various assumptions to be made, for example about the life expectancy of members and the investment returns we might achieve in future.

We use this information to work out the funding position of APS under different scenarios in line with the requirements of the Pensions Act 2004. These include the 'Technical Provisions', currently calculated on a set of assumptions known as the 'Agreed Valuation Basis' ('AVB'), assuming the Scheme will continue into the future and that British Airways ('BA') will continue to operate and to support the Scheme. This does not include any allowance for future discretionary increases but does include discretionary increases granted at the effective date of the update. Following the Settlement Agreement of 8 April 2019, we also assess the funding position assuming future discretionary increases are granted in line with the Proposed Pattern set out in the settlement agreed with BA. This is known as the 'AVB + PP'.

Additionally, we assess what the funding position would be if the Scheme had been wound up (i.e. if it came to an end) at the valuation date. This is known as the 'solvency' position and looks at whether the Scheme has enough money to buy insurance policies to provide all the benefits promised to members. This doesn't mean there are any plans to wind up the Scheme, it simply helps us to understand the Scheme's financial position.

Headline results of the 31 March 2018 valuation

The funding level on the Technical Provisions basis has improved since the last formal valuation, to 108.5% (2015: 98.0%, 2012: 91.5%). At that date APS had a funding surplus of £599 million (compared to a funding shortfall in 2015 of £150 million and a funding shortfall in 2012 of £680 million). The Scheme's financial position therefore improved significantly over the period to 31 March 2018 mainly as a result of favourable returns on the Scheme's assets, deficit contributions received from BA, and changes to the assumptions agreed for the 31 March 2018 valuation.

As the Scheme was in surplus as at 31 March 2018, no Recovery Plan was required.

While the APS Discretionary Increase litigation was ongoing, BA continued to pay regular and deficit recovery contributions until 31 December 2018, agreed as part of the 2012 valuation. From January 2019 BA was no longer required to make deficit contributions.

	31 March 2018	2015	2012
Assets	£7,678m	£7,509m	£7,315m
Liabilities	£7,079m	£7,659m	£7,995m
Surplus / (deficit)	£599m	(£150m)	(£680m)
Funding level	108.5%	98.0%	91.5%

All figures shown on Technical Provisions basis.

The funding and investment strategy

In line with the Settlement Agreement agreed between the APS Trustee and British Airways (BA), the Trust Deed and Rules have been amended to allow the Trustee to award discretionary pension increases, provided certain affordability tests and conditions are met.

This is expected to result in pension increases, for eligible pension elements, in line with the Retail Price Index ('RPI') from 2021 onwards with interim catch-up increases until then. We have a strategy which aims to achieve the Scheme's Long-Term Objective ('LTO') of reaching full insurance on an RPI basis before 31 March 2027.

We secured two insurance arrangements in April 2017 and August 2017 covering the longevity risk for around 21% of pensioner liabilities. In September 2018 we entered into an annuity policy with Legal & General Plc on an RPI basis worth c.£4.4 billion.

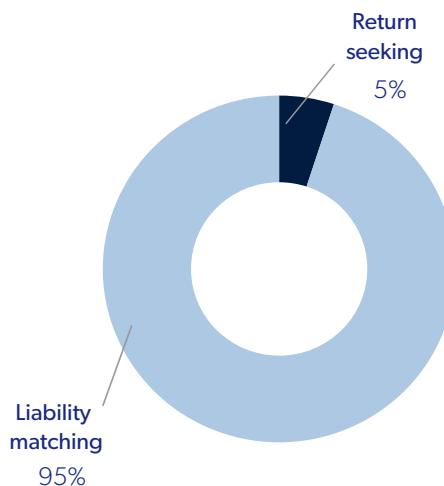
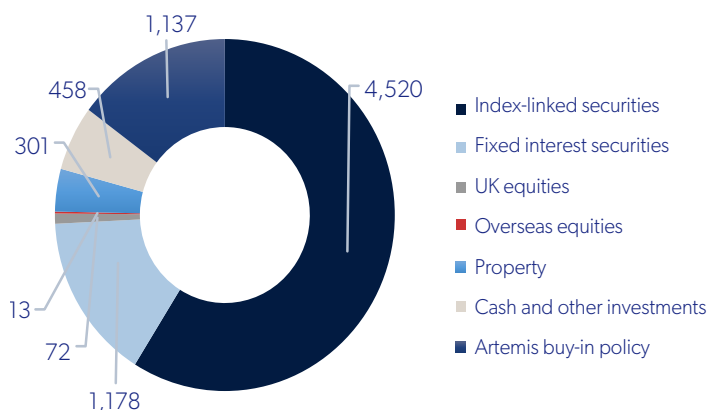
A substantial proportion of the Scheme's liabilities are already insured or closely matched via a range of different contracts and the Trustee is taking further steps to progress towards the LTO, including:

