

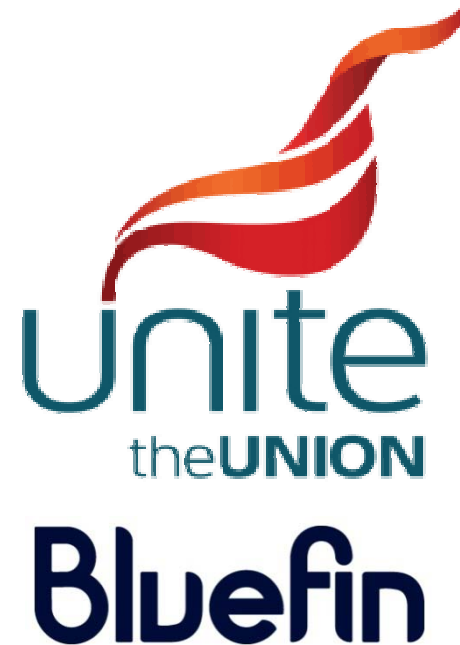


British Airways: New Airways Pension Scheme (NAPS)

September 2010

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Purpose of presentation

- To help understand recent communications
- To explain choices from 1 October 2010
- NOT to provide individual financial advice



Who are Bluefin?

- Firm of actuaries and benefit consultants
- Independent of British Airways
- Independent of Trustees
- Appointed by Unite

Current benefits in NAPS

- Various...
 - Retirement ages
 - Build-up rates
 - Contribution rates
- Plus:
 - Death benefits – lump sum/survivors' pension
 - Ill health benefits
 - Leaving service benefits
 - Early/late retirement pensions

- Actuarial valuation at 31 March 2009
- Deficit in NAPS/APS combined of £3.7 billion
(despite significant contributions paid over the last 3 years)
- Maximum contribution Company can afford is the current £330 million per annum
- This maximum has been confirmed by PwC
(the Trustees' auditing advisers)

Improvements achieved through consultation

- Scheme not closed to future build-up
- Cap on pension increases not lowered (but RPI vs CPI issue outstanding)
- Option to contribute up to 50% of taxable earnings via AVCs
- From October 2011 AVCs provided through *SmartPension*:
 - Members benefit from NI savings (including Company's)
- Lower earner protection on contribution increases
- One-off opportunity to move from Plan 60 to Plan 65 on 1 October 2010

- Still defined benefit
- Many companies switched to money purchase
- Significant additional flexibility
- No change to past service benefits
- Still provides valuable benefits
- Overall deal between Trade Unions and the Company has been accepted by Trustees and approved by the Pensions Regulator

Overview of changes

- Build-up rates
(52^{nds}, 56^{ths} and 60^{ths} replaced by 60^{ths}, 67^{ths} and 75^{ths})
- Member contributions higher for equivalent benefits
- Survivors' benefits – can opt for lower cover for less cost
- One-off opportunity to move from Plan 60 to Plan 65 on 1 October 2010
- “Option 55” closed to new entrants
- AVC maximum increased from 30% to 50% of total taxable earnings

No change to NRAs and Pensionable Pay definition



Choices needed

- By 30 September 2010 only:
 - Move from Plan 60 to Plan 65
- By 30 September each year:
 - Move from Plan 65 to Plan 60 (no return allowed)
 - Build-up rate/Contribution rate
- At any time:
 - Survivors' benefits
 - Level of AVCs

Note: Default option is 75th under your current Plan

Survivors' benefits

- Current survivors' = $2/3^{\text{rds}}$ of member's pension
- Minimum survivors' = build-up of $1/160^{\text{th}}$ (of NI band earnings)
- Member option: do you choose minimum and pay 1.5% lower contributions?

Note: Only affects benefits for future service, past service benefit maintained.

- Factors to consider:
 - Qualifying survivor/financial dependant on death
 - Age difference
 - Importance of income to survivor
 - Life expectancy of member and survivor
 - Can choose at any time (return option?)

Move from Plan 60 to Plan 65?

- One-time option only on 1 October 2010
- Lower contributions for same build-up rate
- Plan 65 offers extra 5 years of build-up
- Lower pension if retire at 60
- Company contributes more for Plan 60
- Option to move back to Plan 60 (with no return) each 1 October

Comparison of build-up rates and contributions

All rates are reduced by 1.5% if minimum survivors' benefits chosen

| CURRENT STRUCTURE | Plan 65 | | | Plan 60 (Option 55) | | |
|-------------------|---------------|-------------|--------|--------------------------|--------------------|--------------------|
| | Build-up rate | 1/60 | 1/56 | 1/52 | 1/60 | 1/56 |
| Contribution | 5.25% | 8.25% | 11.25% | 8.50% (17.50%) | 11.50% (20.50%) | 14.50% (23.50%) |

| NEW STRUCTURE | Plan 65 | | | Plan 60 (Option 55) | | |
|-------------------------------------|---------------|-------------|-------|--------------------------|--------------------|--------------------|
| | Build-up rate | 1/75 | 1/67 | 1/60 | 1/75 | 1/67 |
| Contribution from 1 October 2010 | 3.75% | 6.00% | 8.25% | 7.00% (16.00%) | 9.25% (18.25%) | 11.50% (20.50%) |
| Contribution from 1 October 2011 | 5.25% | 7.50% | 9.75% | 8.50% (17.50%) | 10.75% (19.75%) | 13.00% (22.00%) |

Lower contribution rates apply from 1 October 2010 for those with Basic Pay below £23,364

