

FOCUS

▶▶ The BAA Pension Scheme Newsletter

Summer 2016 ▶▶

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Chairman's introduction



Welcome to the 2016 edition of your BAA Focus newsletter, in which we bring you the latest news from the BAA Pension Scheme and the wider pensions world.



2016 marks 51 years since the British Airports Authority was established and 50 years since the formation of the original 'British Airports Authority Superannuation Scheme'. We have decided to mark the occasion by creating a special 50th anniversary edition of the newsletter – you will find some comparisons between 1966 and 2016 dotted throughout these pages.

In the last edition of the newsletter we wrote to you about the formal consultation that was underway with 'active' members of the Scheme. The consultation has now ended and we can confirm that after careful consideration of the communications with all affected members undertaken by the Company, and having been satisfied that Heathrow had complied with all of the legal requirements for this consultation, the changes went ahead as originally proposed with effect from 1 October 2015. All members who are affected by the changes have been informed. The Company requested that the Trustee bring forward the formal Actuarial Valuation of the Scheme to September 2015 as a result of the changes – see page 4 for more information.

More changes to pensions legislation took effect in April 2016, resulting in you having more pension options. The changes to 'contracting out' will affect all active members, so please read our article on page 8 to make sure you understand what it means for you.

On page 6 we hear from the legal adviser to the Scheme, Mark Atkinson of CMS.

The Trustee is responsible for making sure that the Scheme operates according to regulations and legal advice is often vital when making decisions about changes or answering queries from members.

We also feature an interview from one of our Member-Nominated Trustee Directors, Steve Chambers. Find out more about why he chose to become a Trustee and what he enjoys most about the job on page 16.

I would also like to welcome two new Trustees who have recently joined the Board - Derek Provan, as Member-Nominated Trustee for the Heathrow Support Services Constituency, and Andrew MacMillan, as a new Company Appointed Trustee. Andrew began the role in April 2016 when Matt Gorman stepped down (see page 18 for more details).

We hope you enjoy reading this issue of the newsletter. We want to make it as useful and informative as possible, so 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 baapensions@equiniti.com

Phil Wilbraham

Phil Wilbraham Chairman

On behalf of the Trustee of the BAA Pension Scheme

Your Summary Funding

A Summary Funding Statement provides 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.

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We usually issue the annual Statement as part of this newsletter but, as a result of the recent consultation with all 'active' members of the Scheme, the Company requested that the valuation be brought forward by a year to September 2015 (it is hoped that the changes that were implemented on 1 October 2015 will have had a positive effect on the Scheme's funding level).

We will publish the results in the next edition of Focus.

If you have any questions in the meantime, please contact the Trustee using the details on page 19. 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 2015;
- **the Formal Actuarial Valuation Report as at 30 September 2013** – which contains the details of the Actuary's last financial check of the Scheme's situation as at 30 September 2013, the Schedule of Contributions and Statement of Funding Principles.

The recent actuarial report as at 30 September 2014 showed that the Scheme's financial position over the year had improved, with the shortfall decreasing to £288 million.

