

British Airways Pensions
APS Members and Pensioners Meeting
28 September 2012

Welcome and Introduction

Mark Wood

Independent Chairman

Well good afternoon everyone. What a remarkably orderly audience you are. My name is Mark Wood. I've been asked to act as independent chairman for this meeting; I think you had a brief introduction to me in the papers which were circulated. I'm a career-long insurance person. My background is in pensions but I have no association at all with either of the pension schemes or with British Airways. So my job here this afternoon is to ensure that we have enough time to deal properly with all of the questions that you raise today.

[Health and safety announcement made]

Now, you'll have noticed cameras and microphones everywhere. The purpose of recording this meeting in the way that we are is to make sure that we have an absolutely clear record of the questions that are asked and the answers that are given. There's no intention to use the film or the recording anywhere and, indeed, when you ask individual questions you should feel free not to identify yourself. I think a lawyer has had a go at the speech that I've been given because I have to tell you: if you do identify yourself then you're waiving your rights under the Data Protection Act should the tape or the film be used. Forgive the legalese, but you have the option of not identifying yourself if you prefer. There will be a transcript made and that will be used, I'm sure, for subsequent briefings.

Let me just turn, briefly, to the timetable, which I think has disappeared – there we are. Paul Spencer is going to address us for about 20 minutes. He's clearly acutely aware of the concerns of this audience and in his brief address I'm sure will aim to address a lot of the concerns that have been raised by you as a group. And then Captain Mike Post will respond and then at about 10 to three we'll switch to questions and answers.

What I'd like to do with the questions and answers – because I gather last year it was quite difficult to get questions from the two outside rooms, what we'll do is start in room three, which is the room that many of you came in through, and then we'll go to room one, which is the room in the far distant area, then we'll come to the main room. So we'll try and organise our questions in that way, which I hope – notwithstanding the rather curious arrangement that we have with this room – I hope that that will give everybody the chance to have a proper crack at questions. We need to finish the question session by about 10 to four but if there are questions at the end of that session I'm sure we'll be able to deal with those questions subsequently. We'll see how we got on before setting those arrangements out. So at this point let me hand over to Paul Spencer.

Statement on Behalf of the Trustees

Paul Spencer CBE
Chairman of the Trustees

Good afternoon everyone. As Mark said in his introductions, I've been allowed 20 minutes. As was the case the last time we were here, I am the spokesman for the APS trustees, who are all seated behind me. Before I start I'd like to just take a minute to introduce them to you. So, from my right, if Graham Tomlin would stand up? We've got pictures of Graham there. Cliff Pocock next. Jo Boswell. Paul Douglas. Who's that one next? That looks like Tom to me; up you get Tom Mitchell. Up a bit – that's it, thank you Tom. Charlie Maunder. Is it Sandra next? Yes, Sandra Sellers. I can't see who that – oh, Alan Buchanan. And last but not least, Stuart Scott. Although they very much wanted to be here with you today, unfortunately Philip Osmond and Peter Simpson are both just not able to because of diary clashes. They do send their apologies; they did specifically ask me to send their apologies to you all.

Following the agenda that Mark had put up on the screen there will be time for questions during the meeting itself but the trustees will also remain on the platform until around 4.30 if you'd prefer to speak directly to any of them once the meeting's finished. Also here today are the Scheme's lawyer, Anthony Arter – Anthony is here. And also the Scheme Actuary, Michael Pardoe.

The meeting request you sent in told us what you wanted to talk about and Mike Post also gave us a steer on some additional issues that you want to cover today. Based on this information we will cover – and the slide goes up – a very brief recap on background; the 'underpin' issue, which is described as the 'best of' arrangement in your requests; our current intentions regarding court action; progress on restoring RPI increases; trustee arrangements; and managing conflicts.

We were also asked to give an update on the 2012 valuation process, but the commercial nature of these discussions and the fact that they're still very much ongoing means that we aren't able to comment on this. I'd like to reassure you that you have a strong and experienced team representing the Scheme's interests in the discussions with BA. The valuation meeting schedule is very rigorous and, as with any negotiation, very difficult. I'd very much like to thank Charlie, Jo, Cliff and Paul, not just for the additional work they're undertaking – which is a lot – but for the very big help they give me in these very difficult negotiations.

I'd briefly like to touch on our communication with you generally. We last wrote to you in August, and this is consistent with the trustees wanting to get more information out to you more quickly than has been done in the past so that you are kept up to date on what we're doing. The last Ascot meeting there was a question about releasing minutes. Earlier in the year we sat down, as a Board, and reviewed our policy on this issue and, as well, have developed some confidentiality and communication principles. The view was that minutes are not the best way of communicating. Often they have to be edited before release because the information is commercially sensitive – like the current valuation discussions – or concerns things like investment transactions. Even aside from this, the minutes themselves are a dry, fairly technical and formal record and are not designed to engage the reader. We know that you want greater visibility on what we are doing and the

decisions we have made and we want to give you this information straight after our meetings in an easily accessible and clear way. We have started to produce quarterly newsletters, which are put up on the member website, or can be posted to you if you prefer. Like the recent letters, the content is agreed by all the trustees and time is set aside at the end of our quarterly meetings so that we can identify the key messages we're able to communicate to you. The newsletter will cover all the issues that are covered in the minutes, except for those items that we feel must remain confidential. Although our agreed confidentiality and communication principles allow individual trustees to express their opinions on matters of general interest to members, we are not able to disclose individual positions or the way we have voted on a particular issue. I don't think it will surprise you that there is often healthy, sometimes vigorous debate around the table. But once we've reached a decision we are bound by collective responsibility. The general principle is: what is said in the room stays in the room. We want to ensure that the robust debate that takes place around the table is not inhibited, differences of opinion are aired and a way forward is found.

Your interest in the position that an individual trustee has taken and how they have voted, you feel is an issue of accountability. There is a perception that elected trustees are like MPs so their voting should be public. Although, in common with MPs, our decisions are not always popular, the position for a trustee is different. MPs tend to vote on party lines. It would be wrong for a trustee of any scheme to approach a decision with a preconceived view or be subject to a party whip. Trustees must act on the best and most up-to-date information that is available to them and, importantly, must act in the interests of all the beneficiaries. Trustees cannot represent only the group that voted for them. They must also consider the position of actives, deferreds and pensioners, if an active.