- Re-arranging investments to improve matching to the Scheme's liabilities and enable the purchase of further insurance policies;
- Considering converting the existing longevity insurance contract into a buy-in policy;
- Considering purchasing additional insurance policies, to be held as assets of the Scheme, as and when benefits come into payment;
- Minimising or avoiding taking risks that are not necessary to achieve the LTO; and,
- Regularly monitoring the residual risks that might otherwise jeopardise the LTO.

The fund is invested in various assets, predominantly those classified as 'liability matching' assets (such as cash and bonds). There is also a programme in place to run-off the illiquid assets (such as private equity and property). More detail on the investment approach is available in the Statement of Investment Principles.

As at 31 March 2018 the Scheme's investments were mainly held in liability matching assets.

How the Scheme was invested



Other measures

The Scheme Actuary also provides an estimate of the solvency position (the cost of getting an insurance company to 'buy-out' the benefits built up in the Scheme).

At 31 March 2018, the assets were sufficient to buy an insurance policy covering 91.9% of members' benefits. This estimate showed that BA would have had to make an additional final contribution of about £676 million (compared to 84.3% in 2015 and a shortfall of £1,399 million) to make sure all members' pensions could be paid in full by an insurance company. This shortfall does not affect the pensions being paid out of the Scheme - we have always paid members their full pensions.

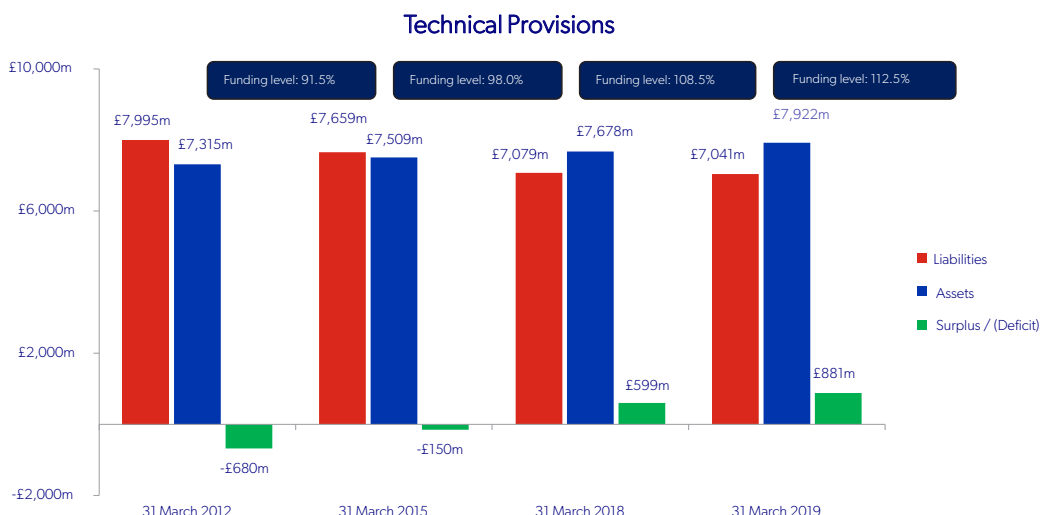
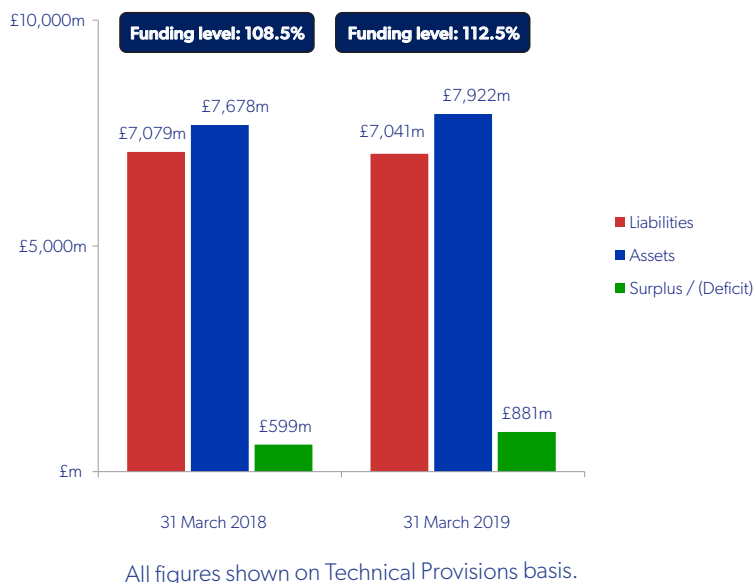


The latest funding position at 31 March 2019

How has the funding position changed since the 31 March 2018 valuation?