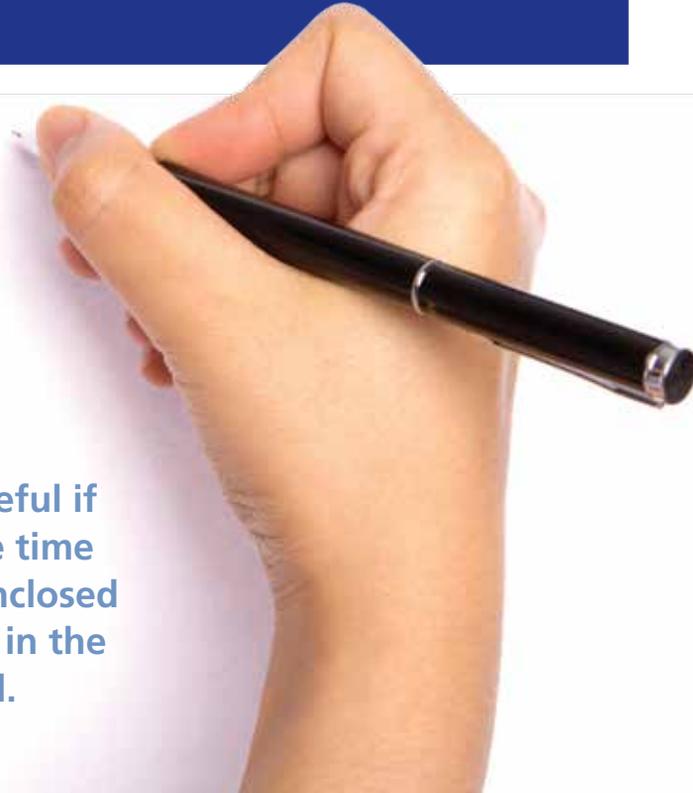
Statement

Please update your details

You will see that there is a form and a pre-paid envelope included with your newsletter this year.

The Trustee Directors would like to make sure that the details we have on file for our members are as accurate as possible – in particular we would like to update details of spouses/civil partners. This is because:

- It helps us with financial planning for the Scheme
- It speeds up the processes for paying dependants' pensions when they need to be paid.



We would be grateful if you could take the time to complete the enclosed form and return it in the envelope provided.

Ask the expert



Mark Atkinson of CMS



Running a pension scheme effectively is a complicated process, so the Trustee gets advice from specialists in many different areas, ranging from investments and finances to the legal side of operating a pension Scheme. Mark Atkinson is from CMS Cameron McKenna, the legal advisers to the Scheme – below he explains their long history of working with the Trustee and the work they do to support the Scheme.

Could you tell us a bit about your background and why you decided to work in pensions law?

I'm a solicitor who specialises in the law as it applies to pension schemes.

I came to London to train and one of the first things I worked on was a case involving the old London Regional Transport pension scheme – I was hooked. It's an area that mixes great scale on the one hand (BAA and other schemes I work with measure their assets in billions) with decisions about real individuals on the other. And no government in my working lifetime has been able to help itself from making pension changes – lawyers love change.

How long have CMS been the legal adviser to the BAA Pension Scheme Trustee and how long have you worked with them?

The CMS connection with the BAA Pension Scheme goes back to the 1980s; I've 'only' been involved for the last 22 years.

What is the role of a pension scheme legal adviser? Why is it important?

The CMS team helps with the interaction of the Scheme's rules and legislation. We advise on benefits arising in complicated personal circumstances; we review the small print when the Trustee chooses new investments; and we support the Trustee on major changes, such as the Ferrovial consortium takeover and the recent pension consultation for active members. With the recent consultation, we helped the Trustee check that the Company followed the right processes, we drafted the rule amendments needed and have been advising on implementation.

How often do you speak to or meet with the Trustee throughout the year?

In normal times, we're in contact a couple of times a week. When there are projects such as the airport sales, we can be working on the Scheme through the night and at weekends for months on end.

What's the most interesting aspect of being the Trustee's legal adviser?

The BAA Pension Scheme is one of my favourite clients. Over the years, it has produced a great mix of challenging issues to work on with high quality, fun people.

The most satisfying thing about being a pensions lawyer is reducing a horrendously complicated set of facts and laws down into clear advice and then seeing clients make a good decision.

SPECIAL ^{50th} ANNIVERSARY EDITION

- The 1966 World Cup was watched on TV by 32.3 million people in the UK
- The most watched programme in 2015 was the final of The Great British Bake Off (15.1 million viewers)

FINANCIAL FREEDOM!

Everything you need to know about: pensions tax changes

Pensions have historically provided a tax-efficient way of saving for retirement for the vast majority of people. As a member of the BAA Pension Scheme, you pay your pension contributions out of your salary before tax is assessed, which means that you save income tax on any contributions you pay into a pension scheme.

Also you can usually take 25% of your pension savings as a tax-free cash sum on retirement.



What do I need to know?

- Pension contributions benefit from tax relief, up to certain limits
- Those limits changed from April 2016
- That means a potential tax charge for those affected, and more people affected than before

What do I need to do?