As well as having duties to the beneficiaries, the trustees have a duty to act in accordance with the trust deed and rules. For APS, these documents have been in place for many years and will be in place for a long time after the trustees that are here today have ceased to be in office. The APS trust has evolved but each time amendments are made, the trustees of the time have to consider whether they are using the powers they have been given for the purposes that they were intended. We hope that by taking a positive approach to communication, by writing to you more often and by reporting to you shortly after meetings in the newsletter, we will achieve a better balance than we have in the past. In response to our latest letter to the membership we have had some feedback that, although still bitterly disappointed about pension increases, some pensioners felt they had a better and clearer understanding of the issues and the approach we have taken. That said, we fully recognise that we need to do more on the communication front and we will keep trying.

Turning now to the substantive points that you called the meeting to discuss, I will start with the recap of how this issue began. The APS rules state that pension increases are based on the pension increase orders produced by the Government each year. In June 2010 the Government announced the move to using CPI-linked review orders. The order issued in April 2011 referenced CPI and not RPI as had previously been the case. So, what did we, the trustees, do? There are two routes to changing the pension increase provisions: Rule 15, the pension increase provision, and Clause 18.

Rule 15 requires that trustees take steps to ensure that pension increases are based on an appropriate national index, which reflects the fluctuations in the cost of living. The trustees have had to decide whether CPI falls into this definition. It is a narrow question. Rule 15 does not give the trustees the power to decide which index is most appropriate, only whether the index is an appropriate one, within the range of what is appropriate. If we considered that CPI was an appropriate index it didn't matter that we might also consider that RPI is more appropriate for Rule 15. The question to be answered was whether CPI was in the range of indices that could be considered appropriate. We have taken a great deal of professional advice based on legal, actuarial

and economic analysis, related to the construction and composition of cost of living indices and price indices.

We also took account of the judgments in the cases brought by the unions in the High Court and Court of Appeal. The union claim was against the move from RPI to CPI as the basis for the orders. The court held that CPI was permissible for the purposes of the review orders. A further relevant case was the March 2012 QinetiQ case, in which the QinetiQ trustees, concerned about the deficit in their scheme, asked the court whether they could adopt CPI rather than RPI as a cost of living index. In this case it was also accepted that CPI was a suitable cost of living index.

We know from comments made at the last meeting that there is a view that what is an appropriate index for the orders is not necessarily an appropriate index for APS pensioners, so that the case brought by the unions wasn't relevant – i.e. what is right for public sector pensioners is not right for APS pensioners. However, again, the advice that we have received on this point is that Rule 15 does not provide for an assessment of the appropriateness of the increase measure specifically for APS, e.g. to take account of the cost of living of the APS population, but refers instead to an appropriate national index, reflecting fluctuations in the cost of living more generally. The outcome was that we had to reluctantly conclude that CPI does fall within the range of appropriate indices, so that there is no basis to reject CPI as an appropriate national index reflecting fluctuations in the cost of living. Having reached this conclusion, Rule 15 does not provide the mechanism for us to take any further action.

What does this mean? It means that to change the reference index we would need to do so under the general power of amendment: Clause 18. The key issue in relation to amending the rule through Clause 18 is that the Scheme is in deficit and taking action which could be detrimental to the APS funding position would be at odds with our primary duty to protect the security of your existing benefits. The question of the underpin arises because of Clause 18 and as you have asked that we cover this, I will. Before doing so I would like to remind you that there has been no good news, really, since early 2011, and in fact the position is bleaker. The real yields available on index-linked gilts fell by about three-quarters of 1% over the year to 31 March 2012, which means a much lower level of return is available on low-risk assets and we need more assets to be able to pay all of the pensions. Investment markets do fluctuate but it would not be unreasonable to expect the 2012 valuation deficit to be rather larger than a year ago. No one is satisfied that we haven't yet delivered on what we unanimously want to achieve as the Trustee Board, which is to return to paying annual RPI increases. The discretionary increase facility will provide the flexibility we need to do this when we feel it is appropriate to do so.

Turning now to the underpin issue. In the meeting requests you referred to what you considered to be flawed legal advice. Essentially the view seemed to be that we, the trustees, were under the misconception that an underpin would be required if we wanted to change the rules to specify, or what we call 'hardwire in', RPI increases. Why would an underpin be needed? Clause 18 contains a provision known as the 'no worsening clause', which prevents the APS deed and rules from being changed in a way that results in any member or a pensioner being worse off. The argument for an underpin is that, in some years, CPI might be higher than RPI, which could result in a pensioner being worse off as a result of the change we made. The introduction of an underpin would mean that the Scheme paid the higher of, or best of, RPI or CPI in any year, so no one would be worse off.

Your meeting requests make reference to Anthony Arter's comment at the last Ascot meeting, that the QC, whom we asked to advise us in April 2011, agreed with – disagreed, I'm afraid, not agreed – disagreed with the advice that an underpin or a 'best of' arrangement was needed. There was a

difference of view. The QC said that whilst it was safest to follow Anthony's advice and assume an underpin was needed, there was at least an argument that an underpin was not necessary. But the trustees would need to go to court on this point if it became relevant. The result is that the only way to know for sure whether an underpin was needed or not, we had to go to court.

Even in the event that an underpin was not required to fix RPI into the rules now, it would be a very difficult decision for the trustees, given the circumstances of the Scheme and given the current state of the investment markets and the wider economy. To impose extra costs on the Scheme when it is in significant deficit position, with an uncertain employer covenant, would increase the risk that benefits would not be paid in full to you. As well as the practical constraints associated with the circumstances of APS, the QC also cautioned us that, as trustees, we have a duty to exercise the powers that we are given in the deeds and rules to fulfil the purpose for which they were given. The purpose of the Scheme is to provide defined benefits and Rule 15 provides that those benefits should be increased on the basis of an appropriate national index. However, although the QC said that the amendment power is not there to give members the best possible benefit, only those that members are entitled to under the rules, he did confirm that the introduction of the discretionary increase power was a very good way of addressing the issue.

When it came to hardwiring – putting in forever RPI – there were bigger, less theoretical issues to consider than the underpin. These issues were the specific circumstances of APS in terms of its funding level, the condition of the covenant, and broader issues such as the condition of investment markets and the wider economy. Permanently fixing RPI in the rules at the current time would be a significant and rigid additional commitment, at a time when the Scheme has a large deficit, faces greater uncertainty from difficult investment conditions, and has a sponsoring employer, which is also facing very challenging trading conditions. These are the real hurdles. The discretionary increase method provides the flexibility for us to try and deal with this. In years when there are concerns about the funding position, investment markets or BA's covenant, the trustees can decide not to award increases, to avoid worsening the funding level. But in better years they can use the power, the discretionary power, to grant increases. There is also flexibility about the level of increases, so that even if we can't pay the full gap between RPI and CPI in a given year, we might be able to pay a portion of the gap between RPI and CPI.

