

FOCUS

THE BAA PENSION SCHEME NEWSLETTER

SUMMER 2017



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Chairman's introduction



A warm welcome to the 2017 Newsletter for members of the BAA Pension Scheme.

In this edition of 'Focus' you will find this year's Summary Funding Statement and an investment update.

This year we have started a journey that will culminate in the Scheme adopting a digital approach as to how we communicate with you. This means you can receive less paper. Whilst some paper communications will remain for legal reasons, we very much hope you will support us by choosing to 'Go digital' (see page 7) as we strive to provide information in a more cost-effective, flexible, secure

and environmentally friendly manner. Over time the digital approach will also allow us to provide more relevant content to members based on their member category.

To support this initiative, Heathrow has improved and relaunched the pensions website which is available to all those who are, or have been, members of our various pension arrangements. The website is becoming the central 'hub' of all our pension communications and, for example, now includes an expanded digital version of this Newsletter called 'Digital Focus'. To reflect this we have improved the user experience accordingly – please take a look at baapensionscheme.com

In other news, Derek Proven resigned as a Member Nominated Trustee Director earlier this year. An election will be held, after the completion of a review by the Company of constituencies for member representatives, to ensure they represent a fair reflection of the

membership.

We are pleased to report that the Trustee has appointed Redington as the Scheme's new investment consultant. An interview with Robert Gardner, Co-Founder of Redington, can be found in 'Digital Focus'. Please go to baapensionscheme.com or use the QR code on page 9 to access it.

We hope you enjoy this edition of 'Focus'. Our continuing aim is to make it as useful and informative as possible - so if you would like to suggest any topics for inclusion in future issues, please do not hesitate to contact the Pensions Helpline on **01293 604248** or email baapensions@equiniti.com

Phil Wilbraham

Phil Wilbraham Chairman
On behalf of the Trustee of
the BAA Pension Scheme.

Your Trustee

Company-Appointed Trustee Directors

Phil Wilbraham (Chairman)

Paula Stannett

Anne Hurn

Andrew Macmillan (appointed 1 June 2016)

Matt Gorman (retired 1 April 2016)

Member-Nominated Trustee Directors

Paul Williams (Heathrow Airport 'Operations')

Steve Chambers (Heathrow Airport 'Operations')

Mike Macgregor (Pensioner)

Derek Proven (Appointed 1 June 2016
and resigned 31 January 2017)

Independent Trustee – Law Debenture Pension Trust Corporation (LDPTC)

Represented by: **Michael Chatterton**
or **Mike Jaffe**

Secretary to the Trustee

Alastair Knowles

The Trustee's advisers

The Trustee is supported by a number of advisers

Scheme Actuary

Chris Sheppard FIA, Mercer Limited

Investment consultants

Cardano (until 31 March 2017)

Redington (from 13 February 2017)

Covenant advisers

PriceWaterhouseCoopers

Auditors

Crowe Clark Whitehill LLP

Bankers

Lloyds Bank plc

Custodian services

J.P. Morgan Chase

Administrators

Equiniti

Legal advisers

CMS Cameron McKenna Nabarro Olswang LLP

Communication advisers

Concert Consulting UK Limited





Summary Funding Statement

Why have you sent me this Summary Funding Statement?

We are the Trustee of the BAA Pension Scheme (the "Scheme") and look after the Scheme on behalf of its members. We are sending you this Statement to tell you about the financial security of the Scheme. We recommend that you take some time to read it, since the Scheme's financial security could affect the benefits you will ultimately receive. We will continue to send you a similar Statement each year to keep you up to date.

How is the Scheme's financial security measured?

The estimated cost of providing the benefits you and other members have earned to date is known as the Scheme's "liabilities". This includes the benefits of members who have left the Company or retired.

We collect money ("contributions") from Active members and from the Company, and invest this to help provide your benefits. The money is held in a communal fund, not in separate funds for each individual. The amount of money we have invested is known as the Scheme's "assets".

To check the Scheme's financial security we look at its financial position and compare the value of its liabilities to its assets. If the Scheme has fewer assets than liabilities, it is said to have a "shortfall". If the assets are more than the liabilities there is said to be a "surplus".