- Understand whether you will have to pay a tax charge from April 2016 onwards – and the options for either paying it or reducing those payments
- Find out if an alternative to pensions would be suitable for you

Restrictions in place on the amount you can contribute tax-efficiently to a pension

Annual Allowance

A limit to how much your pension savings can increase in value each year (called your 'Pension Input Amount') and still remain tax efficient.

How to compare your pension savings to the AA

For Defined Benefit schemes (like the BAA Pension Scheme), your pension savings (the Pension Input Amount) are calculated as the amount of pension built up in the year, i.e. how much your pension has increased, after allowance for inflation, multiplied by a factor of 16.

To find out your annual Defined Benefit (DB) Pension Input Amount, please contact Equiniti using the details on page 19.

For Defined Contribution schemes (like some money purchase Additional Voluntary Contributions (AVCs) paid into the BAA Pension Scheme), the Pension Input Amount is the total amount of contributions – both those from you and your employer – paid into the arrangement in the year.

Lifetime Allowance

Limit on the total value of pension savings built up over your whole lifetime before a further tax charge applies.

Both these limits apply to all your pension savings from all sources, excluding the State Pension.

How to compare your pension savings to the Lifetime Allowance

In respect of Defined Benefit schemes, the Lifetime Allowance is compared to the value of the pension (and cash if applicable) due to come into payment at retirement (or at each date that the applicable pension starts to be paid where you are taking a series of different pensions in stages and at different times). Each pension is valued by multiplying the pension by 20 and then adding the level of any cash sum taken, plus any Defined Contribution fund values (for example, from making Additional Voluntary Contributions).

In respect of Defined Contribution schemes, the Lifetime Allowance is compared to the value of the member's fund on retirement.

What's changing?

Annual Allowance

From April 2016, the Annual Allowance (AA) for those with 'threshold income'* below £110,000 is £40,000.

The table below shows some examples of how the AA will reduce.

Adjusted Income	Annual Allowance (after 6 April 2016)
£150,000	£40,000
£170,000	£30,000
£190,000	£20,000
£210,000+	£10,000

*If your total income (pay, benefits in kind and anything else on which you pay tax) is above £110,000, then the amount you have built up in pension that year is added on. Should that be greater than £150,000, your AA will be reduced by £1 for every £2 above £150,000.

If you think you could be affected by this taxation change, we recommend you seek independent financial advice.

Lifetime Allowance

From 6 April 2016, the Lifetime Allowance reduced to £1 million (from £1.25 million). This means that it will affect many more people in the future.



Two new forms of protection are available to preserve higher levels of Lifetime Allowance:-

Fixed Protection 2016 – you can keep the existing Lifetime Allowance of £1.25 million (but no further pension savings after 5 April 2016 are allowed as otherwise you will lose your protection).

Individual Protection 2016 – you can protect the value of your pension savings (up to £1.25 million) at 5 April 2016 if they are worth over £1 million, but it is still possible to build up further pension (any excess benefits at retirement will be subject to a tax charge).

Money Purchase Annual Allowance

For those of you with money purchase AVCs in the BAA Pension Scheme or Defined Contribution benefits in another pension scheme, the new Money Purchase Annual Allowance (MPAA) could apply to you.

When you reach retirement, you now have more choice around how to take your Defined Contribution retirement income. If you choose one of the new flexible options, such as income drawdown, this will trigger the MPAA.

This means that any future Defined Contribution tax-efficient pension savings that you make will be limited to £10,000 per year. Any contributions – by you or by a company – into a Defined Contribution arrangement that exceed the MPAA may be subject to a tax charge.

These new flexibilities currently only apply to Defined Contribution arrangements and not to any Defined Benefit pensions like the BAA Pension Scheme. However, you

may be able to access these new flexibilities by transferring out of the BAA Scheme into a defined contribution arrangement should you wish to do so.

Getting Help

If you think you may be affected by these changes and need specific advice about your personal situation, you should seek independent financial advice. To find a list of advisers in your local area, visit:

www.unbiased.co.uk

If you are aged 50 or over you may also access Pension Wise – a new government service that will offer you free, impartial guidance to help you understand your options in relation to your Defined Contribution retirement savings. This may be relevant to you if you have AVCs in the Scheme. Pensions guidance can be accessed online at www.pensionwise.gov.uk, by phone on 0800 138 3944 or face-to-face. For details of this service see the Pension Wise website, phone the call centre or visit your local Citizens Advice Bureau.

