BAA

Focus

The BAA Pension Scheme Newsletter

Spring 2012

In this issue

Chairman's introduction

Welcome to your 2012 edition of the BAA Focus newsletter, bringing you the latest news from the BAA Pension Scheme.

The Scheme has had a busy 12 months. Since the last newsletter was issued in Spring 2011, we have welcomed two new Trustees, Paula Stannett and Giles Price and a member-nominated Trustee election for the pensioners' constituency is currently underway. Our thanks go to Julie Elder, Stephen Killick and Mike Roberts, who have now stepped down as Trustees, for all their hard work over the years.

Since the last newsletter, both the Scheme's formal (full) actuarial valuation as at 30 September 2010 and the annual interim valuation as at 30 September 2011 have been completed. The interim valuation showed that there has been an increase in the shortfall in the Scheme (the difference between the Scheme's assets and the amount it needs to pay for benefits) since the full valuation. This increase in the shortfall has arisen largely due to falling interest rates and higher than expected pension increases over the year that have been driven by high inflation and have adversely affected pension schemes across the country. The change in the assumptions the Scheme Actuary uses to review the financial position of the Scheme has also had an impact. As part of the Company's commitment to the Scheme, it maintains an ongoing dialogue with the Trustee Board about the funding position and its own financial status, and the Trustees remain confident in the Company's ability to continue to support the Scheme. Your Summary Funding Statement, which includes more information about the financial position of the Scheme, is included in this newsletter.

Also in this newsletter we have answers to some of your common questions about the Scheme, kindly provided by experts at Xafinity Paymaster, the Scheme administrator. Xafinity Paymaster has been the administrator of the Scheme for a little over a year now and you should contact the team if you have anything you need to ask about your pension (see their contact details below and on page 21).

Finally, on page 7 we talk about some of the things you need to think about in the run-up to retirement, including recently proposed changes to the State pension, ways to top up your pension savings, and what happens if you choose to retire earlier or later than your Scheme normal retirement age.

We hope you find this newsletter interesting and useful. As ever, if there are any items that you would like to see covered in future issues please do not hesitate to contact the Pensions helpline on 01293 604248 or email **BAA@xafinitypaymaster.com**.

P Wilbraham

Phil Wilbraham Chairman
On behalf of the Trustees of the BAA Pension Scheme

Financial highlights

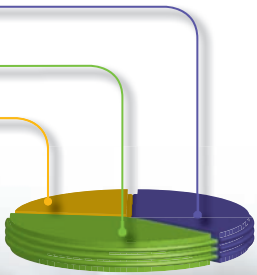
Below you can find a summary of the most recent report and accounts, which covers the year from 1 October 2010 to 30 September 2011.

We have included an overview of the money that has gone into and out of the Scheme over the past year, as well as the latest membership figures from the Scheme.

If you want to see a copy of the full accounts, please call the Scheme administrators, Xafinity, on **01293 604248**.

Membership as at 30 September 2011:

Active members	**6,986**	**= 34.9%**
Pensioners	**8,249**	**= 41.2%**
Deferred members	**4,776**	**= 23.9%**



Arrivals

ANNUAL INCOME	£000'S
CONTRIBUTIONS FROM MEMBERS	£11,074
CONTRIBUTIONS FROM COMPANY	£81,916
TRANSFERS IN	£1,349
INVESTMENT INCOME	£45,265
TOTAL	£139,604

Departures

ANNUAL SPENDING	£000'S
PENSIONS	(£70,031)
PAYMENTS FOR LEAVERS	(£4,888)
LUMP SUMS (ON RETIREMENT OR DEATH)	(£9,827)
ADMINISTRATION EXPENSES AND FEES	(£7,039)
TOTAL	(£91,785)
WHAT IT'S ALL WORTH	£000'S
VALUE OF SCHEME AS AT 30 SEPTEMBER 2010	£2,340,197
INCOME - EXPENDITURE	£47,819
CHANGE IN MARKET VALUE OF ASSETS	£110,466
VALUE OF SCHEME AS AT 30 SEPTEMBER 2011	£2,498,482

Scheme update – With an eye on the future

Website relaunch, including self-service portal and 'what if' calculator

Modern technology is making it easier for members and those responsible for running pension schemes to keep each other up-to-date on developments. It is also a good way for members to exercise their role in pension financial planning and make any changes more easily.

In 2009, we launched a new website which contained helpful online information for employees, former employees and pensioners. We have now refreshed this site and later this year we aim to launch a 'self-service portal' through the website. This will mean that you will not only have access to all the latest Scheme communications and information, but you will be able to find out more about the benefits you have built up and are scheduled to receive and you will also be able to update your personal information and the details of who you would like to receive benefits from the Scheme on your death. There will also be a new 'what if calculator' available for members who have yet to retire, so they can to work out the impact of changing their retirement date on their pension benefits.

