

# FOCUS

▶▶ The BAA Pension Scheme Newsletter

Winter 2009/10 ▶▶

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# Chairman's introduction



Welcome to the latest edition of Focus, your BAA Pension Scheme newsletter, in which we provide the latest news for the scheme. Most of you will know that I took over the role of Chairman from 1 January last year. Many of you also recognise me as the MD of Edinburgh Airport and the former MD of Glasgow Airport.

I'd also like to welcome Marian Drew to the Board and extend my thanks to Dean Tulley and Andy Flower who had to resign from the Board when they left the Company with the sale of Gatwick in December 2009. As Dean served as a Member Nominated Trustee, his departure means that we have a vacancy on the Board (Stansted, Southampton and Corporate staff constituency) and if you are an active member we have already sent you details about how you can get involved.

This has been a challenging year for all pension schemes due to significant falls in financial markets and the global recession, and the Trustees have continued to work hard during this time to keep the Scheme running smoothly and improve the service to members.

Since our last edition of Focus, we have carried out a detailed review of our investment approach and have introduced new expert investment advisers, Cardano, to help us manage the Scheme's investments. We have also developed a BAA Pension Scheme website, where you can find out more about your BAA pension entitlement and pensions in general. More information on each of these changes is included in this newsletter.

Over the last 12 months we have continued to see many changes in the economic world – financial markets have been in turmoil and the media has been full of reports on the current recession. As Colin Matthews, BAA's Chief Executive, said in January: "Towards the end of the year, we saw signs of improvements, particularly at Heathrow, but there are more challenging times ahead in 2010". The markets have not only affected the Company, but have also had an effect on the financial position of the Scheme. The Trustees and the Company maintain an ongoing dialogue about the Scheme's funding and the Company's financial status. The Trustees keep the strength of the Company's covenant – its ability and willingness to continue to support the Scheme – under regular review and the ongoing dialogue is an important part of this. The Company has been very open with the Trustees and the Trustees appreciate the Company's commitment to the Scheme. More information is detailed in the latest Summary Funding Statement included in this newsletter.

Finally, the sale of Gatwick, completed in December 2009, has seen a number of members moving out of the Scheme and transfer their benefits to a scheme run by their new employers, Global Infrastructure Partners (GIP). The sale has removed some of the liabilities of the Scheme, and there will be no resulting negative impact on the Scheme's finances.

We hope you enjoy reading this newsletter and find the information included valuable. This is your newsletter. So, if you have any feedback or questions please do let us know by writing to BAA Pensions, Saxley Court, 121-129 Victoria Road, Horley, Surrey RH6 7AS or you can email [pensions@baapensions.com](mailto:pensions@baapensions.com).

*G Dewar*

**Gordon Dewar**  
Chairman

**On behalf of the Trustees of the BAA Pension Scheme:**

**Other Company-Appointed Trustees**

Marian Drew  
Julie Elder

**Member-Nominated Trustees**

Trevor Armstrong (Aberdeen)  
Stephen F Killick,  
MBE (Heathrow)  
Mike Roberts (Pensioner)

**Independent Trustee**

John Bloxsome – Law  
Debenture Corporation

Visit your pension scheme website [www.baapensionscheme.com](http://www.baapensionscheme.com) for more information about becoming a Member-Nominated Trustee and to download a Nomination Form!

# Take a closer look at the new BAA Pension



For those of you who don't know we have recently launched the new BAA Pension Scheme website: [www.baapensionscheme.com](http://www.baapensionscheme.com). You should be able to access the website from any internet-enabled computer, whether at work or home.

The website contains all the up-to-date information about your Scheme. With special sections for active members, deferred members and pensioners, you can find out more useful information about your Scheme, access the latest Scheme documents and forms and read the latest news from the Trustees.

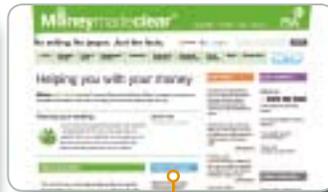


You can get other useful information about pensions and retirement planning from the following websites:



[www.direct.gov.uk](http://www.direct.gov.uk)

Go to the section on 'Pensions and Retirement Planning'. This site – run by the Department for Work and Pensions – contains helpful information about pensions, state pensions and planning for retirement, as well as information about working in retirement and other benefits for pensioners such as the winter fuel payment and home care. You can also get help finding pension schemes you have belonged to in the past, through the Pension Tracing Service.