We carry out an in-depth look at the Scheme's finances at least every three years. This is called an Actuarial Valuation. We ask a qualified, independent professional, known as an Actuary, to do this. We also ask the Actuary to review the financial security of the Scheme more regularly. When this is done we receive an Actuarial Report summarising the Actuary's conclusions.

What is the Scheme's financial position?

The latest Actuarial Valuation of the Scheme was carried out at 30 September 2015 with an Actuarial Report at 30 September 2016. The results were as follows:

Effective date	30 Sept 2015	30 Sept 2016
The value of the liabilities was	£3,544m	£4,311m
The Scheme's assets were valued at	£3,316m	£4,042m
This means that there was a shortfall of	£228m	£269m

Since 30 September 2016 the shortfall has fallen. As at the end of May 2017 it was around £200m.

We are required to inform you whether a payment has been made to the employer, as permitted under the Pensions Act 1995, since we last sent you a Summary Funding Statement. We can confirm that no such payment has been made to the employer.

How has the Scheme's financial position changed since the last Summary Funding Statement?

When we last sent you a Summary Funding Statement we reported that the Scheme was estimated to have a shortfall of £288 million at 30 September 2014.

Since then the Scheme's financial position has improved, up to the Actuarial Valuation as at 30 September 2015, primarily as a result of the benefit changes that the Company introduced, notably in relation to the cap on increases in Pensionable Salaries.

However, between 30 September 2015 and 30 September 2016 the shortfall increased by £41 million. This increase in the shortfall was primarily as a result of an increase in the value of the liabilities caused by a reduction in long term interest rates following the result of the EU referendum. This impact was partially offset by shortfall contributions paid by the Company and strong investment returns.

Since 30 September 2016 the shortfall has fallen as a result of an increase in long term interest rates which has reduced the value of the liabilities and hence the shortfall.



Is the shortfall going to be paid off, and if so, how will this be done?

The Company has agreed to make up the shortfall of £228 million by paying £23 million each year until 30 September 2022, when we expect the shortfall to be paid off.

To calculate the amount of the shortfall, assumptions have to be made about what will happen in the future, for example, the rate at which the Scheme's assets will grow. If the assumptions do not all turn out to be exactly in line with what actually happens, it may be necessary to change the level of contributions to the Scheme or the period over which the shortfall is paid off.

Although there was a shortfall at 30 September 2015, all members who have retired are still receiving the full amount of their pension.

How much money is paid into the Scheme each year?

The Company currently pays contributions to the Scheme at the rate of 23.0% of Pensionable Salaries to cover the cost of Active members accruing pension. Active members pay contributions at a rate of between 5.0% and 8.0% determined by their section of membership. The total contributions equated to £43 million over the year ending 30 September 2016.

The £23 million payable each year by the Company to pay off the shortfall is in addition to these amounts.

How do the Trustees know what contributions should be paid into the Scheme?

Following each Actuarial Valuation, the Actuary advises us what contributions should be paid into the Scheme so that we can expect to be able to continue to pay people's pensions. We then agree a level of contribution 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.

The Valuation and Schedule of Contributions follow standards we have set out in a Statement of Funding

Principles. This document describes how we will manage the Scheme with the aim of being able to continue to pay people's pensions.

We are required to tell you whether the Pensions Regulator has used its legal powers to make directions as to any of:

- The level of benefits available from the Scheme going forward;
- The method or assumptions used to calculate the liabilities or the length and structure of the Recovery Plan; and
- The contributions that should be paid under the Schedule of Contributions.

The Regulator has reviewed the 2015 Actuarial Valuation. It confirmed that it does not have any questions in relation to the agreed contributions and decided not to use its powers in relation to the Scheme. Therefore the Scheme is not subject to any directions.

Is my pension guaranteed?

Our aim is for there to be enough money in the Scheme to pay pensions now and in the future, but this depends on the Company carrying on in business and continuing to pay for the Scheme.

If the Company goes out of business or decides to stop paying for the Scheme, it is expected to pay the Scheme enough money to secure all the benefits built up by members with an insurance company. This is known as the Scheme being "bought-out" and "wound-up".

The comparison of the Scheme's assets to the cost of buying the benefits with an insurance company is known as the "solvency position" (see page 6).



Don't forget that you can access 'My Pension', your Secure Member Area, through our scheme website.

baapensionscheme.com

Or use a QR reader and this code to go directly to the website





What happens if the Scheme is wound-up and there is not enough money to pay for all my benefits?