In advance of the launch of the self-service portal, the Scheme administrator, Xafinity Paymaster is currently conducting a detailed data cleanse to ensure that the member information to be shown on the portal is accurate and up-to-date. Your information will be private and only accessible by you.

For more information on Xafinity Paymaster a year on, turn to page 18 where we introduce some of the people working on your Scheme who answer some of the typical questions the Scheme experts could expect to deal with every day. Maybe you will find an answer you've been looking for!

Sale of Edinburgh

On 23rd April, the Company agreed to sell its 100% interest in Edinburgh Airport Limited to Global Infrastructure Partners, the owner of Gatwick and City airport.

The transaction is expected to complete at the end of May 2012. The deal will include measures to safeguard the members' existing pension benefits and employees who are affected by the sale will be given details of their pension options nearer to the time. Former employees (deferred members) and pensioners will be unaffected by the sale.

The journey to retirement

What do you want to do when you retire? Travel the world, take up new sports or activities, or maybe start your own business? Or perhaps you're looking forward to enjoying more time on your hobbies or relaxing and unwinding with friends and family?

Whatever you want to do, you'll want to enjoy your retirement free of financial worries. So there are some key things you'll need to consider including how much money you think you'll need for a comfortable retirement, when you want to retire and what sources of income you might have.

1. What income will you need?

Retirement may be some way off, but it's important to have an idea of what you want to do, so you can plan how you are going to fund it.

In 2011, Standard Life published the following research showing how much a typical pensioner couple expected to spend on everyday essentials (rounded to the nearest pound):

Weekly expenditure	2011
Food and drink	£64
Housing, fuel and power	£54
Household goods and services	£29
Transport	£72
Total weekly expenditure	£219

Of course, these are just the bare essentials. You're likely to need more than this if you want to go on holiday, travel or treat your grandchildren! When thinking about your needs, don't forget that your housing costs may be lower as you could have paid off a mortgage, and pensioners have more generous tax allowances and do not pay National Insurance on their pension income. However, while you may no longer be supporting your children, you could find that you are supporting your parents or paying towards their care.

Setting your budget

How can you be a little more scientific about your needs?

*There are a number of online budgeting tools available to help you work out the income you might need in retirement. For example, the Money Advice Service (a free, independent service set up by Government and funded by a levy on the financial services industry) website contains a range of budgeting and planning tools. The Age UK website (**www.ageuk.org.uk**) also includes some really good advice and information on budgeting for retirement.*

The journey to retirement

2. What income are you on target to receive?

Your income in retirement is likely to come from a number of sources.

a. Your BAA pension

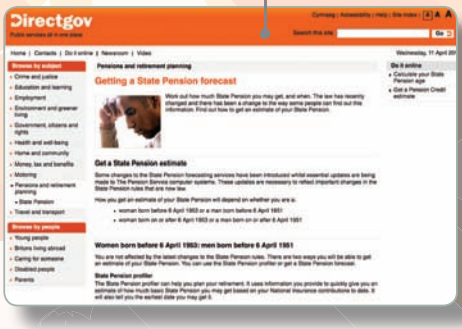
As a member of the BAA Pension Scheme you are eligible to receive a pension income from the Scheme once you reach your Normal Pension Age (usually age 60 unless you have a different age stated in your contract of employment). Of course you may be able to retire earlier or later than this with the permission of the Trustees and/or Company. But you mustn't forget that the earlier you retire, the lower your pension is going to be to reflect the fact that you are likely to be receiving a pension for longer.

Working out your pension

Watch this space! As outlined earlier in this newsletter, a 'what if calculator' to work out the impact of changing your retirement date on the pension you receive, is being launched later in 2012 through a new online self-service portal.

Working out your pension

To help you work out your overall level of pension you can request a state pension forecast on the pension and retirement planning section of ***www direct gov.uk***



b. Your State Pension

On top of your BAA pension, you will also be entitled to receive the Basic State Pension. The full Basic State Pension is currently £102.15 for a single person and £163.65 for a married couple. On top of this you may be entitled to an earnings-related top up (the Additional State Pension). In the future this could be replaced with a flat-rate State pension of £140 a week to make it simpler to pay to pensioners and easier for people to understand. The change is unlikely to happen for a few years and won't affect those who are already receiving their State pension.

