FOCUS

THE MAGAZINE FOR BAA PENSION SCHEME MEMBERS

2019

BAA Pension Scheme

Chairman's **introduction**

Welcome…

…to the 2019 edition of Focus.

Making sure the Scheme has enough money to pay the benefits being built up by members is naturally one of our most important responsibilities. We continuously monitor the Scheme's funding and investments, and we keep you up to date with developments each year through the Summary Funding Statement in Focus and Digital Focus (the more detailed online version).

A full Valuation takes place at least every three years and the latest, at 30 September 2018, was completed just recently. I'm pleased to be able to report that the Scheme's financial health is continuing to improve — with a funding level of 97%.

Given the general uncertainty of financial markets and the implications for some pension plans, we're especially pleased to report that the Scheme's investments outperformed the target we set — see page 6 for more.

As well as information on the Scheme's funding position and investments, this edition also includes a number of articles designed to update you on other Scheme matters.

Many members are telling us that they now prefer to access Scheme information digitally — through the website or Digital Focus. Apart from the environmental considerations you will find the digital format contains more detail and is updated regularly. To register for digital just visit the **www.baapensionscheme.com** website and, once you've chosen your scheme and section, click the 'Stay up-to-date' button'.

We also want the content of Focus to be relevant to you and, last year, we asked you to suggest topics that you'd like us to cover. I'm very pleased to say that, as a direct response to requests from Active members, in this edition we take a closer look at the Government's 'Annual Allowance', how you could be affected by it and what you need to do if you are. In response to feedback from Pensioner members, we've also included an article about the recent buy-in exercise.

If you'd like to suggest topics to cover in next year's edition of Focus, please call the BAA Pensions Team on **0333 207 6549** or email **baa.pensions@equiniti.com**

Finally, there have been two recent changes to the Trustee Board. Steve Chambers left his position with Heathrow on 3 May 2019 and consequently has also stepped down as a Member Nominated Trustee Director and Alastair Knowles, the Scheme Secretary, stepped down from his role on 24 May 2019.

We'd like to record our special thanks to both Steve and Alastair for all their help, hard work and support on behalf of the Scheme and its members.

P Wilbraham

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

The Trustee and our advisers

The Trustee Board is made up of eight directors. Four are appointed by the Company and the remaining four by the Scheme's members, referred to as Member Nominated Directors or MNDs. Each MND serves for a fixed term.

We often refer to the work undertaken by the Trustee as a whole, but it is equally important to highlight the excellent work undertaken by the four Committees that provide essential support to the Trustee Board. Each Committee is made up of a number of Trustee Directors and focuses on specific issues. By working this way, we can use the individual expertise of each Trustee Director more efficiently.

High level descriptions of what each Committee does can be found on page 2, but please go to Digital Focus on the website for a more detailed breakdown.

Company-Appointed Trustee Directors

Phil Wilbraham (Chairman)

Anne Hurn

Paula Stannett

Andrew Macmillan

Member-Nominated Trustee Directors

Steve Chambers

Terry Mackay (appointed 25 April 2018)

Mike Macgregor (Pensioner, reappointed 1 February 2019)

Mohammad Riaz (appointed 1 August 2018)

Independent Trustee

The Law Debenture (BAA) Pension Trust Corporation
Represented by Michael Chatterton or Mike Jaffe

Secretary to the Trustee

Alastair Knowles

Changes since 30 September 2018
Steve Chambers resigned 3 May 2019. The nomination process for a new MND will be starting shortly.
Alastair Knowles resigned 24 May 2019. Richard Francis of Mercer Ltd is currently acting as Interim Secretary.

Investment Committee

Operational matters relating to the implementation and oversight of the Scheme's investment strategy, are considered by the Investment Committee. This involves the selection, recommendation and continued monitoring of investment managers. Importantly, the final decisions concerning our investments are made by the Trustee Board.

Audit & Risk Committee

This Committee is responsible for dealing with the preparation and audit of the Scheme's statutory accounts, monitoring the Scheme's internal controls and record keeping. The ARC also maintains the Scheme's Risk Register.

Administration Committee

The role of monitoring the administration services, which are provided by Equiniti, falls to the Administration Committee. It is also responsible for considering the payment of any discretionary benefits, including those payable following the death of a member.

Valuation Committee

At least every three years a formal review of the financial health of the Scheme is undertaken. This process is known as an Actuarial Valuation, the results of which are found in the Valuation Update section. The Valuation Committee oversees this process, including any dialogue with the Company, and the preparation of any Valuation related correspondence, on behalf of the Trustee Board.