If the Scheme winds up without enough money to buy all the members' benefits with an insurance company then, unless the Company can afford to pay the difference, you are unlikely to receive the full benefits you were expecting. To help members in this situation, the Government set up the Pension Protection Fund (PPF). The PPF pays a legally defined level of benefits to members of eligible UK pension schemes, in certain situations where a scheme does not have enough money to cover the cost of buying this level of benefits for members with an insurance company, and the Company is insolvent and so cannot provide extra finance.

If the Scheme were to be wound up and go into the PPF, the pension you would receive from the PPF may be less than the full benefit you have earned in the Scheme, depending on your age and when your benefits were earned.

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: Renaissance, 12 Dingwall Road, Croydon, Surrey CR0 2NA.

Is there enough money in the Scheme to provide my full benefits if the Scheme is wound-up?

The Actuarial Valuation at 30 September 2015 showed that the Scheme's assets could not have paid for the full benefits of all members to be provided by an insurance company if the Scheme had wound-up at that date.

The liabilities if the Scheme were to be wound-up were	£4,954m
The Scheme's assets were	£3,316m
This means that there was a shortfall of	£1,638m
The solvency position at the previous Valuation on 30 September 2013 was a shortfall of	£1,547m

The fact that we have shown the solvency position does not mean that the Company is thinking of winding up the Scheme. It is just another piece of information we are required, by law, to provide and which we hope will help you understand the financial security of your benefits.

Can I leave the Scheme before I am due to retire?

If you are an Active member, you can leave the Scheme before you reach retirement and your pension will be based on your service and salary at your date of leaving. Your pension benefits may be left in the Scheme to be paid at retirement or transferred to another pension arrangement.

Similarly, if you have already left the Scheme and have "paid up" benefits you can, if you wish, transfer your benefits to another pension arrangement prior to retirement.

If you are thinking of transferring your benefits out of the Scheme for any reason, you should consult a professional adviser, such as an Independent Financial Adviser, before taking any action. The law prevents us from providing you with financial advice.

Where can I get more information?

If you have any other questions, or would like any more information, please see our contact details on page 12. Alternatively visit the Scheme website baapensionscheme.com

Let's go digital!

Communicating effectively with over 17,000 Scheme members on a regular basis can be both time consuming and expensive. The Trustee is therefore always looking for ways to manage costs whilst striving to improve the communication experience for members.

With this in mind, we will shortly be taking the first steps along a road towards reducing the amount of paper communications that you receive by making general documents available online for members to view and download.

There are three very good reasons why the Trustee wants to "go digital":

- 1** To reduce the amount of paper wasted;
- 2** To be able to issue documents and notices to members more quickly; and
- 3** To reduce printing and postage costs.



We think you'll benefit as well, because:

- You'll reduce the number of paper documents you have to store, recycle or shred; and
- It will be easier for us to stay in touch with you, as people don't often change their email address, but they do move house and forget to tell us!

Quite simply we would like to offer you the **choice** as to how you receive your communications. In the coming weeks, and to begin this exercise, you will receive a 'Let's go digital' postcard – simply go to the website and click on the 'Stay up-to-date' button (as shown above) to register your details, using your unique reference number found on the postcard. Please be assured that this data will be held securely and not be shared with other parties.

Investment update

It is important that our Scheme’s investments perform well as the returns provide income for the Scheme. You may not however be too surprised to hear that it’s not quite as simple as that! The Trustee has to set an overall investment strategy that takes into account other considerations such as how to manage the exposure to risk, what effect the long term liabilities (future pensions) might have on objectives and what funding agreements are in place with the Company. The investment strategy is set out in the Scheme’s Statement of Investment Principles (“SIP”) and Investment Policy Implementation Document (“IPIID”), both of which are available on the Scheme website.

So how is this strategy implemented?