All State pensions are payable from 'State Pension Age'. This is being increased over the next few decades to 68 for everyone, in a number of stages:

- on 6 April 2010 the State Pension Age for women started to increase to 65, the same as for men, it will reach age 65 by November 2018;
- it will then increase to 66 for everyone by October 2020;
- the planned increase to age 67 is likely to be brought forward to 2026 with future increases determined by an automatic mechanism following regular reviews.

c. Other income / money for your retirement

Of course, don't forget that pensions are not the only savings you may have or sources of income in retirement. If you own your home you may have paid off the mortgage so the demands on your income will be lower and, of course you may think about down-sizing to release additional cash. You may also have other savings or investments built up while you are working or may have received an inheritance.

continued

3. What to do next?

After you've worked out the level of income you might need, the savings you have and income you may receive, you might decide you want to top up your savings while you are still working. Although it is no longer possible to top up your BAA pension by starting new Additional Voluntary Contributions, there are some other ways you can save in a tax-efficient way, including:

ISAs

ISAs are tax-free savings accounts. Unlike a pension, you do not get tax relief on the amount you pay in. However, your savings do grow free of income and capital gains tax and you can also access your money at any time if you need it. You can currently pay in up to £5,640 to a cash ISA each year or up to £11,280 into a stocks and shares ISA.

Personal Pensions

You may be able to pay into a personal pension scheme in addition to your membership of the BAA Pension Scheme. It is likely to be a 'Defined Contribution' scheme which means that the value of the money you contribute will normally be used to buy an annuity (a monthly pension) at retirement. Like with your BAA pension, you can take a tax-free cash sum in retirement. And you will get tax relief on everything you contribute which means that, as a basic-rate taxpayer, every £1 paid in will cost you just 80p. There are however limits on the overall tax concessions that apply but they are unlikely to impact most members. Also like your BAA pension, you will not be able to take your money out until you reach retirement.

There are many helpful tools and guides to help you with budgeting and saving at **www.moneyadviceservice.org.uk**. If you need help thinking about your pensions and savings, you may wish to speak to a Financial Adviser and can find details of an adviser near you by visiting **www.unbiased.co.uk**.

Checking the Scheme's

By way of introduction to the Summary Funding Statement, we speak with the Scheme's Actuary, Chris Sheppard of Mercer Ltd, who is responsible for carrying out each formal valuation of the Scheme conducted every three years (the last being as at 30 September 2010) and the annual interim valuations carried out between the formal valuations, including that carried out as at 30 September 2011…

Chris, can you give us a quick reminder of why a valuation is so important?

An actuarial valuation is carried out to make sure there is enough money in the Scheme to provide for members' benefits both now and in the future. It's important because the Company and the Trustee need to check regularly to make sure the value of the Scheme's assets and the contributions being paid into the Scheme keep pace with the cost of members' benefits.

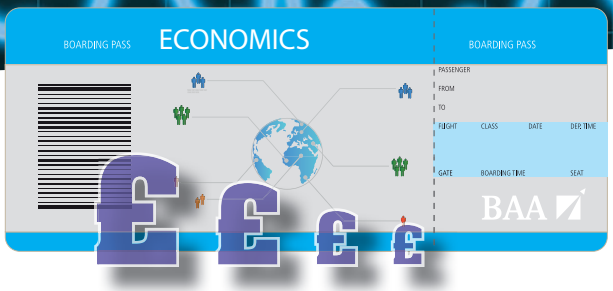
This is not as simple as it sounds because many of the benefits won't need to be paid for many years and their cost as well as the value of the Scheme's assets can vary from time to time depending on a number of factors. My job, as the Actuary, is to perform the necessary checks, which I do by carrying out an annual funding review and formal actuarial valuation every three years.

The latest Summary Funding Statement references both 'ongoing' and 'solvency' based valuations. Could you tell us what you look for when applying these two bases?

The ongoing funding valuation basis is the most complex because it looks at the finances of the Scheme for both existing and future benefits. This requires the Actuary to look at all the variable factors like members' expected earnings, future inflation, investment returns and average life expectancy, to see what has changed since the last valuation. The Actuary then calculates the contributions that the Company should make to pay for future benefits and to correct any shortfall (deficit).

The solvency funding valuation basis, on the other hand, looks at the financial position in the unlikely event that the Scheme is discontinued so that all the assets would be transferred to an insurance company. For the Actuary it involves a relatively straightforward comparison of the current value of the Scheme's assets with the cost of securing the benefits members have earned up to the date of the valuation. For this purpose I estimate the terms on which insurance companies are currently pricing annuity policies. The result of the ratio of the value of the assets and liabilities assessed in this way is known as the 'solvency' funding level. Changes in legislation provide considerable protection for members by requiring companies to meet any shortfall if the scheme is discontinued and there is also the added protection of the Pension Protection Fund.

FINANCIAL HEALTH



And how do these valuations relate to the valuation in the BAA report and accounts?

The Scheme valuation results in the Summary Funding Statement are distinct from the information that BAA will disclose in their Annual Report and Accounts. There are several ways in which pension scheme shortfalls can be calculated, depending on what the calculations are for. The valuations in the Summary Funding Statement are calculated taking a long-term view of the scheme. They are calculated on a prudent basis with the aim of protecting the security of benefits members have earned. The figures in the report and accounts take a short-term year-on-year view of the assets and liabilities and are calculated in a prescribed way for this purpose.