This brings us on to the next issue you wanted covered, which is our current intentions regarding court action. At the last meeting I said that we had reversed the February 2011 decision to go to court at the May 2012 meeting. Apparently, *mea culpa*, it would've been better, apparently, or more accurate, for me to have said that the decision was taken to defer that decision until more information was available, in particular the court judgments. I'm sorry if I caused a problem by not being absolutely precise. Before we obtained the QC's advice, we had agreed that we would refer our decisions regarding pension increases to the court. However, this decision was superseded by counsel's advice. More recently, even greater clarity about the legal issues has come from recent decisions made by the High Court, which I've previously mentioned.

We have taken the steps which counsel said were required under Rule 15. The introduction of the discretionary increase power was also confirmed as a good way of addressing the pension increase issue. Following further consideration of all relevant issues, we are agreed – we are all agreed – that at present there is no legal issue on which we need to seek the courts' direction. If, in the future, we identify a legal matter on which we feel it is necessary to obtain guidance from a court, such action remains available to us and we will do it if it's required.

I'll now turn to future pension increases. We do know that for all of you the annual increases your pension receives are a vital part of your retirement income. The strength of feeling around this

issue is fully understood and, again, evidenced by your attendance here today and the 900 or so second stage internal dispute resolution procedure complaints we received – a similar number having been through the first stage of that process. The burning question for you must therefore be: when will the trustees use our discretionary power that was introduced in March 2011 to pay pension increases over and above those prescribed by the order CPI?

Although the valuation process is resource intensive, and it is very resource intensive in terms of time, we have continued in our efforts to come up with a framework which will enable us to determine when we can exercise this discretionary power. Why is this taking so long? Well, as one of my fellow trustees commented recently, 'We want to pay it, we just need the money'. The funding level is our key consideration. We need to find a balance between awarding additional increases and benefit security. What does this mean in practice? It means balancing the payment of increases with de-risking of your fund. By de-risking I mean moving the Scheme's assets further into investments which deliver returns which match the payments we need to make to you and those who have yet to draw their pensions over the whole lifetime of the Scheme. It also means strengthening the longer-term funding basis. As part of the 2006 valuation the trustees established a subsidiary funding objective, to be able to provide benefits with a very high level of security without further reliance on BA. At the moment, the valuation funding basis assumes we will get more than a return on gilts – bonds issued by the UK Government – from our investments. And this means taking some investment risks on other assets to achieve this level of return. If this investment risk does not deliver the return that is expected then we will be reliant on BA to increase its contributions to make up that gap.

When we are able to move to the subsidiary basis we would only assume that we get the same return as gilts and would be able to take much less risk. This is a more prudent and conservative assumption, which we believe is important for you over the longer term, but if we move to this in the near term, this would reduce our ability to pay additional increases. All the APS trustees are committed to returning to paying RPI increases when doing so will not jeopardise our ability to pay your pensions in full. This means pensions that will be payable to the 947 active members and the 2,117 deferred pensioners, as well as you, the 26,698 pensioners who are in payment today. The Board and I speak – well, I speak on behalf of all APS trustees, who are unanimous on this point.

Within any group there will be differences of opinion but we are all united on the commitment to pay RPI. Have there been differences of opinion on whether to exercise the discretionary increase power and the design of the framework? Yes, is the answer to both. Discussion, debate and differences of opinion are the normal and healthy part of the governance of your Scheme, as is keeping detail of these discussions within the Board. To do otherwise might fetter the discussion and corrode the trust and confidence that trustees need to have in each other to work effectively on your behalf.

In relation to the discretionary increase framework, we are trying to build a consensus that we can all stand behind. The deed and rules makes some decisions subject to a vote. In some cases a simple majority is needed and in others a two-thirds majority is required, for example rule changes and the payment of a discretionary increase. Working towards a consensus is the preferred route, because it means that all proper concerns are taken into account, so that proposals are adapted or improved to reflect the diverse and divergent opinions. Once the framework is finalised we will write to you with more information. One of the questions that you asked to vote on today, and which will also be put to a postal ballot, concerns conflicts of interest. In particular, the motion suggests that employer-appointed trustees, who are NAPS beneficiaries, should be prevented from serving as APS trustees.

Multiple Participants

Hear, hear.

Paul Spencer

As a point of fact, only three of the six APS employer-nominated trustees are in NAPS; however, we do not believe that this is really the point. Conflicts of interest are inherent in the administration of pension schemes by trustees and the important thing is whether we identify and manage our conflicts of interest appropriately. There are a number of potential conflicts of interest that can arise. Examples include: APS trustees who are also NAPS trustees – they serve on two boards – APS trustees who are also NAPS beneficiaries; trustees who are also employed by the company and who might therefore be adversely affected by increasing funding demands on the company from its pension scheme; trustees who are also members of APS, who would benefit from the decisions taken on pension increases. These are all conflicts we all have to work on, be open about and transparent.

These kinds of conflicts are common in pension fund trusteeships and are not so serious as to require the affected trustees to withdraw from discussions, provided the individuals concerned put aside their own interests and consider only the factors that are relevant to the decisions that they need to take as trustees of APS. The fact that the trustees took legal advice, both on how we should manage conflicts of interest and on the decisions that we had to make regarding pension increases, has also helped in properly managing any conflicts of interest.

I mentioned the 900 IDRPs earlier, and we held a trustee meeting in May specifically to consider the issues raised in the complaints. At this meeting we considered again, individually and collectively, whether or not we believe that any conflicts of interest we had, either as NAPS trustees or NAPS beneficiaries or indeed as APS beneficiaries, had been properly identified and managed. On the basis of our individual confirmations, we concluded that they had been properly managed and identified and our decisions had not been influenced by conflicts of interest.

Please do not doubt that the trustees have worked hard and continue to work hard to address this main issue. We know that you are disappointed and angry with the outcome so far. Yes, we do have a unilateral power of amendment in the deed but we also have wider responsibilities that mean we do not have a completely free rein. We are pursuing the development of a framework, which will enable us to deliver on our stated objective of returning to RPI annual increases when to do so would not put at risk our ability to pay pension obligations in full.

Thank you. I'll now hand you back to Mark.

Mark Wood

I'll now ask Captain Mike Post to respond. And Mike, I think you're going to speak from your seat here.