[www.moneymadeclear.fsa.gov.uk](http://www.moneymadeclear.fsa.gov.uk)

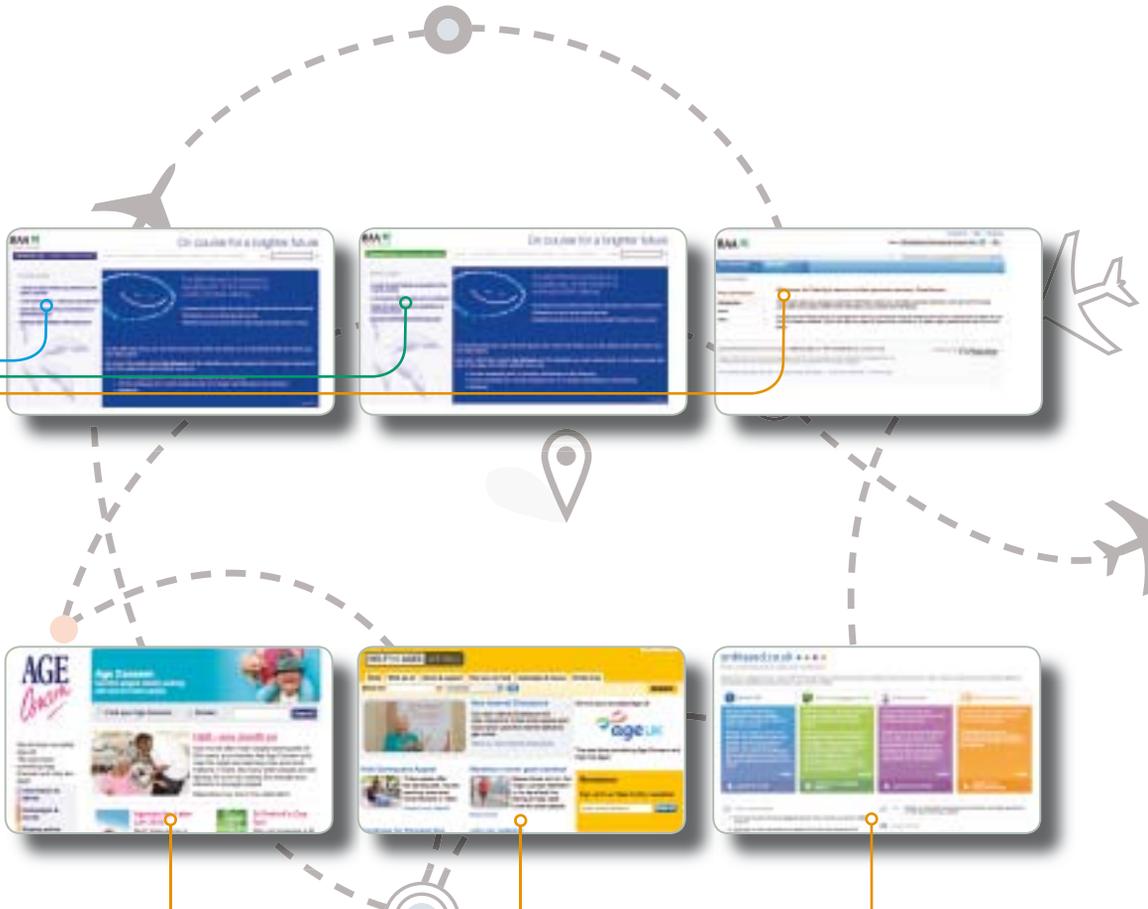
This site, run by the Financial Services Authority, contains step-by-step guides to a variety of pension and savings products as well as tools and calculators to help you with your financial planning.



[www.thisismoney.co.uk/pensions](http://www.thisismoney.co.uk/pensions)

This website, although not independent, is both topical (contains articles on the latest news and issues) and addresses the issues many pensioners, as well as those retiring in future will face and contains helpful consumer interest stories.

# Scheme website...



[www.ageconcern.org.uk](http://www.ageconcern.org.uk)

A useful website for those who have retired; containing all sorts of information and opportunities.

[www.helptheaged.org.uk](http://www.helptheaged.org.uk)

With advice on finances, healthcare, age discrimination issues and a free telephone helpline, this is another website dedicated to the needs of those who have retired.

[www.unbiased.co.uk](http://www.unbiased.co.uk)

Use this site to find a local Independent Financial Adviser.

# Investing for the

The successful investment of the money paid into the Scheme is a crucial element for both the Trustees and members.