Should members of the Scheme be concerned about the results of the latest valuation?

Well I think all concerned would prefer to see a stronger funding position. However, it should be remembered that these valuations are a snapshot taken at the valuation date, and the relationship between a pension scheme's assets and its liabilities will inevitably vary over time. What's important is the action taken by the Trustees and the Company as a result of the valuations.

In the case of BAA, both the Trustees and the Company have taken positive steps to improve the funding position of the Scheme. Following the last formal valuation of the Scheme at September 2010, which was completed at the end of 2011, the Company agreed to increase its contributions, both towards the cost of accrual of each year's future service for active members as well as to pay off the deficit from past benefits. The Trustees have also been restructuring the Scheme's investments with the aim of protecting the funding level of the Scheme from fluctuations, whilst continuing to achieve strong levels of investment growth. (You can read more about this on p16)

The Trustees are continuing to monitor the funding position of the Scheme closely as well as the activities of the Company to ensure that it is still able to meet its obligations to the Scheme. And despite this increase in the shortfall, the Trustees remain satisfied that the funding arrangements in place continue to be appropriate to meet the Scheme's benefit outgoings.

Your Summary Funding

The Trustees provide information on the Scheme's financial position to help you understand more about how your pension is paid for and the state of the Scheme's finances. This information is included in a *'summary funding statement'* and this is your 2012 statement.

It is important that you read all of the statement carefully, so you can understand what the figures mean and how they are used to assess the financial health of the Scheme. You don't need to do anything. The details in the statement are for your information only and should help you to keep track of the financial health of the Scheme.

Measuring the Scheme's financial security

For each year you pay contributions to the Scheme, you earn benefits that are linked to your salary. If you have left the Scheme you will have earned benefits during your membership which will be payable when you reach retirement age. If you are retired, in general you will now be receiving a pension from the Scheme.

The estimated cost of providing the benefits you and other members have earned to date is known as the Scheme's 'liabilities'. The Company pays in contributions, so do those members still employed by the Company. These are then invested to help provide members' benefits. All contributions and investment income are held in a communal fund and make up the Scheme's 'assets'.

To check the Scheme's financial security we compare the value of its liabilities to its assets:

- if the value of the Scheme's assets is less than the value of its liabilities, it is said to have a 'shortfall';
- if the value of the Scheme's assets is more than the value of its liabilities there is said to be a 'surplus'.

We carry out an in-depth look at the Scheme's finances at least once every three years. The Scheme Actuary, a qualified, independent professional, undertakes this 'actuarial valuation'. We also check the financial security of the Scheme regularly in between the full actuarial valuations.

The position at the last formal valuation conducted as at 30 September 2010

When we last sent you a summary funding statement we reported that the Scheme was estimated to have a shortfall of £426 million at 30 September 2009. Due mainly to the sale of Gatwick and additional special contributions paid to the Scheme as a result, a review of the assumptions in the light of different market conditions and greater than expected investment returns, this shortfall had reduced to £275 million as at 30 September 2010.

The last formal valuation of the BAA Pension Scheme showed that on 30 September 2010:

The value of the liabilities was	£2,614 million
The Scheme's assets were valued at	£2,339 million
This means that there was a shortfall of	£275 million

Statement

How has the position changed since the last formal valuation?

An annual actuarial report was carried out as at 30 September 2011, which showed that the Scheme's financial position had worsened, with the shortfall increasing to £398 million. The deterioration in the funding position has resulted from a large increase in the value of the liabilities due to falling interest rates and higher than expected pension increases over the year that have been driven by high inflation. The Trustees continue to monitor the funding position of the Scheme closely and despite this increase in the shortfall the Trustees remain satisfied that the funding arrangements in place continue to be appropriate to meet the Scheme's benefit outgoings.

Financial support for the Scheme

Following each formal actuarial valuation, the Actuary estimates the contributions the Company needs to pay to cover the cost of benefits now and in the future. We then agree a level of contributions for the Scheme with the Company and record this in a document called the Schedule of Contributions.

We review and update the Schedule of Contributions at least each time the Scheme has an actuarial valuation.

Following the 2010 valuation it was agreed that the Company would pay contributions of £97 million a year to the Scheme from 1 January 2012. This includes £24 million per annum, which is paid with the aim of removing the deficit by 31 December 2020.

These Company contributions are on top of employee contributions which are currently 6% or 5% of pensionable salary, with some employees paying other amounts depending on their employment category.

The aim is to ensure the Scheme has enough money to pay pensions now and in the future, but this depends on the Company continuing to support it. When there is a shortfall in funding, the Company would usually need to pay in more money to make up the difference (along with the future expenses of running the Scheme). This was the position at the last formal valuation of the Scheme.

There has not been any payment to the Company out of Scheme funds in the last 12 months.