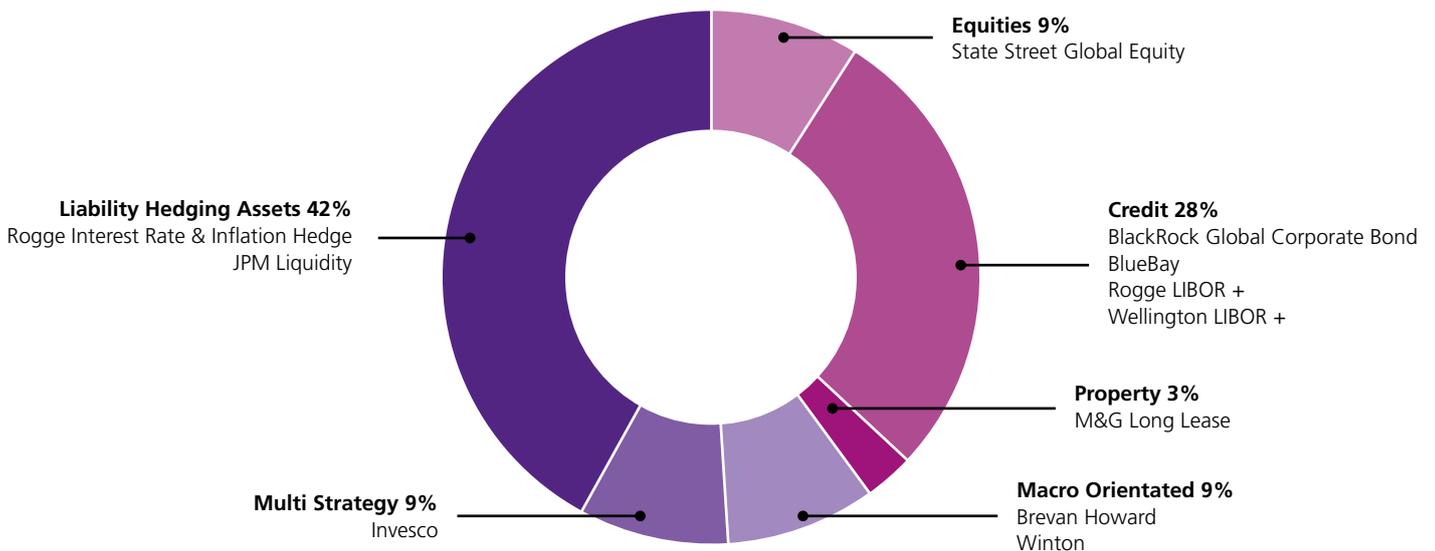
Currently our investment portfolio is broadly split into the following categories:

- Investments that move in line with changes in interest rates and inflation and hedge against the impact of such changes on the value of long term liabilities.
- Return seeking investments. These include UK and overseas equities, UK and overseas non-government bonds (credit) and property. The purpose of these investments is to deliver positive returns, but in a risk-controlled manner.

Over the course of the year, a number of changes were made to spread the risk of the Scheme’s investment strategy to improve the management of the return-seeking assets. The Trustee also agreed to transfer their Liability Hedging portfolio from Rogge to BlackRock in order to improve the efficiency in that part of the strategy. This was completed by December 2016. In August of that year, the Trustee made a full withdrawal from Brevan Howard following continued disappointing performance.

Further details of the Investment Report form part of the Scheme’s Trustee Report & Accounts. A copy of the most recent version (as at 30 September 2016) can be found here - <http://www.baapensionscheme.com/library/financial-reports>

Scheme investment manager structure as at 30 September 2016



The table below shows the Scheme’s investment performance over various periods to 30 September 2016:

	1 Year	3 Years (p.a.)	5 Years (p.a.)
Change in value of assets	23.2%	14.3%	11.7%
Change in value of liabilities*	24.5%	16.7%	12.0%

LIBOR or London InterBank Offered Rate, is the basic rate of interest used in lending between banks on the London interbank market and is also used as a reference for setting the interest rate on other loans.

* Change in liabilities has been calculated on a Gilts basis by the Actuary and the asset return uses performance data estimated by Cardano.

Take control with baapensionscheme.com

At the start of the year, we launched the new Scheme website to help our members to access information quickly and easily. Our aim was to consider the different audiences that make up our membership and match the right people with the right messages, at the right time.

The new website has been specifically designed to help you manage your ongoing options and retirement planning.



Depending on whether you are an Active, Deferred or Pensioner member you can:

- Access your personal details;
- View Scheme booklets and Reports;
- Get real-time updates using the “News section”;
- View your Pension payslip and P60;
- View general pension updates;
- Contact our Administrators via the secure team email facility.