SPECIAL 50th ANNIVERSARY EDITION

Average weekly pay
(not adjusted for inflation):

1966

Men – £23.47 Women – £12.11

Current

Men – £680 Women – £547.10

Contracting out

The state pension system was overhauled with effect from 6 April 2016.

The previous state arrangement consisted of the Basic State Pension and the State Second Pension (sometimes referred to as the 'Additional State Pension'). If pension schemes met certain minimum requirements, an employer could choose to "contract out" of the State Second Pension – and doing so meant that employees paid lower National Insurance Contributions (NICs). Following the overhaul of the state pension system, a new single tier state pension has been introduced for those reaching State Pension Age from 6 April 2016. From 6 April 2016, there will no longer be an option to contract out of the State Second Pension as that has now been abolished.

Members of the BAA Pension Scheme were 'contracted out' and as a result while you have been (or were) building up pension, you paid lower NICs (please see below for details of how this has changed since 6 April 2016). As a result of these changes, the Scheme ceased to be contracted out on 6 April 2016.

The new State Pension will be calculated using your NICs history when you reach State Pension Age. You can obtain a forecast of what you might get by going to www.tax.service.gov.uk/checkmystatepension. In addition the Government has issued various factsheets to help explain your State Pension. You can access these at www.gov.uk/government/publications/state-pension-fact-sheets

Another change which might affect you is to do with the annual pension increases once your pension comes into payment and which applies to any 'Guaranteed Minimum Pension' (or 'GMP') that you might have built up if you were contracted-out in a pension scheme before 6 April 1997. Pension increases on any GMP accrued before 6 April 1988 and any increases of more than 3% per year on GMP accrued on or after that date have previously been paid as a part of the total State Pension you have received.

If you reach State Pension Age after 6 April 2016, this will change and these increases will no longer form part of the overall State Pension you receive.

Increase in National Insurance Contributions

While contracted out, your NICs were reduced by 1.4% on any earnings between a lower and upper limit. For the 2015/16 tax year, these earnings were between £5,824 and £40,040 a year. From 6 April 2016, you can no longer pay these lower NICs, meaning that if you are an active member of the Scheme (or currently an active member of a contracted out scheme elsewhere) your take home pay will reduce.

The table below shows the monthly increase in an active member's NICs, using various salary levels.

Member gross salary	Monthly increase in employee NICs
£10,000 p.a.	£5
£15,000 p.a.	£11
£25,000 p.a.	£22
£35,000 p.a.	£34
£40,040 p.a. and above	£40

Personalised State Pension statements

The Government is in the process of sending personalised State Pension statements to everyone over age 55. These statements will provide a figure for the amount deducted from the State Pension due to any previous period of contracted-out employment.

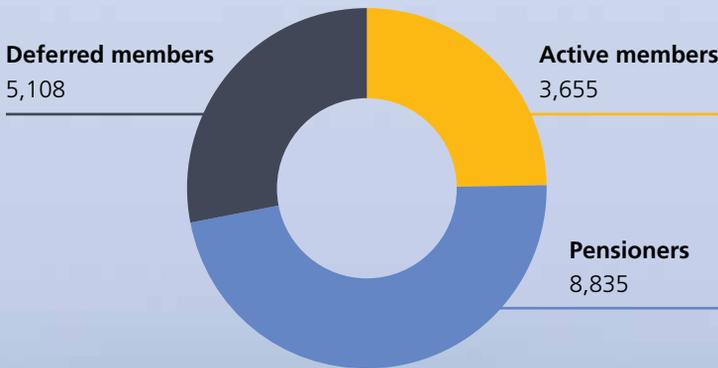
These statements will give a single figure for all contracted-out service, which will not be split out into different periods of contracted-out service you may have in different pension schemes.

Facts and figures

The next two pages contain facts and figures about your Scheme, including the income and expenditure for the Scheme in the year to 30 September 2015 and the latest membership figures taken from the annual report and accounts.