The Trustees also continually monitor the activities of the Company to ensure that it is still able to meet its obligations to the Scheme.

If the Scheme had to wind up

In the extremely unlikely event that the Scheme had to wind up, the Company would be required to pay enough money into it to enable members' benefits to be provided instead by an insurance company. Neither we nor the Company have any plans to wind up the Scheme but we are required by law to let you know the Scheme's financial position if this were to happen.

The amount needed, in addition to the existing assets of the Scheme, to make sure that all members' benefits could have been paid in full if the Scheme had started winding up on 30 September 2010 was estimated to be £1,260 million.

Your Summary Funding Statement continued

The small improvement of the solvency position compared to the £1,282 million shortfall as at 30 September 2009 shown in last year's summary funding statement was mainly due to the Scheme achieving higher investment returns than expected and the contributions paid as a result of the sale of Gatwick, although these were offset by an increase in the estimated cost of purchasing annuities from insurance companies. As at 30 September 2011 the shortfall had increased to £1,456m as a result of a further significant increase in the cost of purchasing annuities.

If the Scheme were to be wound up with the Company unable to pay this amount in full, you might not get the full amount of the pension you are entitled to – even if the Scheme is fully funded on the approach set out in the Statement of Funding Principles. If the Company were to become insolvent, the Pension Protection Fund (PPF) might be able to take over the Scheme and pay compensation to members, but this compensation is likely to be less than the benefits you are entitled to under the Scheme.

The cost of winding up the Scheme assumes that benefits will be paid for by buying insurance policies. Insurers are obliged to take a very cautious view of the future (including the administration costs of paying the benefits) and need to make a profit. By contrast, under the current funding position we assume that the Company will continue in business and support the Scheme.

Further information and guidance is available on the PPF website at **www.pensionprotectionfund.org.uk**. Or you can write to the Pension Protection Fund at Knollys House,
17 Addiscombe Road,
Croydon, Surrey, CR0 6SR.

Sources of further information

If you have any questions about the Scheme's funding, please contact the Trustees (see below for details). If you want to find out more about the Scheme you can ask for the following documents:

- **the Statement of Investment Principles** – explains how we invest the money paid into the Scheme;
- **the Annual Report and Accounts of the Scheme** – shows the Scheme's income and expenditure in the 12 months to 30 September 2011;
- **the Formal Actuarial Valuation Report as at 30 September 2010** – which contains the details of the Actuary's financial check of the Scheme's situation as at 30 September 2010, the Schedule of Contributions and Statement of Funding Principles;
- **the member's explanatory booklet** – explains how the Scheme works (you should have been given a copy when you joined but we can let you have another copy).

Contacting the Trustees

The Trustees can be contacted via:
BAA Pensions Team
Xafinity Paymaster
Russell Way
Crawley
West Sussex RH10 1UH

Trustees of the BAA Pension Scheme
May 2012

INVESTMENT

2012

The year in review

This Scheme year was characterised by significant uncertainty across investment markets. Global monetary policy (e.g. "quantitative easing"), natural disasters such as the Japanese earthquake and continued political uncertainty around Eurozone countries such as Greece all resulted in markets being buffeted around.

Overall, the result of this uncertainty was poorer performance for riskier assets like shares and stronger performance for lower risk assets like government bonds. This is often seen when markets are volatile, as investors opt for a "flight to quality", sacrificing potential gains from riskier assets in exchange for a perceived safe haven.

Against this backdrop, the assets of the Scheme performed very well, producing a solid positive return (of 7.5%) for the year. This reflects the benefit of the Scheme's diverse range of assets and investment management styles.

As well as monitoring how each of the Scheme's investment managers performs relative to the markets they invest in, the Trustee Board consider the performance of all of the Scheme's assets relative to the change in the value placed on the Scheme's Liabilities (the liability benchmark). This year, because the liabilities are valued using reference to government bonds (which produced the best asset returns), the liability benchmark was a very challenging target (of 9.3%). Given the difficult market conditions faced, nearly matching this benchmark represents a successful year.

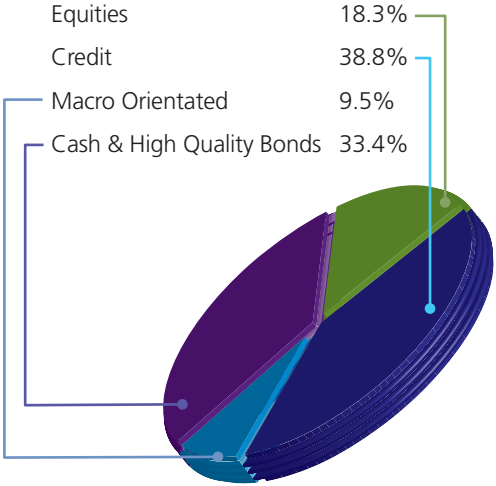
Changes to investments to protect your benefits