And remember the site is there for you 24 hours a day, 7 days a week and can be accessed on your tablet or smartphone.

The site also offers a direct link to ‘My Pension’, the secure member self-service facility run by our Administrators, Equiniti.

If you have not previously visited ‘My Pension’ you will need to register:

Step 1: You will be asked to enter a Passcode which is: BAA.

Step 2: You will now be prompted to enter your Member Number, NI Number and Date of Birth. You can find your Member Number on any personalised correspondence you have received relating to your BAA pension.

Step 3: Finally you will be asked to chose your security questions and set your answers, along with your Username and Password.

If you are experiencing problems accessing ‘My Pension’ please contact Equiniti on **0345 189 1071**.



Go to the website to read our interview with Robert Gardner of Redington, the new providers of strategic investment advice to the Trustee.

baapensionscheme.com

Or use a QR reader and this code to go directly to the website





Facts and figures

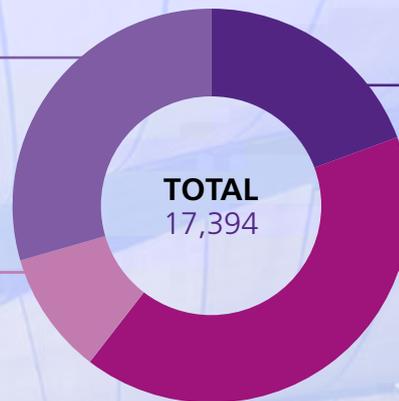
The following section provides the facts and figures about our Scheme. It includes the latest membership figures and the income and expenditure, in the year to 30 September 2016, as taken from the Annual Report and Accounts.

If you would like to see a copy of the full Annual Report and Accounts, please call our Administrators, Equiniti, on 01293 604248.

Scheme membership at 30 September 2016:

Deferred Pensioners
5,127

Dependant Pensioners
1,753



Active members
3,366

Pensioners
7,148

Arrivals

To 30 September 2016

Arrivals	£'000
Contributions from members	5,501
Contributions from the Company	64,456
Transfers in	156
Investment income	43,286
Total	113,399

Departures

Departures	£'000
Benefits payable	96,136
Payments to and on account of leavers	8,035
Administrative expenses and fees	8,117
Total	112,288

What it's all worth

What it's all worth	£'000
Value of Scheme assets as at 30 September 2015	3,337,519
Income - expenditure	1,111
Change in the market value of Scheme assets	724,926
Value of Scheme assets as at 30 September 2016	4,063,556

Pensions news

Pension fraud continues to rise

Since the introduction of pension freedoms in April 2015, fraud related crime generated through pension scams has steadily been on the increase.



The Pensions Advisory Service (TPAS) recently launched an online tool specifically designed to provide support and guidance to pension savers which can be accessed at www.pensionsadvisoryservice.org.uk/my-pension/online-tools and the Pensions Regulator (tPR) has also released a series of videos which can be viewed on their website www.thepensionsregulator.gov.uk/individuals/dangers-of-pension-scams.aspx.

If you suspect you have been contacted by a pension scammer please contact TPAS for help. You can call them on **0300 123 1047** or visit the TPAS website at www.thepensionsadvisoryservice.org.uk for free pensions advice and information.

Pension Wise – Free and impartial guidance

There have been a number of changes to Pension Wise since it was first established in 2015 and so we would like to tell you more about it.

Pension Wise is a free Government service for those aged 50 or over and have a Defined Contribution (DC) pension pot. The service is also particularly helpful to Defined Benefit members who are currently paying or have paid DC Additional Voluntary Contributions or have DC pension savings elsewhere.

Pension Wise is there to help you:

- Understand the different options available to you when accessing your pension pot(s);
- Assess the potential advantages and disadvantages of any decisions you are planning to make;
- Understand any tax implications that might occur; and
- Make the right choices, for example
 - If you are planning to continue working and draw your pension benefits at the same time.
 - Taking into account your current personal and financial circumstances.
 - In the event that you should die.

If you require a face to face meeting Pension Wise is delivered by Citizens Advice. Alternatively you can call the Pensions Advisory Service (TPAS) if you are happy to discuss your query over the phone.