While the final salary benefits provided through the Scheme are not directly linked to investment performance, it's important that there are sufficient assets to pay the benefits promised to members.

## The current economic climate

Since we issued the last newsletter, there has been so much in the press about the state of the UK economy. The economic climate over the past 18 months has frequently been compared with the Great Depression of the 1930s, so it is no exaggeration to say that it has been worrying times for everyone. However, recent signs suggest that the UK economy is starting to grow again and the last quarter of 2009 may mark the end of the recession. But looking forward, it's clear that the recovery will take time to reach all parts of the UK. To quote Chief Executive Colin Matthews: "...the signs are 2010 will be just as tough for the aviation industry".

The Scheme's investments are, of course, subject to the current instability which means that there have been greater swings in investment performance than normally expected. Higher risk assets like equities (which are expected to provide better returns over the longer term) performed particularly poorly over the period. The value of the Scheme's investments has also been affected by the fall of Sterling as the UK economy is expected to perform slightly worse than the rest of the world over the next several years.

However, it's all about context. Pension savings represent a very long term investment so, although some damage has been done in the short term, members should remain very positive about the Scheme and its ability to pay the benefits it has promised. You should be reassured that the Scheme is well-managed and kept under regular review by the Trustees and their advisers. As with any long-term investment, the Trustees know that the overall value of the Scheme will go down as well as up over a period of time.

**"The signs are 2010 will be just as tough for the aviation industry"**

Over the year to 30 September 2009:

- the Scheme received £56m in investment income; and
- the value of the assets fell by £154m

For more information on the financial position of the Scheme, see the 2009 Summary Funding Statement.

# future



## A change in investment approach

During 2009, the Trustees undertook a formal review of the Scheme's investment approach and invited a number of different investment advisers to present their views and explain how they could support the Scheme.

Following this review, in December 2009, the Trustees appointed Cardano – a European leader in pension fund risk management – to advise them on all aspects of their investment arrangements, including asset allocation of the Scheme moving forward and investment manager selection.

The Trustees were impressed with Cardano's insight and how their approach might improve and stabilise the Scheme's funding position. In the words of Gordon Dewar, Chairman of the Trustees, "We are looking to achieve good investment returns, but also to control the risks relative to our liabilities. We believe Cardano are well placed to help us with this, given their active investment views and original approach".



# 2009 Summary Funding Statement



The Trustees provide information on the financial position of the Scheme each year 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 statement contains information from the last full valuation, the 2008 actuarial report, and an update on the position in 2009.

It is important that you read all of the statement carefully, as it will give you a clear view of what the financial figures mean in terms of the Scheme's ability to pay all the benefits that have been promised.

## 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 on retirement. 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 the Trustees 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 full valuation

The Summary Funding Statement we issued last time showed that when the latest full actuarial valuation was carried out as at 30 September 2007:

The value of the Scheme's liabilities was:	£2,148 million
The Scheme's assets were valued at:	£2,198 million
This means that there was a surplus of:	£50 million

## The Scheme's current position

At 30 September 2008, the financial checks showed that the small surplus of £50 million had been replaced with a shortfall of £167 million, with assets of £2,240 million and liabilities of £2,407 million).

By the 30 September 2009, interim actuarial financial checks showed that there was a shortfall of £426 million (liabilities had moved to £2,563 million whilst assets reduced to £2,137 million)\*.

The deterioration in funding position has resulted from a large increase in the value of the liabilities and lower than expected investment returns. The increase in the liabilities has been driven by increases to inflation expectations, which results in an increase to the anticipated benefits to be paid to members, and also reflects a reduction in expected investment returns as a result of lower interest rates.

Changes in the Scheme's investment strategy over the last few years have helped to lessen the impact of these adverse factors on the Scheme's funding position, but the assets have nonetheless continued to underperform primarily as a result of the financial crisis.

The fact that there was a shortfall at the last actuarial report has not affected the pensions paid from the Scheme and all members who have retired have received the full amount of their pension.

The next formal valuation of the Scheme will be carried out as at 30 September 2010 and a plan will be agreed with the Company to address the funding issues at that time. We will of course let you know the details of the plan when it is decided next year.

## Sale of Gatwick



SOLD

As a result of the sale of Gatwick, a process is under way which allows employees of Gatwick to transfer their benefits to a new scheme established by the new owners. A transfer value will be paid for those that do decide to transfer, but this will not reduce the security of the benefits of those members remaining in the Scheme. In addition, a sum will be paid to the Scheme to improve its funding and to reflect the fact that the security provided by Gatwick being part of BAA Airports Ltd is no longer available to the Scheme. We will provide further details of these amounts when the process is finished, which we expect to be around the middle of 2010.