Statement in Response to the Trustees

Captain Mike Post

APS Member

Yes, I am indeed. Thank you very much, Mark, and thank you all for coming today. I hope you don't mind if I do speak sitting down. I'd first like to thank Mark Wood for agreeing to chair this meeting. Mark is completely independent, with a distinguished record in the pensions and insurance industries. He was jointly appointed as chairman of this meeting by ABAP and the trustees. I should also at this stage like to thank the staff at BA Pensions who have worked extremely hard to enable this meeting to go ahead. Organising a meeting like this is not an easy job, especially when there is also the normal pensions work to be done.

I served as a pensioner-elected trustee for over 10 years. I resigned as a trustee in March 2011 over the APS Board's failure to maintain RPI increases. One of my achievements as a trustee was the separation of the APS and NAPS trustee boards. Unfortunately, against my best judgement and my wishes, the BA-appointed trustees remain common to both schemes. This common trusteeship has provided unfortunate scope for conflicts of interest.

I think that we all realise that the root cause of the damage to our APS pensions was the 2010 emergency budget. That budget was designed to address the UK's deficit. The index for pension increases in the public sector was changed from the retail price index, RPI, to the consumer price index, CPI. This change has had a random effect on private pension schemes. APS is one of the schemes whose members are adversely affected, as you know. The failure to pay RPI increases to APS does nothing for the UK deficit; it merely transfers hundreds of millions of pounds of pension benefit from APS pensioners – from us – to the shareholders of IAG, a Spanish-registered company.

On a slightly different topic, it's reported that the Office for National Statistics is contemplating changes to the definition of RPI, which would reduce payments to holders of Government index-linked bonds. The change would save the Government money and affect APS. In March this year, 52% of APS funds were invested in UK index-linked gilts. This presents more uncertainty for our pension fund. The APS trustees, through their unique power to amend the trust deed, without the agreement of BA, have the ability – the unique ability – to rescue APS beneficiaries from some of the damage done to our pensions by the Government. The APS Board has the power to reinstate RPI increases, but chose instead only to introduce the power to pay inferior, discretionary increases.

The APS Board has so far failed us. I stress that it is the Board that has failed us; individual trustees have been working valiantly to restore RPI increases. When we met here last year, our Chairman of trustees told us, 'The trustees have set the objective to restore RPI as the inflation index as quickly and as prudently as possible'. There is precious little evidence available to us today that Paul's statement was anything more than a hollow promise. At the press conference that he held last year, the APS Chairman explained that he was in a very difficult position. He said, 'I can assure you, if the economy goes absolutely belly-up and things are really bad in two years' time and we have to buy out the Scheme because BA has gone belly-up – if it does – and members are going to get considerably less than CPI as a result they will be very angry with me too, I can assure you of that. I will have them up in arms saying, "Why did you pay out this money when we

didn't have it?" you know, so I can't win. At the end of the day I have to do and the trustees have to do what we believe is right for members as a whole'.

So, let's examine Paul's argument, which was: if the trustees have paid out RPI increases and BA failed a couple of years later, beneficiaries would be up in arms because there was less money to pay out pensions following BA's projected bankruptcy. The payment of RPI increases would benefit all APS Part 6 beneficiaries. Pensions paid out from APS funds in the year to April 2011 amounted to a total of just over £343 million. If the trustees had reinstated RPI in 2011 the total extra pension payout in the year to April 2012, ignoring the changes in pensioner numbers, would have been approximately £5.1 million. If the trustees had paid RPI this year, by April 2013 the assets of APS would have been diminished by a further £1.4 million approximately; a total extra payout of approximately £6.5 million for two years of RPI increases. To put these sums in context: in the year from April 2011 to April 2012 the value of APS investments changed by £643 million – 100 times the extra RPI payouts. If RPI increases had been paid in the two years, the extra payout of £6.5 million would have been absolutely trivial: one thousandth of the £7.3 billion value of APS's assets.

Our Chairman's argument fails. If RPI increases had been reinstated and BA were to go belly-up, with the assets worth £7,308 million rather than £7,315 million, angry beneficiaries would not be 'up in arms'. The Trustee Board would have done the right thing in reinstating RPI increases. Following the Chairman's hypothetical BA insolvency scenario, any reduced pension, thanks to paying out an extra £6.5 million, compared with the net APS assets of over £7 billion, would be trivial in comparison with the ruinous, long run effect on the lifetime value of APS pensions should RPI not be reinstated. This is especially true for members on the smallest pensions.

I now turn to a disturbing development. We are in an era of increased transparency in public affairs. The use of secrecy and the spurious claims of confidentiality to protect bureaucrats from challenge is ending. The introduction of the Freedom of Information Act and the recent Hillsborough police cover-up have heightened public awareness of the need for transparency. In contrast to the general move towards transparency, the APS trustees have recently taken to heavily redacting, or censoring, the minutes of trustee meetings made available to members. By custom and practice, the minutes of APS trustee meetings have always been available to APS members if they ask. It is right that interested members are able to read what is being discussed and agreed by the trustees on their behalf.

The minutes have always been appropriately censored to blank out personal details or commercially sensitive information concerning BA or APS investments. The 2004 Pensions Act requires the trustees to seek advice on BA's covenant, or financial strength – its ability to support the pension fund. It was therefore inevitable that elements of the minutes which report on the health and future prospects of BA would be redacted. However, the APS Board now appears to be using the excuse of the 2004 Pensions Act to hide their key deliberations from the membership. One member was recently sent censored minutes with a letter which dismissively said, 'Being aware that the redacted minutes may be of limited interest' and indeed: pages of blank.

Participant

Disgraceful.

Captain Mike Post

Indeed, the redacted minutes have become a bad joke. The Scheme Secretary wrote to another member, 'The process and principles for releasing only redacted minutes will continue'. The process and principles censoring the minutes seem designed not to protect personal information and commercial secrets, but to stop members discovering what their trustees are doing on their behalf. How can there be trust when there is concealment? When I was a trustee I obviously had access to all the minutes. I can therefore compare the full minutes with the censored minutes supplied to members. I will give you an example. Three APS trustee meetings were held in September 2010, December 2010 and February 2011. The uncensored minutes of the meetings showed that the legal advisers, Eversheds, had repeatedly and unequivocally advised the trustees at each meeting that, if they decided to reinstate RPI, there would be the need for a so-called CPI underpin. There is no need to go into the details of the underpin here. A CPI underpin would substantially increase the APS liabilities and make a trustee decision to reinstate RPI vulnerable to the risk of successful challenge.