The Trustee is supported by a number of advisers:

Scheme Actuary
Chris Sheppard FIA, Mercer Ltd

Investment consultants
Redington Ltd

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 Ltd

Summary **Funding Statement**

The Trustee monitors the financial security of the Scheme on a monthly basis. A qualified, independent professional, known as the Scheme Actuary, carries out a formal review (called an Actuarial Report) every year and, every third year, there is a more in-depth financial health-check (called an Actuarial Valuation or Valuation).

As well as being something we're required to do by the Pensions Regulator, we share this information with you through the yearly Summary Funding Statement in Focus and Digital Focus so you can get a picture of the Scheme's financial position. We recommend that you take some time to read it, since the Scheme's financial position could affect your benefits.

What is the Scheme's funding position?

The most recent Valuation was carried out as at 30 September 2018. This has just been finalised and although the Scheme remains in deficit, the funding position has improved since the previous Actuarial Report as at 30 September 2017. These results were as follows:

Effective date	30 Sept 2017	30 Sept 2018
Value of the Scheme's liabilities	£4,094m	£4,047m
Value of the Scheme's assets	£3,893m	£3,924m*
Scheme shortfall	£201m	£123m

* The assets of the Scheme include an amount of £26m in respect of the one-off contribution made by the Employer when the sale of the companies within the Airports Division completed in 2014. The Trustee and the Employer have agreed that this amount will not be taken into account when determining the Recovery Plan.

Since 30 September 2018 the shortfall has increased slightly to around £128m at the end of July 2019.

The next Valuation of the Scheme will be conducted no later than 30 September 2021, but we'll keep you updated on developments each year through Focus and Digital Focus.

We're required to tell you if any payments have 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 payments have been made to the Employer.

How is the Scheme's funding position measured?

The estimated cost of providing all the benefits built up by the Scheme's members (including leavers and Pensioners) is called the Scheme's 'liabilities'.

The money collected from Active members and the Company ('contributions') is held in a communal fund and invested to help it grow in value. These contributions and investments are called the Scheme's 'assets'.

The Scheme's funding position is measured by comparing the Scheme's liabilities against its assets.

If the value of the assets held by the Scheme is more than the liabilities, the Scheme is 'in surplus'. If the cost of the benefits is more than the value of the assets, the Scheme is 'in deficit'.

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

The Scheme was estimated to have a shortfall of £201m at 30 September 2017. By the end of September 2018, the position had improved with the shortfall standing at £123m.

This reduction in the shortfall was primarily as a result of investment returns on assets being higher than expected, contributions paid to reduce the shortfall and changes in the assumptions made in the Valuation to reflect the expected future experience of the Scheme.

The effect of these factors was partially offset by a reduction in long term interest rates and higher expectations for future inflation, both of which act to increase the value placed on the liabilities.

Since 30 September 2018, the shortfall has increased to £128m at the end of July 2019, as a result of a further reduction in long-term interest rates which has been partially offset by strong asset returns and further shortfall contributions paid by the Company.

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

The Company has agreed to make up the £123m shortfall at 30 September 2018 by paying £23m in the year to 30 September 2019, followed by £20m each year thereafter until 30 September 2022. If a shortfall remains at that time further contributions of up to £15m per annum will be paid until 30 September 2026, although these are subject to review at future Valuations.

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 2018, 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 will be increasing its contributions from 1 October 2019 from 23% to 25.6% of Pensionable Salaries, to cover the cost of Active members accruing pension.

Active members pay contributions at a rate of between 5.0% and 7.5% determined by their section of membership. The total contributions from both the Company and members (but excluding deficit contributions) equated to £31.2m over the year ending 30 September 2018.

The amount 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 Valuation, the Scheme 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 contributions for the Scheme with the Company and record this in a document called the Schedule of Contributions.

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 can confirm that the Pensions Regulator has not needed to use 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.

Is my pension guaranteed?

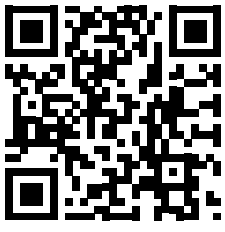
Our aim is for there to be enough money in the Scheme to pay pensions now and in the future, but this depends on the Company carrying on in business and continuing to pay for the Scheme.

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 5).