In between full valuations, the Scheme Actuary provides an annual update on the development of the Scheme's funding position. Between 31 March 2018 and 31 March 2019 the Technical Provisions funding level increased from 108.5% to 112.5%, increasing the surplus from £599 million to £881 million. This improvement is largely due to the deficit reduction contributions paid by BA until 31 December 2018, the £40 million cash sweep contribution paid into the Scheme over the year and the cost of the £4.4 billion insurance policy with Legal & General Plc (see 'Insurance contracts' below) being less than the value of the Scheme's liabilities secured.

On the 'AVB + PP' basis (explained on page 1), the funding level at 31 March 2019 was 98.8% and there was a deficit of £96 million.



How the funding position has evolved since the 31 March 2012 valuation

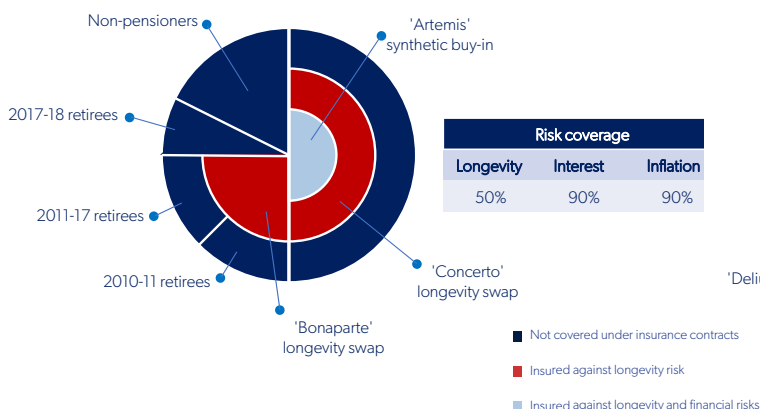
The chart to the left shows the value of the assets and liabilities and also the funding deficit/surplus at each of the last three formal valuations.

The chart also shows the latest position at 31 March 2019. This shows how the Technical Provisions funding position has evolved since 2012.

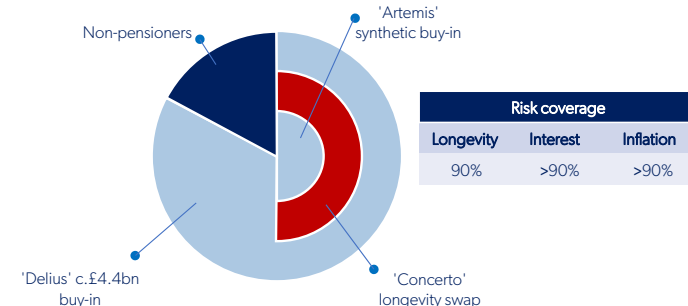
Insurance contracts

In September 2018, we entered into an annuity policy with Legal & General Plc, called a 'buy-in'. This covers the pensions payable to all members of the Scheme who had retired by 31 March 2018, including allowance for projected pension increases in line with RPI. Some earlier insurance contracts from 2017 were incorporated into the annuity policy.

Before buy-in



After buy-in non-Artemis & non-Concerto pensioner liabilities



The 31 March 2015 valuation and how the funding position evolved to 31 March 2016 and 31 March 2017

Headline results of the 31 March 2015 valuation

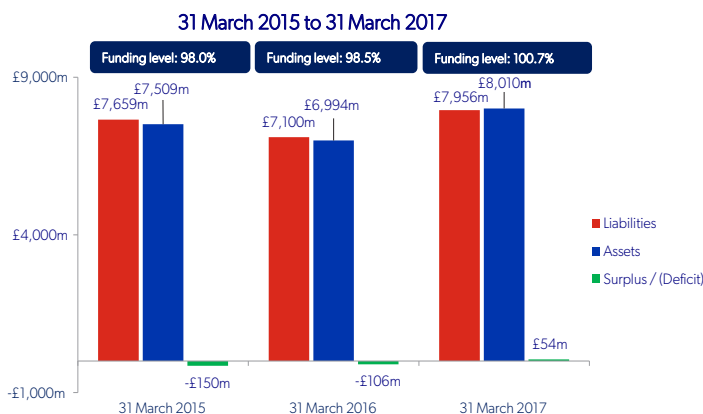
The funding level improved from the 2012 formal valuation to 98% (2012: 91.5%). The funding deficit reduced to £150 million (2012: £680 million). The Scheme's financial position had therefore improved significantly over the three years to 31 March 2015, mainly as a result of good returns on the Scheme's assets, deficit contributions received from BA, and changes to pension increase assumptions to reflect only the guaranteed increases under the Scheme and excluding any discretionary increases (which had been included in the 2012 valuation).