To book either a telephone or face to face appointment, you can call **0300 330 1001**.

Their website www.pensionwise.gov.uk also provides a lot of useful information that may be of interest to you.

Lifetime Allowance changes

The Lifetime Allowance is the value of overall pension savings you can build up during your lifetime which qualifies for full tax relief. With effect from 6 April 2016, the Lifetime Allowance reduced from £1.25 million to £1 million.

If you take benefits above the Lifetime Allowance you'll face a tax charge unless you have a form of Lifetime Allowance protection in place.

To find out more, go to www.gov.uk/guidance/pension-schemes-protect-your-lifetime-allowance.

From 6 April 2018, the Lifetime Allowance is expected to rise each year in line with the change in inflation, as measured by the Consumer Prices Index.

If you're unsure whether the Lifetime Allowance affects you, or if you would like more information, please refer to your Annual Benefit Statement.

Have you lost track of a pension?

Most people will work for more than one employer during their lifetime and this can lead to having pension savings in different places at retirement.

When you also consider that many pension schemes undergo change themselves, for example merging from one scheme to another, it's not unusual for people to lose touch with one or more of their pensions.

If you think you might have lost track of a pension, the Pension Tracing Service may be able to help. The service is available online, over the phone or you can write to them.

To find out more go to www.gov.uk/find-pension-contact-details



For the most up to date articles, about the developments that can affect your pension with the Scheme, please visit our website.

baapensionscheme.com

Or use a QR reader and this code to go directly to the website





Transfer values – get the right advice

Since 2015, there has been greater flexibility as to how an individual can use their Defined Contribution (DC) pension savings. This has in turn led to an increase in the number of Defined Benefit pension scheme members looking to transfer their benefits to take advantage of these flexibilities.

This is a decision which should not be taken lightly. The full value of the benefits payable from schemes such as the BAA Pension Scheme may not be easy to identify. As a result the individual may be forgoing some level of future financial security, for themselves or their dependants, unknowingly.

Before a transfer of more than £30,000 of Defined Benefit pension benefits can proceed legislation requires that the appropriate advice is sought from an Independent Financial Adviser (IFA). The Trustee would encourage all members considering transferring their BAA Pension Scheme benefits to obtain the appropriate financial advice to make sure the decision to transfer is in their best interests both now and in the future. You can find an IFA in your area by visiting www.unbiased.co.uk

Short reprieve for triple lock on pensions

The uncertainty around the future of the triple lock seems to be over, at least for the short term. The new Secretary of State for Work and Pensions, David Gauke, has confirmed the current mechanism for increasing State pensions, which sees them increase each year by the higher of the average increase in wages, inflation or 2.5%, will remain in place until 2020.

However, he confirmed that he believed it could not remain indefinitely. Speaking on the topic Mr Gauke said "If you look at what the triple lock does, it has a ratchet effect, because pensions go up by the higher of inflation or earnings, and in some years it will be one, in some years it will be the other. But over a period of time, it will mean that a greater and greater share of GDP goes to paying the State pension, even without any increases in pensioner numbers, because that's just the way it works. Do I think that in 10, 20, 30 years' time we will still have a triple lock? I cannot see in all honesty how we can."

Contact us

Contact our Administrators with your questions

You can contact Equiniti in any of the following ways:

- ☎ By telephone on
01293 604248
- @ By email on
baapensions@equiniti.com
- 🌐 Our website at
www.baapensionscheme.com
- ✉ By letter to
**Sutherland House
Russell Way
Crawley
West Sussex
RH10 1UH**

EQUINITI

How you can help when you contact us

To help Equiniti 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 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.



Our new and improved website can tell you all about the advisers who work on behalf of the Scheme ... Just log in to find out more.

baapensionscheme.com

Or use a QR reader and this code to go directly to the website



Overriding effect of scheme governing documentation and legislation

Please note that 'Focus' is intended to be a general guide and not a legally binding document. If there is any conflict between the information set out in this Newsletter and relevant legislation or the Scheme's governing documentation (as amended from time to time) as it applies to you, the legislation and governing documentation will prevail.

Please note that neither the Trustee nor the Company can provide you with advice on your benefits within the Scheme. As such, we recommend that you obtain independent financial advice before making any decisions regarding your entitlements under the Scheme.