Lower earner protection

If Basic Pay greater than £23,364; no lower earner protection allowance

If Basic Pay less than £20,768; the following contributions are payable:

| | Plan 65 | | | Plan 60 (Option 55) | | |
|-------------------------------------|--------------|-------|-------|-------------------------|-------------------|------------------|
| Build-up rate | 1/75 | 1/67 | 1/60 | 1/75 | 1/67 | 1/60 |
| Current contribution | n/a | n/a | 5.25% | n/a | n/a | 8.5% (17.5%) |
| New contribution | 2.25% | 4.50% | 6.75% | 5.5% (14.5%) | 7.75% (16.75%) | 10.0% (19.0%) |
| Saving vs post 2011 standard | 3.00% | 3.00% | 3.00% | 3.00% (3.00%) | 3.00% (3.00%) | 3.00% (3.00%) |

Effectively saving 3% of Pay if Basic Pay less than £20,768

If Basic Pay between £20,768 and £23,364; allowance is prorated

All rates are reduced by 1.5% if minimum survivors' benefits chosen

Changes – further comments

- Choice of build-up rate affects benefits for future service only
- If moving from current 52^{nds} or 56^{ths} contributions could fall
- If contributions fall, consider making AVCs or moving from Plan 65 to Plan 60?
- Pension payable for future service =
Pensionable service from 1/10/10 x Retiring pay/build-up rate

Examples

The following examples illustrate the variation in pension depending on choice of build-up rate

| | | | | | | |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
| Pensionable service post October 2010 (A) | 15 years | 15 years | 15 years | 15 years | 15 years | 15 years |
| Retiring Pay (B) | £20,000 | £20,000 | £20,000 | £30,000 | £30,000 | £30,000 |
| Build-up rate (C) | 1/75 | 1/67 | 1/60 | 1/75 | 1/67 | 1/60 |
| Future Service Pension (pa) (A)x(B)x(C) | £4,000 | £4,478 | £5,000 | £6,000 | £6,716 | £7,500 |

Impact on take-home pay

Impact on take home pay of extra 1% pension contribution:

| | | |
|---------------------------|-------------|-------------|
| Pensionable Pay | £20,000 | £30,000 |
| 1% of Pensionable Pay | £200 | £300 |
| Tax relief (20%) | (£40) | (£60) |
| NI saving | (£19) | (£28) |
| Net cost per annum | £141 | £212 |
| Net cost per month | £12 | £18 |

- NI saving slightly greater on earnings from £40,040 to £43,888 but much less if earnings above £43,888
- Tax relief greater if marginal tax rate over 20% (caution high earners)
- Tax relief zero if marginal tax rate zero
- Based on 2010/11 tax year rates

Default option

- If no decision submitted by 30 September 2010:
 - Existing Plan
 - Existing survivors' pension
 - 75th build-up rate
 - Contribution rates:

| | From 1 October 2010 | From 1 October 2011 |
|------------------------------------|---------------------|---------------------|
| Plan 65 | 3.75% | 5.25% |
| Plan 65 "lower earner" | 2.25% | 2.25% |
| Plan 60 | 7.0% | 8.5% |
| Plan 60 "lower earner" | 5.5% | 5.5% |
| Plan 60 (Option 55) | 16.0% | 17.5% |
| Plan 60 (Option 55) "lower earner" | 14.5% | 14.5% |

- Tax efficient saving
 - Even more so when *SmartPension* implemented in October 2011
 - Even more so if/when NI rates increase
- Inexpensive
 - All administrative charges paid by the Company
- Flexible
 - Can vary contribution and choose where to invest
- Inflexible
 - “Locked in” until retirement/death
- Alternative to extra build-up/lower retirement age

- Under current Rules, can generally take all as tax-free cash sum at retirement
- Fund value can fall as well as rise
- Choice of funds
- Maximum increased to 50% of members' total taxable earnings
- From October 2011, regular monthly AVCs can be payable through *SmartPension* – benefit of NI saving (including Company's)

AVC example

- Pensionable Pay = £25,000
- 1% AVC = £250
- Tax relief (20%) = (£50)
- NI saving (employee) = (£23) (from October 2011)
- NI saving (Company) = (£23) (from October 2011)

AVC example (cont.)

- Amount credited to AVC fund = £273 (= £250 + £23), previously this was £250
- Net cost = £177 (= £250 - £50 - £23), previously this was £200
- Employee NI savings slightly greater if earnings between £40,040 and £43,888 but much less if earnings over £43,888
- Company NI saving greater if earnings over £40,040
- Tax relief greater if marginal tax rate over 20% (caution high earners)
- Tax relief zero if marginal tax rate zero
- Based on 2010/11 tax year rates

- If member has sufficient funds, AVCs can be an effective way of saving
- Salary sacrifice makes AVCs more attractive
- 50% limit increases scope for tax planning close to retirement



Factors affecting your choice

- How much pension do I need?
 - Other sources of income/savings?
 - Inheritance?
- How much can you afford to pay now?
- When do you intend to retire?
- Are you likely to receive increments/promotions?
- How long will you and your survivor live in retirement?

- Forms to be received by 30 September 2010
- Deadline 30 September 2010 if wish to move from Plan 60 to Plan 65
- Annual benefit option date = 1 October
- More flexibility with survivors' pensions and AVCs

What to do next

- Read your individual pension letter
- You may wish to take individual financial advice especially if you are a high earner (Unite have a relationship with Lighthouse Temple)
- Call BA Helpline (0800 433 4880) quoting “BA Enquiry” if need further information
- Call “Bluefin Helpline” (01423 528 899) quoting “BA Enquiry” if need further information on this presentation
- Fill in forms and return by 30 September 2010
- Review if circumstances change
- Update Notice of Wish form
(available online at www.mybapension.com)



Questions?





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Thank you