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

www.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.ppf.co.uk** or you can write to:
The Pension Protection Fund
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 2018 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	£5,382m
The Scheme's assets were	£3,950m
This means that there was a shortfall of	£1,433m
The solvency position at the previous Valuation on 30 September 2015 was a shortfall of	£1,639m

The solvency position will next be updated as part of the 30 September 2021 Actuarial Valuation. 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 Normal Retirement Date 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.

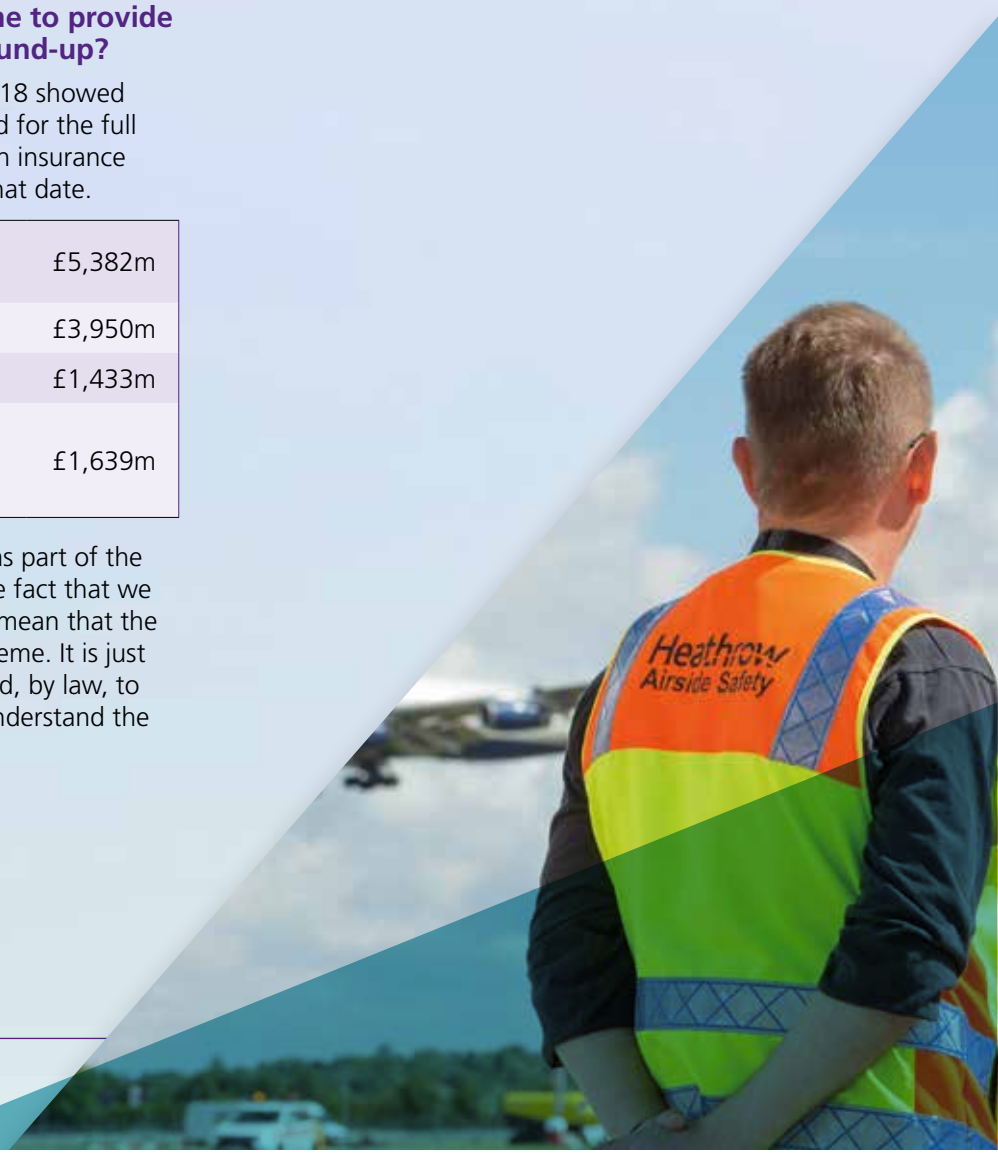
If you have already left the Scheme and have deferred benefits you can, if you wish, transfer your benefits to another pension arrangement prior to retirement.

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 11.