During the year to 30 September 2011, with guidance from its investment advisers Cardano, the Trustee Board has made a number of decisions to support their long-term strategy to 'de-risk' the Scheme and protect members' benefits. In summary, the Trustees have decided to:

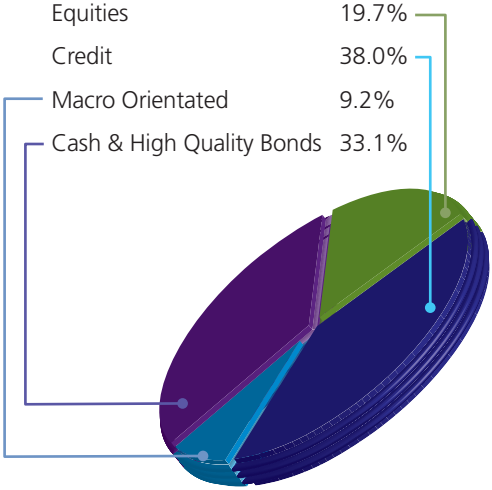
- Focus on further diversifying the range of investments used. This aims to protect the Scheme from sudden falls in value in any one asset type.
- Streamline their Liability Driven Investments (those assets specifically held to behave like the value of the Scheme liabilities), bringing them all under the management of Rogge Investment Management in due course.
- Since September 2011, the Trustees have also opted to replace Royal London Asset Management as an investment manager with BlackRock. This appointment aims to better diversify the Scheme's corporate bond investments across the globe.

MATTERS

Asset Allocation
30 September 2011



Asset Allocation
31 March 2012



Investment managers as at April 2012	Investment mandate
Lazard Asset Management Ltd	Equities
State Street Global Advisers Ltd (SSgA)	Equities
Rogge Investment Management	Cash and High Quality Bonds and Credit
BlackRock (appointed in Q1 2012)	Cash and High Quality Bonds and Credit
Wellington Asset Management	Cash and High Quality Bonds and Credit
Standard Life Investments Ltd	Absolute return/Macro oriented
Brevan Howard Fund Ltd	Absolute return/Macro oriented

The market outlook

2012 is expected to be characterised by continued uncertainty in many markets and the expectation of generally muted levels of economic growth. Nonetheless, globally (and particularly in the United States) there have been some more positive signs of recovery, so select opportunities to add value may still present themselves.

The Trustees believe that, although faced with a challenging economic backdrop, the strength of our investment strategy will stand us in good stead for the year ahead.

Ask the

Xafinity Paymaster are your pension scheme experts.

Xafinity Paymaster are your pension scheme experts. They were appointed as the Scheme administrators in October 2010 and the existing administrators in Horley were able to transfer to Xafinity, ensuring that the Trustees and members continue to benefit from their knowledge of the Scheme and expertise built up over the years. In total, the transferred team have over 60 years' BAA pensions experience between them.

The BAA Scheme is one of over 756 Schemes administered by Xafinity Paymaster, but each Scheme is slightly different and your Scheme administrators have to understand the Scheme in depth as well as keep up-to-date with changing legislation and how it impacts you the Members.

If you contact Xafinity, you may find you are speaking to one of the four pension administration staff who transferred to Xafinity in October 2010. Alternatively you may be talking to one of the ten Xafinity staff who are now fully trained on our scheme. Two key members of the team, Julia Wyatt and Guida DeSousa answer some questions raised by members below.

Julia Wyatt
Service Delivery Manager

Julia is an experienced Service Delivery Manager who joined Xafinity Paymaster in 2001.
She leads a team of around 30 staff and in the past has managed a very large pension scheme with in excess of 300,000 members. Julia has been instrumental in driving improvements in our service performance.

Julia's key responsibilities are:

- Client satisfaction;
- Member satisfaction;
- Process improvements;
- Governance.

Guida De Sousa
Team Leader

Guida is a knowledgeable Team Leader who has worked for Julia for the last four years. She leads the team of administrators and is a great motivator and developer of staff. Guida has the ability to drive, manage and implement change to improve efficiencies and service delivery.

Guida's key responsibilities are:

- Delivery of service to agreed standard;
- Performance measurement and management of team activities;
- Monitoring, producing and acting on performance measurement information;
- Reviewing, controlling and instigating new procedures to maintain and improve standards;
- Ensuring development and training plans are up to date to ensure service excellence.

experts

There's a lot in the news at the moment about auto-enrolment. What is it and how does it affect me?

Auto-enrolment is designed to help more people to save into a pension scheme to give them a better quality of living in retirement. It is a new requirement, being phased in over a number of years from October 2012, for all eligible employees to be enrolled into a 'qualifying' (suitable) pension scheme.

A new workplace pension scheme 'NEST' is being launched by the Government, which can be used by employers whose current schemes do not qualify.