Eversheds, at the same time, gave repeated advice, resulting directly from their underpin advice, which recommended the introduction of an inherently inferior discretionary increase rule. The discretionary increase rule was Eversheds's idea, based on their underpin advice. According to the uncensored minutes, in February 2011, acting on Eversheds's repeated, unequivocal underpin advice, the Trustee Board, rather than reinstating RPI increases, introduced the discretionary increase rule, which Eversheds had repeatedly recommended. I did not agree with Eversheds that an underpin was necessary. The Trustee Board unanimously supported my proposal to take the final decision of the trustees on whether or not to reinstate RPI increases to court. The purpose of going to court is that Eversheds's crucial underpin advice should be professionally tested in front of a judge.

The consequence of the trustees acting on Eversheds's underpin advice was significant. There is a real possibility that an APS pensioner's lifetime pension income may be reduced by as much as 30%, depending on the long-term difference between CPI and RPI. All these debates are blank in the redacted minutes – the ones I just showed you. In fact, it's quite funny. When I resigned there is a bit which says, 'Captain Post' – talking about my resignation – and then the rest is blank. The redacted minutes don't give the reason for my resignation, which is completely absurd.

Last year at Ascot, Eversheds admitted that the QC, who was consulted only after the decision to introduce the discretionary order had been taken, had questioned Eversheds's underpin advice. The QC said that it was not necessarily right that a CPI underpin would be required if RPI increases were reinstated. But this was after the event. Accepting Eversheds's advice, the trustees had already introduced the discretionary increase rule. Subsequently, two specialist pensions lawyers separately advised me that, like the QC, I was correct to doubt the underpin advice. The trustees have even written to me to say they have no idea whether or not the advice on which they'd acted was flawed. This, they say, would have to be decided by a court. Now, thanks to the trustees' censoring of the minutes, the record of Eversheds's repeated and unequivocal advice is not directly available to be seen by any of the members who'll be affected, except for the other elected trustees and me. These are the minutes describing the process and the reasons why the trustees acted. These censored minutes are neither about an individual member, nor refer to commercially sensitive matters. The trustees' actions may have serious consequences for all beneficiaries. Am I the only beneficiary in a position to challenge actions taken by the trustees, because I possess the uncensored minutes? This is a matter of trust and the APS Board is failing us through its lack of transparency.

Now to conflict, so airily dismissed by Paul. Suppose you are an aspiring young BA executive – that's young by my measure. The BA Board asks you, on top of your other duties, to become a BA-appointed trustee of APS. You naturally wish to accept the offer to please BA – poisoned chalice though it is, with its unlimited personal liability. Since you almost certainly joined BA after 1984, you cannot be an APS beneficiary. You will most likely be a member of NAPS, or the BA Retirement Plan. APS and NAPS are presently both in deficit and will require funds from BA. Any money that goes to APS is money that, in the absence of APS, would go to NAPS. It is a zero-sum game. NAPS is in considerably more challenging financial circumstances. If you are an NAPS member in mid-career, your pension prospects could be seriously harmed if NAPS were to be closed to future accrual. As a NAPS beneficiary and NAPS trustee, can you really put to one side your own pension interests, your vital family pension interests, when making zero-sum decisions affecting APS and NAPS? I'd say no.

A trustee has a fiduciary duty to the beneficiaries. Lord Justice Millett observed in 1998, a fiduciary 'must not place himself in the position where his duty and his interest may conflict'. Has not the BA Board, in appointing NAPS members and trustees to the APS trustees, placed the NAPS members in just such a position of conflict that Lord Justice Millett said should be avoided?

I should now like to consider the position of pre-1984 trustees. They were all APS beneficiaries too. Such an APS Trustee Board, consisting of APS beneficiaries only, was fully aware of the reasons for introducing RPI increases in the first place. Do you think that there is any chance at all that such a board would have failed to reinstate RPI increases, had they been APS trustees in 2011? No, of course not.

At the end of this meeting there are going to be three votes taken by a show of hands. I urge you to vote yes to all three questions, which are: 1) Do you agree that the APS trustees should restore RPI pension increases, backdated to April 2011, thus meeting members' expectations? 2) Do you agree that the APS trustees should retain a funding target sufficient to pay RPI pension increases? 3) Do you agree that, because of serious conflict of interest issues, APS trustees appointed by British Airways should not be NAPS beneficiaries?

Recently, the APS trustees rejected 900 separate complaints for the second time. The scene is now set for those 900 complaints to be taken to the Pension Ombudsman and the courts. The trustees have yet to make their own approach to the High Court that was agreed in February 2011. In 1984 we all rejected large cash sums – almost a year's salary in my case – to stay with APS. This 28 January 1984 edition of the *BA News*, which you may remember – I remember it very well – it contains the offer made by the late Lord Marshall, in which it is clearly stated that APS will receive unlimited increases in line with the cost of living index. This index, in 1984, was the RPI. The CPI was not invented until the 1990s. This was the clear expectation of all BA employees at that time. We paid significant extra contributions for unlimited RPI pension protection. We rejected large cash inducements to stay with APS. Meanwhile, for 14 years, BA enjoyed a substantial contribution holiday and other more dubious benefits from past surplus.

The APS Chairman told us last year that the restoration of the RPI as the inflation index is the trustees' objective. We are not going away until the RPI increases that we paid for twice over are restored. We will be using the Ombudsman and the courts, and all means at our disposal, to regain our RPI increases. A beneficiaries meeting will be called annually until our objective is achieved. Thank you.

Questions and Answers

Mark Wood

Thank you Captain Post. Now, what I'd like to do to start with is go to the room at the far end and take the first questions. So I'm just going to walk to the other room and we'll establish if there are questions in that other room. Is my microphone still on? Yes? So can we start with questions from room three, as it's called? Good afternoon. Are there any questions from room three? Over here please.

Participant

Thank you Chairman. Of course I'd like a higher annual increase; however, there's one thing that worries me a little bit. Paul originally said – I think I heard him say – that if there was no deficit, or if the deficit was much smaller than it is, then there would be no problem paying RPI. Mike Post said the difference between RPI and CPI goes to the shareholders. So I wonder whether there isn't some common ground here that says: why don't we focus on reducing the deficit? Why don't we focus on whatever means are necessary to get more contribution from the employer? There was a 14 year pensions holiday. I remember it. When I was a trade union person, pensions were referred to as deferred income. That 14 year pension holiday is part of the problem, it's not just the investment performance. So I really say to people: let's focus on the size of the fund and the size of the deficit and how we reduce it. Maybe there's a way, if we're stuck with CPI for a while, for the employer to put in the difference between CPI and RPI into the fund in addition to their covenant, so that it doesn't go to the shareholders. It's just a question and I'll leave it on the table. Thank you.

Mark Wood

Paul, why don't you respond first?