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

Membership as at 30 September 2015:





ARRIVALS

Key facts as at 30 September 2015

Arrivals	£000's
Contributions from members	£6,337
Contributions from Company	£148,811
Transfers in	£111
Investment income	£41,879
Total	£197,138

DEPARTURES

Departures	£000's
Pensions	(£85,669)
Payments for leavers	(£6,297)
Lump sums (on retirement or death)	(£12,898)
Taxation on LTA or AA exceeded	(£1,233)
Group transfer out	(£136,232)
Administration expenses and fees	(£8,378)
Total	(£250,707)

WHAT IT'S ALL WORTH

What it's all worth	£000's
Value of Scheme assets as at 30 September 2014	£3,154,180
Income – expenditure	(£53,569)
Change in market value of assets	£236,908
Value of Scheme assets as at 30 September 2015	£3,337,519

INVESTMENT

The Trustee is responsible for the investment of the Scheme’s assets. To help with this, there is an Investment Sub-Committee which has a remit of concentrating on the Scheme’s investment strategy, and the day to day management of the Scheme’s assets is undertaken by specialist investment managers.

How is the Scheme currently invested?

Investment Manager Structure
Data as at 30 September 2015

Equities	Credit	Property	Macro/ Multi-Strategy	Liability Hedging Assets
17%	34%	3%	12%	34%
State Street Global Equity	BlackRock Credit Screened	M&G Long Lease	Winton	Rogge Interest rate and inflation hedge
State Street Equity Protection Strategy*	BlueBay		Brevan Howard	JPM Liquidity
Westwood	Rogge Short Dated Credit		Invesco	
	Wellington			

*Derivative overlay which provides protection (i.e. positive returns) if global equity markets fall beyond a certain level.

Source: Investment Managers

MATTERS

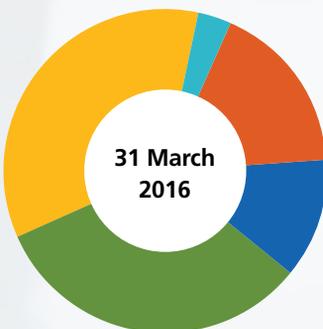
Changes over the accounting year

- A partial redemption from the BlackRock Global Credit Screened Corporate Bond Pooled Fund of £150m was made with the proceeds used to top up the investment in BlueBay over two tranches in November and December 2014
- A new investment was made in the Winton Futures Fund of £150m in February 2015, which was funded from the full redemption of the BlackRock Global Credit Screened Corporate Bond Pooled Fund (c. £81m) and partial redemption of the State Street global equity fund (c. £69m)
- Baring's mandate was terminated and a new investment of £150m was made in the Invesco Global Targeted Returns Fund in March 2015
- An equity protection strategy was implemented in July 2015, which provides the Scheme with downside protection against falls in equity markets beyond a certain level, at the expense of upside potential if equity markets rise beyond a certain level

Changes made since the accounting year end

There have been no changes to the investment strategy since the end of the accounting year.

The pie chart below shows how the Scheme's assets were invested at 31 March 2016.



Property	3.4%
Equity	17.3%
Macro Orientated and Multi Strategy	12.1%
Credit	32.5%
Liability hedging assets and cash	34.8%
Total	100.0%

Figures may not add up to 100% due to rounding.

15 Minutes



with Member Nominated Trustee Steve Chambers

Steve Chambers is one of the Trustees of the Scheme. Below, we ask him some questions about how his first 18 months in the role have been...



What is your day job?

I'm the Director of Engineering and Asset Management. My job is to look after everything in the airport and keep everything working well. I need to make sure that whenever anyone wants to use something it is there (even down to making sure that the runways are ready for the aircraft). Another part of my role involves developing long term strategies and plans for all the assets in the airport.

I manage a team of 600 people, 400-500 of which are technicians who work day in, day out to make sure everything is working well for our customers.

Why did you want to become a Trustee?

I have an interest in pensions and I remember the days when good pension provision was something that was available to everyone.