The BAA Pension Scheme exceeds the minimum requirements of a pension fund under auto-enrolment and your membership of the BAA Pension Scheme will not be affected by auto-enrolment. However, it is the responsibility of BAA to meet the auto-enrolment regulations and further communication will be sent to active members of the Scheme from the Company regarding this subject in due course.

For more information visit the Government website ***www.direct.gov.uk****.*

I've worked for BAA and been a member of the BAA Pension Scheme for 15 years. If I reduce my working hours in the run-up to retirement, as this will reduce my salary, will it reduce my overall pension?

The pension you have earned over the last fifteen years will be unaffected by your change in working hours and the related reduction in your salary. Xafinity will work out your full time equivalent salary for the years you are working part time, for the purposes of calculating your Final Pensionable Salary. For example, if you are working just 2.5 days a week on a salary of £15,000, your full time equivalent salary would be £30,000. However, your Pensionable Service will reflect the hours you work and in this example, as you would be working 2.5 days per week, you would earn half a year's pensionable service every year you work these hours. This means that your pension will only be affected for any period of part time service.

My normal pension age is 60. Will I still be able to take my pension from the BAA Pension Scheme at the age of 60, although the State retirement age is increasing?

Yes. The age at which you can take your Company pension is not tied to the age at which you start to receive your State pension.

"Ask" the experts continued

In the Spring 2011 edition of "Focus", it was highlighted that the Government had announced an intention to change the way in which pensions increase. Can you explain a bit more so I can understand how it might affect me?

*That's a good question as the legislation referenced in the last newsletter has now received Royal Assent. There are changes both to the increases to pension in payment (known as **"Pension Increases"**) and also increases to deferred benefits in the period between a member leaving pensionable service and reaching normal pension age (known as **"Revaluation"**). In summary:*

Pension Increases

Scheme Rules providing for Pension Increases for non contracted-out benefits in the Scheme have always made explicit reference to the Retail Prices Index (RPI) and will continue to be calculated by reference to RPI for those already in retirement and those who have not yet retired.

Revaluation

Non contracted-out deferred benefits are revalued in the following way:

- *for benefits accrued prior to 6 April 1997, Revaluation is calculated by explicit reference to RPI;*
- *for benefits accrued on or after 6 April 1997, Revaluation is calculated in accordance with statutory methods, i.e. with reference to RPI up to 2010 and to CPI from 2011 (RPI applies up to the time the legislation changed).*

In addition, the Scheme does not apply any caps to the Revaluation that applies for members who joined on or before 31 March 1991. A cap on increases of 5% per annum is applied for members who joined after 31 March 1991, which is in line with the statutory method.

Both RPI and CPI are measures of inflation. The difference between RPI and CPI lies in the way the two measures are calculated and also RPI includes some housing costs (house prices and mortgage and council tax payments) that are excluded from CPI.

What will happen to my pension on my death?

The Scheme pays out a generous level of benefits to support your spouse/partner and family in the event of your death. Full information can be found in your BAA Pension Scheme booklet (updated softcopy version to be added to the website soon), However, in summary:

- *If you die before retirement a pension will be paid to your spouse or civil partner and any eligible children may also be entitled to a pension.*
- *If you are still employed by BAA, a cash lump sum will also be payable.*
- *If you die in retirement a pension will be payable to your spouse or a civil partner.*

*Don't forget to keep your Expression of Wish form up-to-date so we know who you would like any benefits to be paid to if you die. You can do this now quickly and easily by downloading a form from the website (**www.baapensionscheme.com**) or by contacting the pensions helpline on **01293 604248**.*

Your Team contacts

For all your other questions, contact the team!

You can contact us in any of the following ways:

- by telephone on **01293 604248**
- by fax on **01293 604015**
- by email at **baa@xafinitypaymaster.com**
- our website at **www.baapensionscheme.com**
- by letter to Sutherland House, Crawley, West Sussex, RH10 1UH

How you can help when you contact us

To help our staff deal quickly and efficiently with your enquiry please give as much information as possible about yourself at the time you make the enquiry. Our main method of identifying you, the member, is by your National Insurance number so the best way to ensure we find your record without delay is to include this in any letter, fax or email or to have it available if you telephone or visit us.

If you are not able to give us your National Insurance number, please give as much detail as possible about your employment and include your full name, date of birth and any previous names you may have had.

Please remember we need your written and signed authority to discuss or release your personal or financial information to a third party.

It's all happening at www.club-together.org

Club Together offers BAA pensioners the chance to benefit from the collective buying clout of around 2 million pensioners to get great deals on everything from utilities and travel insurance to life cover and private medical insurance.

The latest edition of **Club Together Magazine** is out now! If you chose to receive a printed copy it will be with you later in Spring 2012, and if you didn't, you can still download your magazine at **www.baapensionscheme.com** or, at **www.club-together.org**. Remember, you'll also find all the latest special deals we've negotiated on your behalf online. Plus, if you haven't joined already, there's cashback on everyday shopping when you sign up to our **generous Club Together Reward Scheme**.