Paul Spencer

Sorry, I don't know your name but I think you've hit one of the nails right on the head and well done. That is – exactly what we are trying to do is: how do we reduce the deficit? What we're actually trying to do is see if we can come up with a way where we can do both: where we can get the deficit reduced and at the same time see if we can make some sort of payment towards your RPI/CPI difference. That's the framework we're trying to come up with. So I think you're absolutely correct in your thought process. There's one bit you are wrong on, because Captain Post has misled you: no money at all leaves the BA operations, which is our covenant, up to IAG. So any money stays with our covenant, which enables them to have a better chance of paying down the deficit. We monitor this ruthlessly on your behalf to ensure that money is not leaving the credit that we look to for contributions to the deficit of your fund.

Participant

[Inaudible]

Mark Wood

– particular point there, Paul, which I think we might ask Michael to comment on in a second, the Scheme Actuary. Let me just clarify with the questioner: are you content with the response that you've had? I think I'm getting a nod.

Participant

[Inaudible]

Mark Wood

Do you want to respond? I think the problem is we've got microphones coming on and off all the time, haven't we? Mike, perhaps I could ask... Captain Post, perhaps I could ask you to respond briefly to the point.

Captain Mike Post

No – well I'd be happy for Michael Pardoe, if Michael Pardoe's going to comment. I think you suggested that.

Mark Wood

Yes. Michael, the question really raises the issue of whether the money departs the Scheme or not, as Captain Post was pointing out. I wonder if you'd care to comment on that particular element of how the funding of the Scheme works.

Michael Pardoe, Scheme Actuary

Well there's no way for money to leave the Scheme and be paid back to BA in the first instance, so the question of it going to Iberia doesn't really arise. Obviously there is a debate about how much future money should come into the Scheme and that's what the valuation discussions are about right now. And, as Paul said earlier, we can't give you an update on that because obviously there's a lot of commercial sensitivity around it, but the valuation steering group are clearly going to be working as hard as possible to make sure that the maximum amount of contributions do come through for APS.

Mark Wood

Thank you very much. We have a third question here. [Inaudible]

Captain Mike Post

Can I just clarify? I didn't suggest money was going out of the Scheme up to IAG or anything. It was the – if you pay out £6.5 million from the Scheme in pensions, that reduces the size of the pension fund. It reduced it from 7,315 billion – million – thousand million – to 7,308 billion. I wasn't suggesting it was going up to IAG.

Michael Pardoe

So – I mean I think the example you gave, Mike, isn't really the full picture. So the issue is, if the – and let me illustrate it using simple numbers so I can do the maths. But roughly the outgo each year is sort of 300 million plus in terms of pensions from the Scheme. So, if a 1% increase isn't given this year, yes, the impact this year is £3 million, but of course that's – if that extra pension was granted it's not just a one year thing; it's a throughout life thing. So, it's 3 million the year after; 3 million the year after that. And the capital cost of that 3 million in the first year is a capital cost of maybe £40 or 45 million. And – sorry, if I could just finish –

Captain Mike Post

Yes but you're misrepresenting it. I was responding to Paul's argument to the press last year which said in two years' time, if you've paid out 6.5 million, everyone will be very angry with you if BA were to go bust, and that's just not correct.

Mark Wood

I think if I can just intervene just to try and find the area of compromise. I think what Michael's pointing out is that any increase has to be applied for the full duration of the Scheme.

Michael Pardoe

It does.

Mark Wood

And therefore the true cost of the Scheme is the cost of all the future payments.

Captain Mike Post

Yeah of course, but that wasn't the argument that Paul Spencer was putting to the press last year. He was saying if we paid RPI out now... Pensions are a very long-run game and in 30 to 40 years, who knows what's going to happen to markets and whatever?

Mark Wood

Well I think if I've understood correctly the argument, which I think I have, the reconciling point is that one has to take all of those increases prospectively made, because of course that commitment is made. But I wonder if we could just leave that point for a moment; we may well come back to it. There was a second question in the far room and I'm hoping the microphone is going to work.

Participant

Thank you Mr Chairman. Good afternoon. It's just a subsidiary question to what's been happening to our pension funds. Obviously, this CPI change was aimed at civil servants and government employees, which obviously, I take it from our cooperation days, our scheme still fell under. My worry is if the economic situation declined, as has happened in some of the Mediterranean rim countries, and the Government decided then to cut the civil servants' pensions,

would that apply to our scheme as it stands at the moment? Because that would be a bigger blow, or as big a blow as what's happened in the last few years. I would appreciate an answer on that if someone's got the knowledge up there. Thank you.

Mark Wood

That might be a question for Anthony.

Paul Spencer

I don't know if everyone heard that, but what I got from that was the gentleman is saying, 'Things are bad. If the government cuts how much they pay to civil servants again, would we be affected?' It's a difficult one to answer because they would have to find another index which was lower than the CPI index to put that into the orders that we would then be controlled by, so... And it seems to me that what they're actually trying to do at the moment is reduce RPI down towards CPI, so at the moment I don't think that's going to happen, but I hate to think what politicians can do to all of us.

Mark Wood

I'm just going to ask the technicians if my microphone can be left on all the time. Is that possible? Thank you very much, Anthony, do you –

Participant

Excuse me, I don't think you understood the question. It wasn't about the indexing; it was if they made an actual cut in the pensions. If our scheme is still tied to government orders, would that apply to our pension scheme? Not the index; if they actually made a cut to the civil servants' pension scheme. Would that apply to us as it's happened with the CPI fiasco?

Paul Spencer

Okay. If they just said, 'We're no longer paying you a pension or what you're entitled to in terms of what you're getting,' no, that should not affect us at all.

Mark Wood

Well in fact, Paul, I think –

Paul Spencer

I'm looking at our lawyer, but I think he's nodding vigorously that that is correct.

Mark Wood

Very good. Are there any further questions in room three here? Thank you very much. I wonder if we could take – rather than spend the time walking right across to the other room, I wonder if we could take the main body of the room for questions now.

Keith Armstrong

Keith Armstrong, previously with Structures Development Engineering. Why has the APS fund fallen behind solvency when we employ expensive actuaries to calculate the amount required? Why do they have no safety factor? Airline aircraft are designed to cope with maximum expected stresses plus a safety factor of 1.5. Actuaries do not appear to use a safety factor at all.

[Laughter and applause]

Mark Wood

I'm not sure everybody heard the question, but Michael, I think you picked up the gist of it, from the expression on your face. Would you like to respond?