I had an auntie when I was a child who used to work for Cadbury in Bristol – she was working on the production line and I remember visiting and getting to eat the broken chocolate bars. Her and her partner were just normal people with a normal job and were able to retire at 55-60 with a good pension. Also, my background is in the

rail industry and whoever you were, whether your job was manual labour or in the office, you had a pension provision.

We should, as a society, still be set up to provide a pension for everyone. We shouldn't have to work for our entire life. In recent years there have been so many government changes to legislation that could affect pensions. I wanted to do all I could to make sure the interests of the Scheme members in all categories were being looked after.

I want to make sure that we, as the Trustee, protect that pension that people have worked hard to save up.

What have you brought to the role of Trustee?

This is the first time that I have been a Trustee. It is a complex job that is very dependent on advice from our financial advisers.

I think that being a successful Trustee is about a willingness to ask the right questions, to push back and challenge, when something doesn't seem quite right. I can think of quite a few examples where a 'stupid question' has turned out to be quite a good question.

How often does the Trustee meet?

The Trustee generally meets quarterly, but alongside that there are also sub-committee meetings. I sit on two of these – the valuation and investment sub-committees. Last year there were quite a few additional meetings to consider the changes being proposed by the Company.

What do you think are the important aspects of your role as a Trustee?

The Trustee needs to make sure that the money in the Scheme is sufficient to pay everyone when they choose to retire. I find myself getting drawn into the detail in meetings such as whether certain things would affect the long term future of the Scheme – when that's not what you are actually there to discuss – it's about making sure the money in the Scheme in the future is enough to pay members' benefits.

There's been a lot of legislative change in recent years. Do you have any advice for members about how it could affect them?

The most important thing is to plan ahead. Don't think that that the changes don't or won't affect you. Look at the future impacts of reductions or of changes. Take control and don't just sit back and assume someone will tell you what is happening; instead take responsibility and find out for yourself what it could mean to you – it's amazing what you can find out in five minutes on Google!

What do you think are the major challenges facing trustees of pension schemes?

Being a trustee is very dependent on the advice you are given – trying to make sense of lots of complex information and sometimes conflicting advice, to make sure that you make the right decision and to make sure that the money is there when someone goes to draw their pension.

The biggest challenge is taking on the advice from the experts around you and using that to make the right, balanced decision within the time you have available.

What do you like to do in your spare time?

I've got two sons and a daughter and I like to spend time with them as a family and take holidays in the UK.

I also do lots of tinkering and love old machinery such as steam engines, tractors and cars. I've got a third scale steam traction engine and a 'ride on' live steam railway too – like the ones in the parks that you can pay to go on.

I take the train along to rallies and my daughter sometimes comes along – it's good fun, you can even cook yourself a jacket potato in the smokebox!

SPECIAL 50th ANNIVERSARY EDITION

In 1966, London Airport was renamed 'Heathrow'. By 1969, when Terminal 1 opened, **five million** passengers a year were passing through.

Today, over **67 million** passengers travel through the airport annually.

Looking after your interests

Your Trustee

Company-Appointed Trustee Directors

Phil Wilbraham
(Chairman)

Paula Stannett

Anne Hurn

Matt Gorman
resigned 11 April 2016

Andrew MacMillan
appointed 11 April 2016

Member-Nominated Trustee Directors

Paul Williams (Heathrow Airport 'Operations')

Steve Chambers
(Heathrow Airport 'Operations')

Derek Provan (Heathrow Airport 'Support Services')
– elected 1 June 2016

Mike Macgregor
(Pensioner)

Independent Trustee – Law Debenture Pension Trust Corporation (LDPTC)

Represented by:
Michael Chatterton

Trustee election

An election was held recently to appoint a new Member-Nominated Trustee Director, for the Heathrow Airport Support Services Constituency.

We are pleased to confirm that the successful candidate was Derek Provan, Operational Strategy Director. His term of office began on 1 June 2016. We would like to welcome him to the Board.

The Trustee's advisers

The Trustee is supported by a number of advisers.