Visit www.club-together.org or call us on 0800 234 6513 and start saving today!

It needn't be taxing

In the last year there have been two key changes to tax allowances for pensions, outlined below. If you are still building up a pension, you should be aware of these allowances, but they are set high enough not to affect most people.

Annual Allowance

The Annual Allowance is a limit on how much your pension savings (in all pension schemes) can grow in a year before being subject to tax. The allowance reduced to £50,000 a year from April 2011 onwards.

The Annual Allowance is measured against the pension savings made during the pension input period. For the Scheme, the pension input period is the same as the tax year, i.e. 6 April in one year to 5 April in the next year. If your pension savings exceed the Annual Allowance in any one year then a special tax charge is payable, although if you have unused allowance from previous years you might be able to offset this.

Those of you likely to be affected in the 2011/12 tax year would have received a letter from Chris Parrott, confirming the position with regard to the Annual Allowance and the options available to you should you exceed this allowance. More information was then included in a letter from the Trustees which you can review and download from the pension scheme website **www.baapensionscheme.com**.

In summary, if your pension savings exceed £50,000 in one year:

- The tax charge is levied at your normal marginal tax rate for your income and is paid in a single lump sum.
- You can settle any tax charge directly with HM Revenue & Customs; or
- You can opt in to 'Scheme Pays' – an arrangement whereby the BAA Pension Scheme will pay the tax charge on your behalf and your pension benefits will be reduced to reflect this charge.

Lifetime Allowance and Fixed Protection

In April 2012 the Lifetime Allowance reduced from £1.8m to £1.5m. This is the overall limit to the amount of pension savings that will qualify for tax relief, calculated for all the benefits you build up over your lifetime (i.e. not just those pension benefits you hold with BAA). If, when you take your benefits, the value of your pension savings exceeds this limit, you will pay tax on the excess.

Individuals whose benefits were likely to exceed the new Lifetime Allowance were able to apply for **Fixed Protection** before 5 April 2012 to protect them from the reduction. However, members who applied for Fixed Protection will need to take great care that their pension savings do not increase in excess of the permitted amount, or they will lose fixed protection.

For more information on pension tax allowances visit the Government website at **www.direct.gov.uk**.

Your Trustees

Your Trustees

Like a FTSE 100 Company, the BAA Pension Scheme has a Board of Directors (the Trustees). The Trustees are responsible for running the Scheme in accordance with legislation, Scheme rules and best practice, and for ensuring members' interests are protected. The full board is made up of eight directors who are all currently members of the Scheme and so have a personal interest in the successful governance of the fund. In addition there is an Independent Trustee who is an expert in the laws which govern pension schemes and provides further experience to the Board.

Company-Appointed Trustees

Phil Wilbraham (Chairman)

Marian Drew

Terry Morgan

Paula Stannett

We are pleased to welcome Paula Stannett who was appointed to the Board of Trustees by the Company in September 2011. Paula has worked for BAA for over twelve years and is currently Head of HR Services at BAA. Paula replaces Julie Elder, HR & Commercial Services Director for the Airports division, who resigned from the Board in August 2011 after nearly 3 years service.

Member-Nominated Trustees

David Turner (Stansted, Southampton and Corporate)

Vacancy – elections underway (Pensioner)

Peter McCall (Scotland)

Giles Price (Heathrow)

We are also pleased to welcome Giles Price, Technical and Quality Director and Chairman of BAA BCS Ltd, who was elected to the Board by Scheme members as the Heathrow representative with effect from 1 March 2012. Giles replaces Stephen Killick who resigned from the Board in August 2011 after 5 years service.

Independent Trustee

Mr John Bloxsome - Law Debenture (BAA) Pension Trust Corporation (LDPTC)

The Trustees' advisers

The Trustees are supported by a number of advisers.

Scheme Actuary
Chris Sheppard FIA, Mercer Limited

Investment advisers
Cardano

Auditors
Crowe Clark Whitehill LLP

Bankers
Lloyds TSB

Custodian services
J.P. Morgan Chase

Administrators
Xafinity Paymaster

Legal Advisers
CMS Cameron McKenna LLP

The member nomination and election process for the Pensioner constituency is currently underway, following the resignation of Mike Roberts who retired from the Board in March 2012 after 6 years representing members of the Scheme. The new MNT will be formally appointed at the Trustee meeting on 31 May 2012.

A review of Member Nominated Trustee arrangements

Changes in BAA such as the sale of airports and the fact that there are many people who are now based at Heathrow who are not formally part of the Heathrow constituency mean that the current member-nominated trustee constituencies may no longer be appropriate. The Trustees are currently reviewing these constituencies with the aim of agreeing any changes before the next election.

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