## Financial support for the Scheme

The Company is currently contributing £80 million each year to the Scheme.

This figure will be reviewed at the end of the 30 September 2010 valuation process after which time a new Contribution Schedule will be agreed.

*\* Please note these figures exclude defined contribution AVCs, and therefore differ to the figures on page 11.*



# 2009 Summary Funding Statement continued

## If the Scheme had to wind up

The winding-up of a company pension scheme normally occurs when a Company decides it no longer wishes to make the required level of contribution to the scheme (for example on the grounds of cost) or is no longer able to do so (the Company becomes insolvent). Neither the Trustees nor the Company has any plans to wind up the Scheme. However we are required by law to let you know the Scheme's financial position if this were to happen.

If the Scheme had started to wind up on 30 September 2008, the additional amount needed to make sure that all members' benefits could have been paid in full was estimated to be £912 million.

The cost of winding up 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 to support the Scheme.

If the Scheme is wound up because the Company becomes insolvent and can therefore not afford to pay the full cost of winding up, you might not get the full amount of the pension you are entitled to. In this instance, the Pension Protection Fund (PPF) might be able to take over the Scheme and pay compensation to members.

Further information and guidance is available on the PPF website at

**[www.pensionprotectionfund.org.uk](http://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 other 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 Funding Principles – explains how we plan to make sure enough money is paid into the Scheme to provide the benefits that members have built up;
- the Statement of Investment Principles – explains how we invest the money paid into the Scheme;
- the Schedule of Contributions – shows how much money is being 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 2009;
- the Formal Actuarial Valuation Report as at 30 September 2007 – contains the details of the Actuary's financial check of the Scheme's situation as at 30 September 2007;

- the member's explanatory booklet explains how the Scheme works – you should have been given a copy when you joined, but you can download another copy from



**[www.baapensionscheme.com](http://www.baapensionscheme.com)**.

## Contacting the Trustees

The Trustees can be contacted via: BAA Pension Trust Ltd, Pensions Department, Saxley Court, 121-129 Victoria Road, Horley, Surrey RH6 7AS Email: [pensions@baapensions.com](mailto:pensions@baapensions.com) Telephone: 01293 821717 Fax: 01293 821777

# Your Scheme

## Arrivals

Flight	Arriving From	Time
INCOME		£000'S
CONTRIBUTIONS FROM MEMBERS		£15,837
CONTRIBUTIONS FROM COMPANY		£93,939
TRANSFERS IN		£2,529
INVESTMENT INCOME		£56,043
TOTAL		£168,348

## Departures

Flight	Arriving From	Time
SPENDING		£000'S
PENSIONS		(£62,109)
PAYMENTS FOR LEAVERS		(£4,745)
LUMP SUMS (ON RETIREMENT OR DEATH)		(£21,014)
ADMIN EXPENSES AND FEES		(£2,953)
TOTAL		(£90,821)

WHAT IT'S ALL WORTH	£000'S
VALUE OF SCHEME AS AT 30 SEPTEMBER 2008	£2,215,620
INCOME - EXPENDITURE	£77,527
CHANGE IN MARKET VALUE OF ASSETS	(£153,843)
VALUE OF SCHEME AS AT 30 SEPTEMBER 2009	£2,139,304



# Your Scheme *and its dedicated*

## You

Membership as at 30 September 2009:



## Your Trustees:

The Trustees are responsible by law for running the Scheme in accordance with current legislation, Scheme rules and best practice, and for making sure that your interests are protected. The Trustees are not expected to be experts in everything they have responsibility for and are supported by a number of advisers.

## The Trustees' advisers:

**Scheme Actuary –  
Chris Sheppard FIA,  
Mercer Limited**

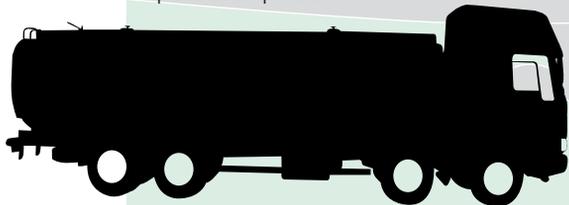
An actuary is a professional qualified expert on pension scheme assets and liabilities, life expectancy and probabilities (the likelihood of things happening). Amongst other things, the actuary is responsible for working out how much money needs to be put into the Scheme in the future to ensure that members' pensions can be paid.