Scheme Actuary	Chris Sheppard FIA, Mercer Limited
Investment advisers	Cardano
Covenant advisers	PriceWaterhouseCoopers
Auditors	Crowe Clark Whitehill LLP
Bankers	Lloyds TSB
Custodian services	J.P. Morgan Chase
Administrators	Equiniti Pensions Solutions (previously known as Equiniti Paymaster)
Legal Advisers	CMS Cameron McKenna LLP

Contact us

Contact us with your questions

You can contact us 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, W Sussex, RH10 1UH**

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, fax or email or to have it available if you telephone or visit us.

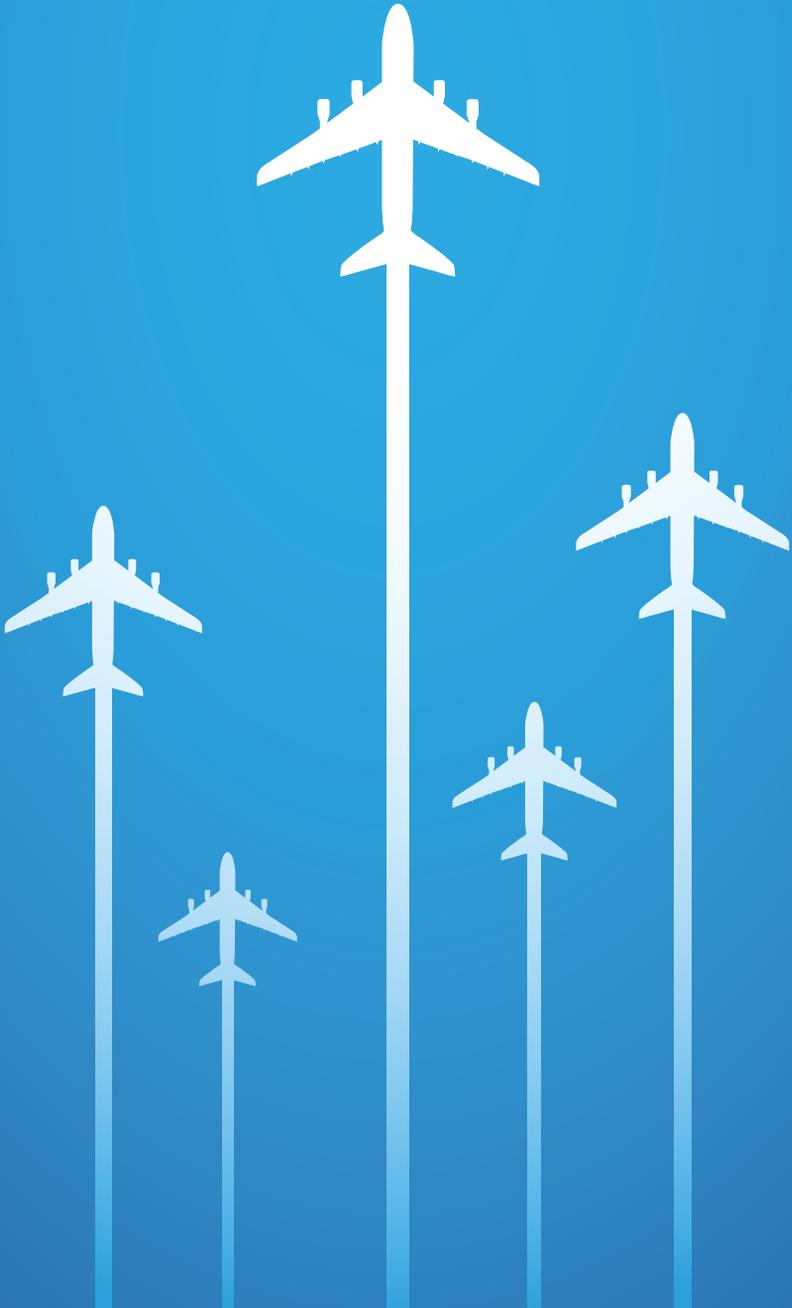
If you are not able to give us your National Insurance number, please give as much detail as possible about your employment and include your full name, date of birth and any previous names you may have had.

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

Overriding effect of Scheme governing documentation and legislation

Please note this letter 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.



SPECIAL **50th** ANNIVERSARY
EDITION