As the 2015 valuation had been put on hold pending the outcome of the Discretionary Increase litigation, BA had continued to pay additional contributions to the Scheme at a rate of £4,583,333 per month in line with the Recovery Plan agreed for the 31 March 2012 valuation. The 2012 recovery plan targeted full funding on a Technical Provisions basis by 31 March 2023.

How the funding position evolved over the following two years to 31 March 2016 and 31 March 2017

The funding level continued to improve to 98.5% at 31 March 2016, which reduced the funding deficit to £106 million. The Scheme's financial position improved further to 31 March 2017, reaching fully funded status on a Technical Provisions basis. At 31 March 2017, the funding level reached 100.7% and the deficit had changed over the year to a surplus of £54 million.

The main factors contributing to the improvement in the funding level since 31 March 2015 were the continued deficit contributions and cash sweep contributions in June 2015 and June 2016 of £25.3 million and £31.4 million respectively from BA, together with better than expected investment returns over the period.



Insurance policies explained

A **buy-in** is an insurance policy that covers a proportion of a pension scheme's liabilities and is held as an asset of the pension scheme, having paid a premium to an insurance company in return for the policy. The policy pays an income related to the liabilities insured, removing the risk of there being insufficient assets to meet future liabilities. The Scheme and sponsoring employer retain ultimate responsibility for meeting members' benefits.

Many schemes now hold buy-ins as part of their de-risking strategy.

A **buy-out** replaces a pension scheme's obligations to pay members' pensions with individual annuity policies between the insurer and each member. The policy will reflect exactly the benefits under the pension scheme. As funding levels improve and pension schemes continue to mature, buy-outs are seen by many schemes as the end position of the de-risking journey. As such the solvency position of schemes typically looks at the liabilities on a buy-out basis.

Under UK regulations, an insurance company must hold surplus funds called 'capital reserves' to support buy-in and buy-out policies. These reserves are set at a level to ensure the insurance company is able to meet the liabilities, even under extreme scenarios.

Finding out more

How APS benefits are protected

Pension providers are regulated by a watchdog called The Pensions Regulator. It can intervene and issue directions to trustees and companies to ensure the employer pays money to a scheme or puts another form of financial support in place.

As part of this statement, we must tell you if there have been any payments to BA from the Scheme since the last valuation update as at 31 March 2012, and we can confirm that no payments have been made. We are pleased to say that The Pensions Regulator has not enforced an approach for calculating the Scheme's Technical Provisions, nor has it imposed a Schedule of Contributions.

The Pensions Regulator has more information about valuations and funding statements on its website: www.thepensionsregulator.gov.uk.

The Pension Protection Fund

The Government set up the Pension Protection Fund to compensate members of occupational schemes if their employer becomes insolvent and cannot cover the cost of providing the scheme benefits. You can find more information on its website: www.pensionprotectionfund.org.uk.



Important to know

Use of personal data

The Airways Pension Scheme Trustee Limited (the "Trustee") holds and processes personal data about Scheme members and beneficiaries to run the Scheme. In doing so, we comply with relevant data protection legislation, our latest [Privacy Notice](#) is available on our website.

Find out more


You can find the full APS valuation reports for 2018 and 2015 as well as the Annual Reports and Financial Statements on the '[Scheme documents](#)' page of our website.


We regularly publish news and also our Trustee bulletins on the site. If you're registered for our online communications we send you email alerts whenever new information about your APS pension is available.

For more information about your pension or the Scheme, please visit the [FAQs](#) page of our website.

Or, if you have a question about your pension, you can contact us in several ways (please remember to include your Pension reference number or British Airways Staff Number):

Via our website:

 www.mybapension.com/aps/contact-us

 Call us on 020 8538 2100 (Mon-Fri, 9am-5pm)

 If you need to write to us, our postal address is:

**British Airways Pensions
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Liverpool
L69 2YL**