**Investment advisers –  
Cardano (replaced Mercer  
Investment Consulting from  
7 December 2009)**

The investment advisers make recommendations on the investment of the Scheme's assets. They also advise the Trustees in the broader area of risk management.

**Auditors – Horwath Clark  
Whitehill LLP**

They assist the Trustees by auditing the Scheme's financial statements in accordance with the relevant legal and regulatory requirements and UK auditing standards, confirming that the contributions have been paid as required.





# support team

## Bankers – Barclays Bank plc

The Trustees bank with Barclays Bank plc and pensions payable from the Scheme are paid via accounts held with the bank.

## Custodian services – J.P. Morgan Chase

The custodian holds and accounts for pension scheme assets (such as share certificates) on behalf of the Trustees, settling trades, collecting income and providing record-keeping and reporting services.

## Administrators – BAA Pensions

The administrators hold all membership data and are the first point of contact for members, pensioners and beneficiaries with general queries or personal benefit enquiries.

For your pension queries contact BAA Pensions, Saxley Court, 121-129 Victoria Road, Horley, Surrey RH6 7AS or you can email [pensions@baapensions.com](mailto:pensions@baapensions.com).

## The Company – BAA Airports Ltd

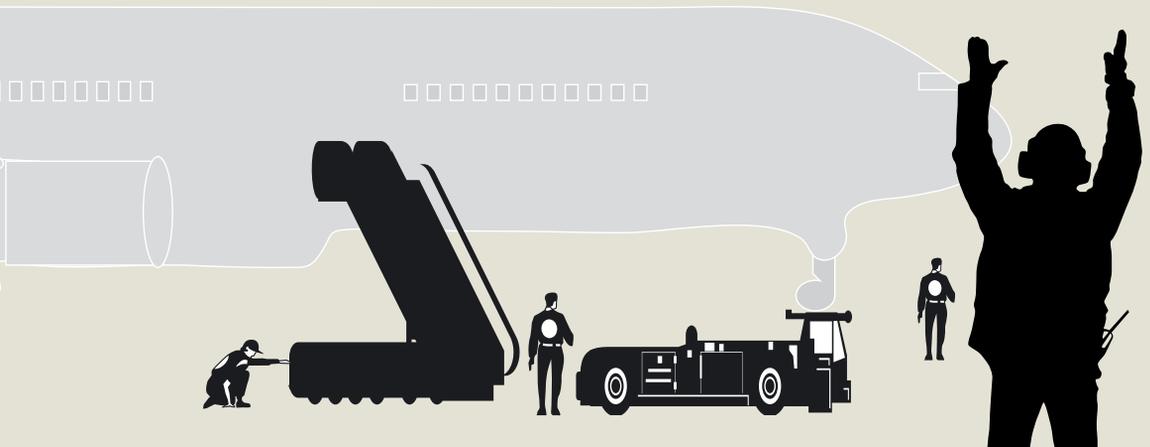
The Company is responsible for the financial support of the Scheme and the benefits it provides, meeting the cost of running the Scheme and Trustee training and support, and contributing to enable benefits to be paid to members and their beneficiaries.

## Investment managers

The day-to-day investment decisions are undertaken by a panel of investment managers who are responsible for the Schemes offered and are tasked with running different parts of the investment strategy.

## Legal Advisers – CMS Cameron McKenna LLP

The Scheme's legal advisers help keep the Trustees up to date with legal developments and provide specific advice on their activities.





When the Chancellor delivered his 2009 Budget speech in April last year he announced increases to income tax for higher earners from 40% to 50% on earnings of £150,000 or more from April 2010.

The Government also announced its intention to bring in new rules for pensions tax relief to apply from 6 April 2011. For members with income above a certain level, higher rate tax relief will be limited and, effectively, members will pay tax on Company contributions paid on their behalf. At the same time, the Government introduced new rules that apply from 22 April 2009.

These rules are intended to prevent people making substantial additional pension contributions, taking advantage of the full tax relief available, before the changes in 2011 come into force.

In December 2009, as part of his pre-Budget report, the Chancellor made a couple of further announcements on these measures. Firstly, the income threshold for the rules that are already in effect from April 2009 was reduced from £150,000 to £130,000.

Secondly a consultation document was published, giving details of the restrictions on higher rate tax relief due in 2011. These proposals now state that individuals will be affected by the restriction of tax relief on pension contributions from 6 April 2011 if their 'gross income' (broadly, income **including** employer pension contributions) is £150,000 and over, and their 'relevant income' (broadly, income **excluding** employer pension contributions) is £130,000 and over. Once the consultation is complete and the details are confirmed, we will update members on the outcome.