Alternatively, visit the Scheme website **www.baapensionscheme.com**



Investment update

The Scheme's investments help meet the cost of providing benefits for all the Scheme's members. This means that the performance of the Scheme's investments is very important, and a responsibility we take extremely seriously.

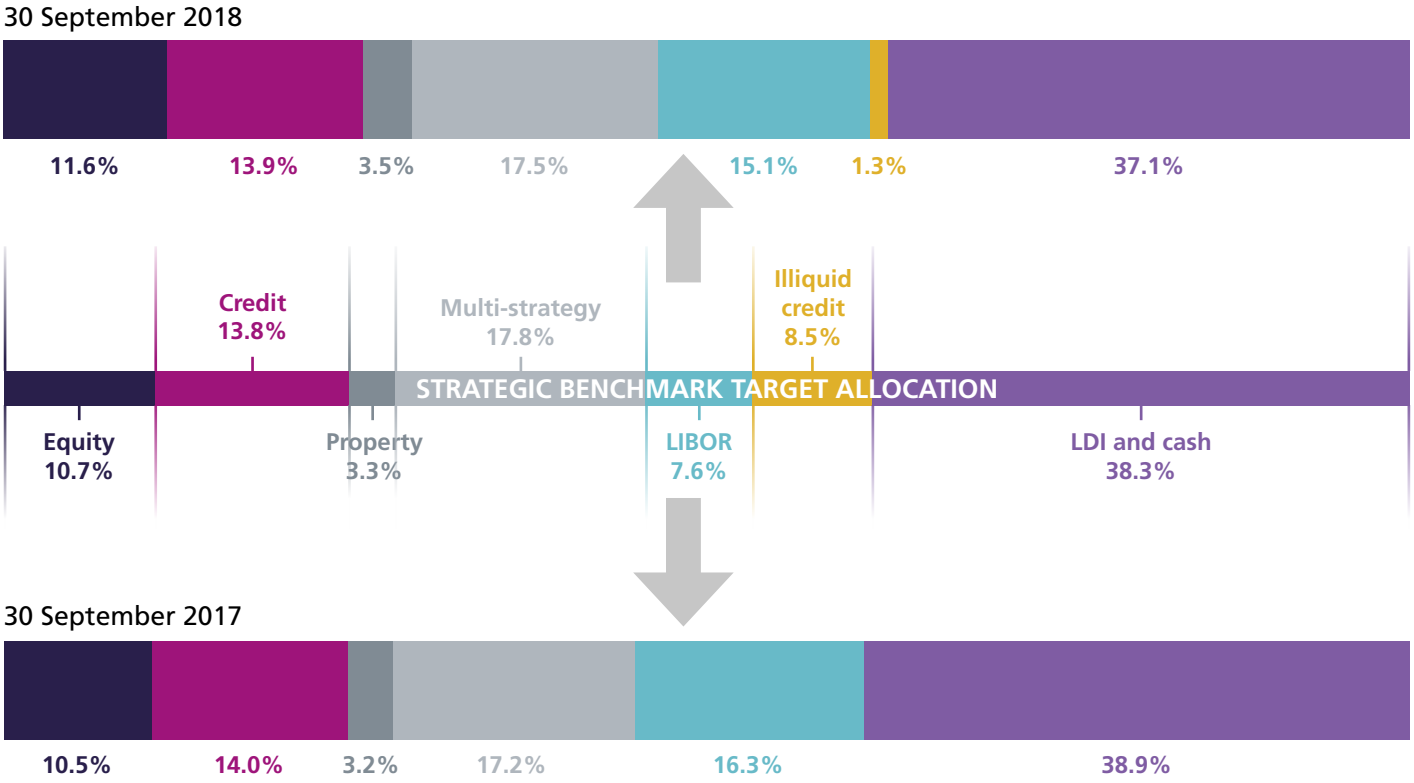
Investment strategy

We obtain independent, specialist investment advice before implementing any decisions and our investment objectives and investment strategy are clearly set out in a formal document known as the Statement of Investment Principles ('SIP'). You can view or download a copy from our Scheme website.

The Scheme's investment portfolio is broadly split into two categories: **Liability Driven Investments** and **Return Seeking Investments**.

Liability Driven Investments ('LDI')
These are investments that move in line with the Scheme's liabilities in response to changes in interest rates and inflation — protecting the Scheme's funding level against these movements.

Asset allocation



Return Seeking Investments
These are made up of both UK and overseas investments which include equities (stocks and shares), bonds and property as well as other types of investments, in order to achieve diversification and deliver positive returns, but in a risk-controlled manner.