Michael Pardoe

Thank you. For those that didn't hear the question, I think it was around why there weren't sufficient safety factors built into the Scheme so that we wouldn't have a deficit now. And the short answer is: that's to do with how much money BA have been able to pay into the Scheme in the past. To make a scheme completely solvent and immune from deficits would require many times more money than the Scheme, or indeed any scheme in the UK, has got and it would require the Scheme to be invested in a different way to what the Scheme is. At the end of the day, the legislation requires the Scheme to be funded on a prudent basis, but the legislation and the Pensions Regulator is very clear that 'prudent' doesn't mean completely risk-free. It's accepted that under UK law there are risks involved with pension schemes and that pension schemes can and do go into deficit from time to time.

Mark Wood

Thank you Michael. I'm sorry we're having such difficulty with the sound in the side room. Can somebody just signal to me whether there are any further questions over in room three? I think we'll just pause on questions from room three for the moment, then, and go to the main body of the room. There was a question right here. I've got microphone five, if we could have that one live.

Joel Kosminsky

Thank you and good afternoon. I'm not afraid of the Data Protection Act; my name is Joel Kosminsky. I'm a former British Airways employee. But because of the way my career has gone I'm actually a beneficiary of three different pension schemes: British Airways; what was London Transport; and the railways scheme. Now, I'd like to make a point based on that and then ask three specific questions. All of those three schemes were in surplus until privatisation came along and contributions holidays were increased. When the railways were privatised, every first operator of a railway franchise was given a five-year automatic pensions holiday. I work for South West Trains – and I don't mind them having a go at me for that – and the deficit of South West Trains' section of the Railways Pension Scheme exactly matches the five years of pensions holiday. There is a direct correlation. So, there is a greater political issue here, and I'm sorry if those may not share my viewpoint, but it is something that needs to be understood and taken into account.

I have three specific questions. One: why is CPI an appropriate index? It was developed specifically for convergence criteria to join the euro. It carries completely different cost-of-living

indices, such as the cost of buying a roast chicken, and also the cost of rental is biased against the home-ownership propensity we have here, of which approximately 65/70% of Britain is a home ownership scheme now.

My second point is about the pensions increase order. No one has ever actually said categorically whether it's mandatory to observe it or its guidance and whether the indexing itself that it gives is a standard, a minimum or a maximum. Slavish following of it simply because it exists is not sufficient. We need to know that that is the only object – the only, sorry, path that can be followed.

And the third point is really a morality question. How can APS and the trustees and the Board break written guarantees to give RPI? Mike has produced the copy of the *British Airways News* in which Colin Marshall promised unlimited guarantee of RPI; and secondly, many widows or widowers of former members have written promises of RPI maintenance. This is a dishonourable way to behave and it is not trustees acting in the best interest of members and contributors. Thank you.

[Applause]

Mark Wood

I'm going to ask Anthony Arter, the Scheme Lawyer, to respond. I just want to very quickly summarise the questions. So, the first question is: how can CPI be regarded as an appropriate index? The second question –

Joel Kosminsky

Is the pensions increase order mandatory or guidance?

Mark Wood

Yes, is it mandatory or can it be waived because it's simply guidance. And the third question, which was your morality point. Good, thank you.

Anthony Arter, Scheme Lawyer

Well, they're three very important questions and the Trustee Board and myself and others have looked at this very, very carefully in terms of the way in which your rules are interpreted for whether this is an appropriate index, CPI. And it was a question that we asked the leading counsel as well, to understand what your powers were under Rule 15 and whether actually you could question that CPI was the appropriate index for APS. In the interim, we also had, of course, the unions' case, where it was gone into in some detail about whether the CPI was an appropriate index. And what they said was – and I'm not an expert on arithmetic and geometric means; I would turn to Michael for the sort of understanding of this – but what they said in the High Court was that in fact CPI is closer to a cost-of-living index than RPI. That was the decision in the High Court. And of course, as you are aware, the unions took this to the Court of Appeal and they declined actually to take it any further and they also declined to take it to the European Court. So we have to take note of what is said in the High Court.

In order to make sure that you don't spend or we don't spend your funds unnecessarily in fighting something where a court has already determined whether or not CPI is appropriate, we have to take

this into account. On top of that, the QinetiQ case, which Paul Spencer mentioned earlier, talked about a suitable cost-of-living index in their rules, and again the High Court determined – or they didn't actually – it wasn't actually fought; if I'm fair to you, it wasn't actually argued by either side, but it wasn't raised as to whether or not CPI was a suitable index in terms of the QinetiQ scheme.

So, taking that into account, the Trustee Board, together with my advice, decided that it doesn't have to be the most appropriate – and of course we all know that RPI, as far as you're concerned, is what you should be getting – it just has to be an appropriate index. And so that is quite wide. It might be the least appropriate, but it's appropriate in terms of the High Court and the way the High Court have determined this.

Participant

How approximate can appropriate be?

Anthony Arter

Well the High Court decided that it was an appropriate index. And in terms of whether or not this is guidance, it's not guidance because your increases are paid for under the terms of the government review increase order. So, it's paid in terms of that order. And so, it's not guidance, that 'can you follow it or not?' That is the means of which it's calculated, and that's CPI. So, if the government changed it to CPI plus housing, for example, then that's what you would be paid, or if they came up with another national index, then again your scheme – following the rules of your scheme – and of course the trustees have to pay the benefits in accordance with the rules of your scheme – that would be controlled by the increase order.

Mark Wood

Well now can we move to the second component of the question, which is whether the increase has to be adhered to or whether it's just something that can be decided from year to year?

Anthony Arter

No, it has to be adhered to. It's very, very clear. You haven't got discretion in terms of Rule 15. That is why we added the discretionary power to the rules, in order to give you the ability to pay above CPI, which is very important.

I'd just like to go back, while I'm on the stage, on the point about the underpin. If I was asked that question today, I would give exactly the same answer. And as counsel did say that that was the safe answer and that unless you go to court you couldn't take any other decision, because what I'm here for is to protect your fund, your benefits and the benefits you're paid, and as far as I'm concerned, that underpin is very, very important. And my interpretation of that underpin is to ensure that every individual is protected by it and I would still give the same advice today and if a court decided otherwise, that's fine, but I would still give that same advice. Just so that I'm absolutely clear on that, I haven't changed my opinion on that one iota. And let me just emphasise that counsel said that was the safe option.

Mark Wood

And then the third element of the question, which is the morality question, which is that people have a written guarantee that RPI will be paid.