The new rules are complex and if you are in any doubt as to whether you are affected by the changes you should seek independent financial advice.





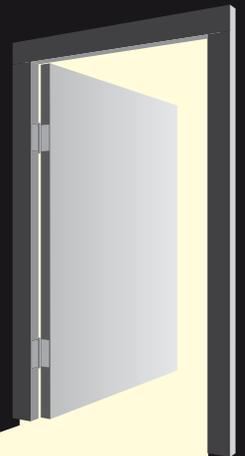
Aged between 50 and 55 and thinking of retiring?

### **This could be your last chance!**

The Government is introducing changes to minimum retirement ages which will affect all members who don't have a protected retirement age under the Scheme.

As a result, members with deferred pensions who are aged over 50 and can currently take their pension early, will have to wait until the age of 55 if they don't start taking their pension before April 2010. If this affects you, you should have received a letter from the Trustees advising you of this legislative change to give you time to consider early retirement. If you are over the age of 50 and wish to retire before the age of 55 and you haven't received a letter contact the Pensions Department in Horley ASAP, using the details in the back of this newsletter.

This change to legislation doesn't affect early retirement as a result of ill-health, which may happen at any age with consent from the Trustees.



# Where there's a will...

With our hectic lives, most of us find that getting through the day-to-day chores needed to keep our houses, our finances, our families and our jobs ticking over, is more than enough to deal with. Spending a day spring cleaning the house or reviewing our finances does not tend to be a high priority!

From time to time though, it is a very good idea to take a thorough stock check of where you are and whether or not you need to take action.

## Benefits payable from the Scheme

The Scheme pays out a range of benefits to support your family members on your death.

If you are a pensioner the Scheme will pay out a reduced pension to your spouse or partner and, if you die within five years of retirement a lump sum may also be payable.

If you have still to retire, the Scheme will pay out:

- a spouse's pension;
- eligible children will receive a pension of up to one quarter of your partner's pension; and
- if you are employed, a cash lump sum equal to four times your annual salary at the date of your death.

You should refer to your copy of the Scheme booklet for full details of the benefits payable or visit: [www.baapensionscheme.com](http://www.baapensionscheme.com).

## Keeping your will up-to-date

You may also wish to think about when you last reviewed your will and establish whether it's up to date. Even if your will reflects your current wishes, there are certain changes which may make your will out of date include marriage, divorce, births, and deaths.

It is possible to make your own will and you can buy pre-printed will forms at most good stationers for this purpose. However, if you are in any doubt or you'd like help and guidance it's advisable to consult a solicitor. For more information on how to find a solicitor, go to [www.lawsociety.org.uk](http://www.lawsociety.org.uk).

Some charities provide a will writing service, or you may be able to get free legal advice under the Legal Help scheme, provided you meet the necessary criteria. Advice on who is eligible under the scheme, along with a list of participating solicitors, can be obtained from the Citizens Advice Bureau or the Law Society in England or the Scottish Legal Aid Board if you live in Scotland.

## Don't forget to express your wishes!

To help the Trustees decide who should receive any lump sum benefits payable on your death, make sure your Expression of Wish form is up-to-date.

It's important you keep us informed about any changes to your personal circumstances – for example, you get married or divorced, have children or move house. If you don't, the Trustees may find it difficult to pay your benefits when the time comes.

You can find and download an Expression of Wish form by visiting [www.baapensionscheme.com](http://www.baapensionscheme.com).



It is with great sadness that we have to inform you of the death of Sir Norman Payne who died on February 7 aged 88. Many of you will remember him as a founder of BAA and the Chairman from the creation of the organisation (1966) until July 1991.

# We want to hear from you!

With each issue of Focus we try and cover topics and news items that we think will be of interest to Scheme members. But are we covering what you would like to see? Are there any changes you'd like to make?

Why not take a few minutes to tell us what you think about Focus and any changes you'd like to make. Just contact the Pensions Team with your thoughts and ideas – their contact details are below.

The Pensions Team can also help you with any questions you may have about Scheme pension or the Scheme in general.

You can:

- email the team at [pensions@baapensions.com](mailto:pensions@baapensions.com)
- or call: 01293 821717
- or write to:

BAA Pensions  
Saxley Court  
121-129 Victoria Road  
Horley  
Surrey  
RH6 7AS





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