The charts above compare the Scheme's actual investment allocation at 30 September 2018 and 30 September 2017 with our target asset allocation. Due to the long-term view we take when making investment decisions, there can be periods when the actual asset allocation differs from our target asset allocation.

Investment managers

Equity	**State Street Global Advisors Ltd**
Credit	**BlackRock Investment Management (UK) Ltd, BlueBay Asset Management LLP**
Property	**M&G Asset Management**
Multi-strategy	**Invesco Asset Management Ltd, Bridgewater Associates LP, Man Group plc**
LIBOR	**Allianz Global Investors Gmbh, Wellington Asset Management**
Illiquid credit	**KKR Private Credit Opportunities Partners II (EEA) LP**
LDI and cash	**BlackRock Investment Management (UK) Ltd, Legal & General Group plc, JP Morgan Chase**

Investment performance

The table below shows the Scheme's investment performance over one, three and five years to 30 September 2018:

Effective date	1 Year	3 Years (p.a.)	5 Years (p.a.)
Change in value of assets	3.2%	7.8%	8.7%
Change in value of liabilities*	1.4%	6.9%	9.3%

*Change in liabilities has been calculated by the Scheme Actuary and the asset return uses performance data estimated by the Scheme's Investment consultant.

Further details can be found in the Investment Report which forms part of the Scheme's Trustee Report & Accounts. A copy of the latest audited Report & Accounts (at 30 September 2018) can be found on the Scheme website.

Understanding the **Annual Allowance (AA)**

The following is intended as guidance only — if you are in any doubt on how the AA applies to you personally, please contact an Independent Financial Adviser (IFA).

Understanding what the AA is, and how to work out whether it affects you, is important.

The Company has already highlighted this issue to those who (based on earnings and pension details available to Heathrow) we know will certainly be affected by 'Tapered Annual Allowance'. However, that cannot be done for everyone as we cannot know if you have other income that needs to be considered.

What is the Annual Allowance?

The AA is a limit, set by the Government, on the amount that can be added to your retirement savings each year without you having to pay extra tax. You can still build up pensions and/or pay into pensions schemes above the AA; however, if you do, you pay extra tax on the amount over the limit.

Sounds simple enough but working out whether you're affected can be complicated.

We've tried to summarise some of the key points below but you can find more detailed information on HMRC's website: **www.gov.uk/tax-on-your-private-pension/annual-allowance**

Does the Annual Allowance affect me?

To work out whether you're affected, you need to know two things:

1. What your AA is; and
2. How much has been added to your retirement savings.

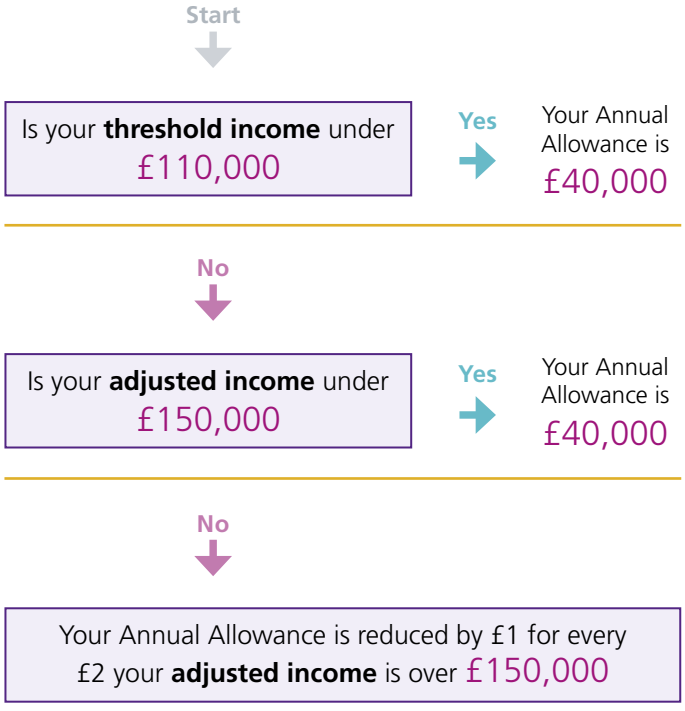
1 What's your Annual Allowance?

For most people the AA in the 2019/20 tax year is £40,000.

But it isn't the same for everyone. Higher earners may have a lower limit. You may also have a lower limit if you've started accessing any Money Purchase or Defined Contribution retirement savings.

To work out your AA, you may need to know both your:

- **Threshold income:** this is the total income you have received from any source which is liable to income tax (including any benefits in kind), less certain allowable deductions (for example, Give As You Earn payments).
- **Adjusted income:** this is your threshold income, plus the total value of all pensions built up (or for Defined Contribution schemes, the contributions paid by you and on your behalf).



PLUS: If you're aged over 55 and have started accessing any Money Purchase/Defined Contribution retirement savings your AA is reduced to £4,000 no matter what your taxable income is.

There is a free online service to help work out your AA on HMRC's website:
www.gov.uk/guidance/pension-schemes-work-out-your-tapered-annual-allowance

2 How much has been added to your retirement savings in this tax year

For members of Defined Benefit schemes like ours, the increase in the value of your retirement benefits each year is used to work out how much of your AA you've used.

If you want to know how much your Scheme benefits have increased by, you'll need to email the BAA Pensions Team at **baa.pensions@equiniti.com**

If you made any other pension savings during the same period, you'll also need to include these to work out how much of the AA you've used up.

This includes:

- Additional Voluntary Contributions (AVCs) paid through the Scheme;
- AVCs paid through other providers;
- Any pension savings built up in other registered schemes outside the Company.

HMRC provides a free online service to check if you have to pay tax on your pension savings:
www.tax.service.gov.uk/pension-annual-allowance-calculator

What does the **buy-in** mean to you?

This article is being included at the request of Pensioner members of the Scheme who want to understand more about last year's 'buy-in' with Legal & General.

Perhaps the first thing to say about a 'buy-in' is that it's not a 'buy-out'.

With a buy-out, liabilities are actually transferred away from a pension scheme.

A 'buy-in' is a way for pension schemes like ours to reduce some of the key risks around how long people may live, inflation and interest rates — all of which can have an important effect on a scheme's funding — but keep responsibility for the liabilities in the Scheme.

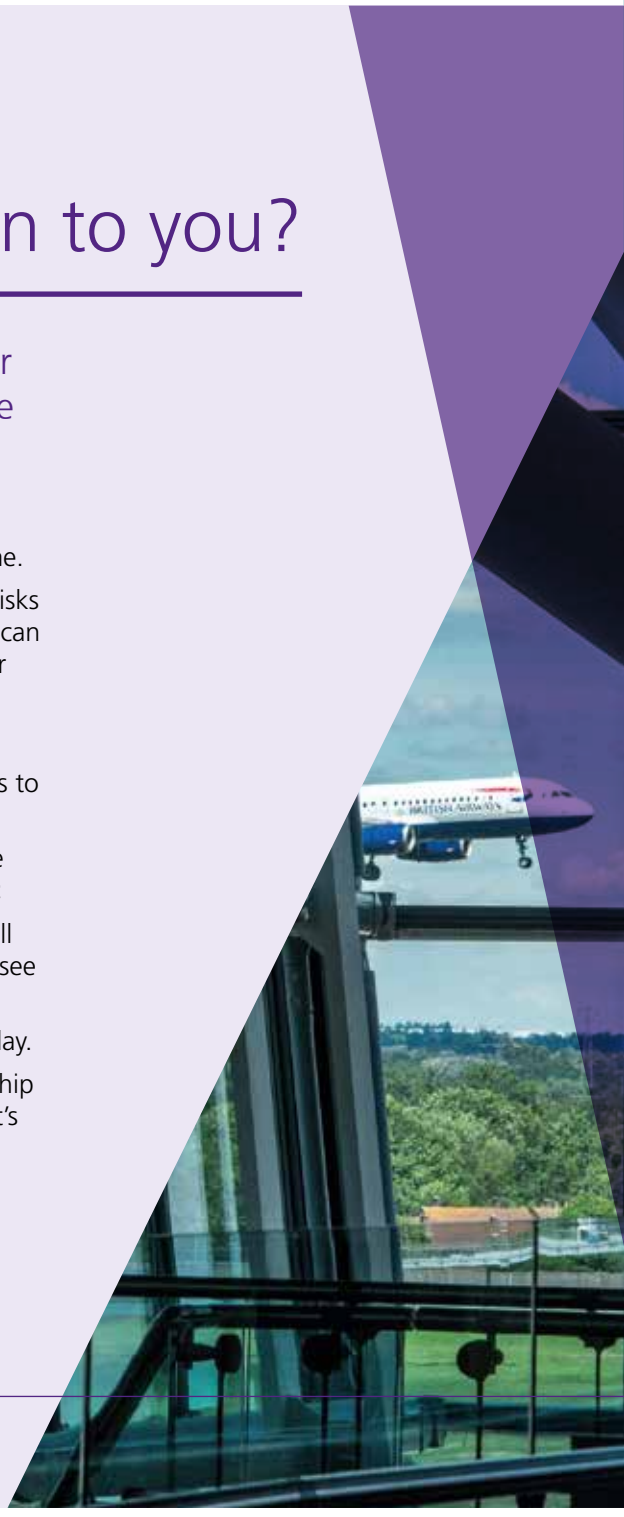
The way it's worked out for our Scheme is pretty straightforward:

- The Trustees and the Company agreed to use some of the Scheme's assets to buy an insurance contract from Legal & General;
- The contract provides a guaranteed income that is broadly in line with the value of a proportion of the pensions currently being paid by the Scheme;
- But the contract itself is also an asset — which means the Scheme's overall level of assets and liabilities remains the same, but with less risk. You can see it listed as a new asset class in the 'Investment update' section.

All pensions are still paid by the Scheme, in the same way and on the same day.

Lots of pension schemes like ours carry out buy-ins because, as the membership profile changes, with fewer Active members and more Pensioner members, it's a good way to help match the nature of the Scheme assets to the changing Nature of the Scheme's liabilities.

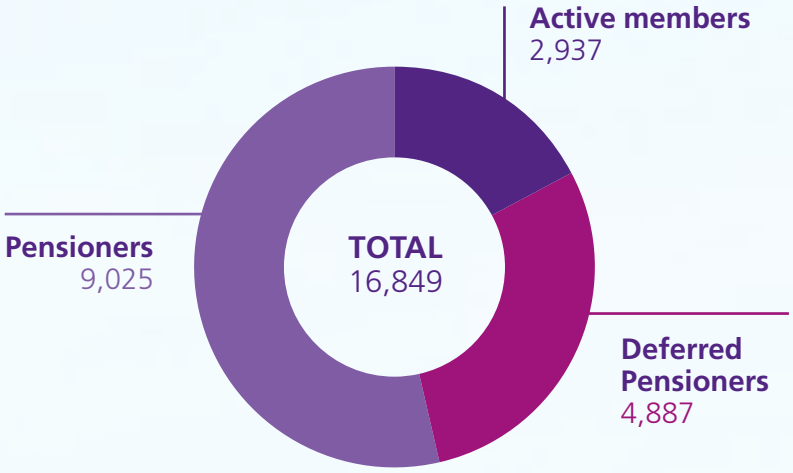
This is an important part of the Trustee's job and it may be that there will be more buy-ins in future, but only if market conditions are right and it's in the best interests of the Scheme's members.



Facts and figures

This section includes the latest membership data and the income and expenditure figures, for the year to 30 September 2018, as taken from the Annual Report and Accounts.

You can view or download a copy of the full Annual Report and Accounts from our Scheme website.



Arrivals

up to 30 September 2018

	£'000
Contributions from members	4,810
Contributions from the Company	49,363
Transfers in	0
Total	**54,173**

Departures

	£'000
Benefits payable	102,209
Payments to and on account of leavers	35,453
Administrative expenses and fees	3.301
Total	**140,963**

What it's all worth

	£
Value of Scheme assets at 30 September 2017	3,918,678
Income — expenditure	(86,790)
Overall return on Scheme assets	118,998
Value of Scheme assets at 30 September 2018	**3,950,886**

Contact us

Online at
www.baapensionscheme.com

By email on
baa.pensions@equiniti.com

By telephone on
0333 207 6549

By letter to
BAA Pensions Team
Sutherland House
Russell Way
Crawley
RH10 1UH

EQUINITI

How you can help us to help you

To help the BAA Pensions Team at Equiniti deal quickly and efficiently with your enquiry please give as much information as possible about yourself at the time you make your enquiry. The main method of identification is by your National Insurance (NI) 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 NI 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 that we need your written and signed authority to discuss or release your personal or financial information to a third party.

Overriding effect of scheme governing documentation and legislation

Please note that Focus and Digital Focus are intended to be a general guide and not legally binding documents. If there is any conflict between the information set out in Focus and Digital Focus 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.

Concert Consulting 2019