[Applause]

Anthony Arter

You haven't got any written guarantee that RPI will be paid. What the trustees have to do is to make sure that the accrued benefits are paid; that's their – that's a prime concern: to make sure the accrued benefits are paid first. If they can give an increase – if they're sure of that... And let me go back to counsel's point as well. He talked about two types of schemes. He talked about those schemes that are well-funded with a strong employer covenant. He –

[Handed a document by Captain Mike Post]

Okay. Sorry, I forgot about your 1984 publication and we spent a lot – I've forgotten how many documents now we gave to counsel to look at what was said to the members and to whether there was any action that could be taken, because the trustees would have taken action if they could have done. Counsel were very clear – and so were we very clear before we went to counsel – that unfortunately there wasn't any action to be taken in terms of the information that was given to you by BA at various times. It was inconclusive; it was different types of information given – and this actually refers to a cost-of-living index, I believe. I haven't read it. Mike, does it? First cost-of-living rather than RPI? Cost of living, which – of course CPI, we've just discussed, is a cost-of-living index, whether you accept it or not.

[Heckling]

I know, I know. But, you know, that's cost of living.

Captain Mike Post

Anthony, it's 1984. And can I just come back to you? You said that it was the safe option to have an underpin. The cost of going to court – say it's £6 million. The beneficiaries here are going to lose hundreds of millions of pounds over their pension lifetimes if they receive CPI rather than RPI. That's assuming that there's no convergence. So surely it is worth clarifying and getting a court to decide, as the trustees agreed, that the final decision not to pay RPI increases should be put to a court so the underpin advice could be properly challenged in the court.

[Applause]

Anthony Arter

What counsel also said was that before you get to that stage of testing whether or not you need an underpin, first you've got to decide whether you can hardwire RPI into the Scheme, regardless of the underpin. And the point I was going to go on to was that he said there are two... He understands – he absolutely understands – that you feel this is your right to have this RPI payment. And believe me, everyone – including myself, including the actuary, including the Board – absolutely sympathise with that. Absolutely sympathise with it. You know, it's a quirk of fate that your rules are drafted as they are and you're caught by the government change when some other

schemes weren't caught by it. I absolutely understand the sentiment and if I were sitting there in the audience there, with you as a pensioner, I would feel the same – absolutely the same. Unfortunately, I have to advise the Board and I have to give the right advice according to my understanding of those rules and interpret those rules, and that's what I do in order to protect your accrued benefits and make sure the benefits are paid.

What counsel said was – there were two – if you look at two different arrangements, one with a well-funded scheme with a strong employer covenant, then the trustees could consider hardwiring RPI into that trust. But if there's a weak covenant and a deficit in the Scheme, then the trustees are in a very difficult position in making that decision. That was before considering the underpin point.

Mark Wood

Thank you. Was there a supplementary question here?

Participant

There's one over here, Mark.

Mark Wood

Just one second, I think – was somebody just wanting to pick up a detail?

Participant

I just said he was intimating that BA is not a strong company.

Mark Wood

The question, just for those that didn't hear it, was you're intimating BA is not a strong company, just to record that point. So, do you have a microphone? Thank you very much.

Steve Dodson

Can you hear me? Can you hear me, anyone? Oh right. Steve Dodson. I'm NSP rep – or was NSP rep – Terminal 3, Terminal 2. When you actually sent your people down to actually take these NAPS, they were running up and down the ramp, running up and down the baggage banks, waving cheques around in their hands for 6, 7 and £8,000. We were telling them not to take it, because we were going to stick loyally with APS. What have you done to us? You have absolutely shit on us, because that's what you've done.

[Applause]

We didn't go out and build extensions on our houses, or stick children through school. We got absolutely nothing then, and by the sound of it we aren't going to get nothing now, because half that bleeding lot up there – and matey in the middle, who's nodding his head, whereas he's saying to him, 'Oh, let's get the Scheme all in profit again'. How long would it take £7 billion to come into profit? I cannot believe a scheme that is worth £6 billion can go bankrupt overnight, when

somebody said we're going to pay a little measly increase of about another 1 or 1.5%. I just can't believe it. I reckon the money can't be invested right, because I tell you what, I reckon I can invest it better myself sitting at home in front of my computer.

[Applause]

Mark Wood

We've got a problem with the sound over here again. Whilst we're just having a little pause, I'm sure the Board notes your generous offer of investment counselling and advice. To an extent, the question reiterates the point that Mike was making in relation to the inducements to transfer schemes, so I think we should probably move to another question, but thank you for those observations.

Right here in the front. Notwithstanding the Chief Whip's reference to 'plebs' earlier in the week, I think we do need to sort of have moderate language as well, you know. Thank you.

[Laughter]

Geoff Smith

Thank you. I'm Geoff Smith. I'd paraphrase Paul Spencer's opening remarks, if I can, and he said something along the lines of: 'To go back to RPI now would cost us some money, therefore it will be difficult'. Now I understand that, as everyone here does. If we wind our minds back to before this debacle happened, we were prepared to pay RPI forevermore – before the government action. We are where we are and there's a certain loss of face involved in going back to where we were. But the Board of Trustees has already intimated that they are working towards a discretionary improvement back towards RPI. So can I ask specifically: can they confirm that RPI was in fact the index that was used on the previous valuation? What specifically they are doing to work towards RPI now, based on their stated intention? And is the current valuation also being based on RPI increases?

Mark Wood

So I think if I can break that into two components, I'll ask Michael to deal with two of them, which is the basis on which the financial projections for the Scheme last time for the valuation and this time for the valuation are based on – in one case RPI and in the second case CPI.

Geoff Smith

In the second case RPI as well. The Board's stated position is to work back towards an RPI increase. Therefore, one would assume that they are looking at this. If they're not, we'd love to hear about that.

Mark Wood

So let's have that clarification.

Michael Pardoe

Okay, so the last valuation in 2009 was made on the assumption that increases would be linked to RPI, because that was the understanding of how pension increase review orders would work in the future; it's how they had always worked in the past. Of course that has now changed. As for this valuation, I don't think I'm able to say anything about the valuation other than to repeat the point I made earlier that the valuation steering group is working very hard and very toughly with BA to make sure that the best outcome is achieved for the Scheme. And I'll leave Paul to add anything to that if he wants to.

Mark Wood

Can I just clarify that, Michael? What you're saying is that in preparation for the valuation, the basis on which the valuation is to be calculated has yet to be decided.

Michael Pardoe

It has yet to be decided because, under legislation, the trustees and the company have to agree the assumptions, and that involves some tough negotiations. So I'm quite sure I can predict how the trustees will want things to end up, but clearly there has to be agreement with the company as well. And they are tough negotiations and they are partly underway and they are commercially sensitive.

Mark Wood

Thank you, Michael. I think your – the middle question was, 'Could the Board please confirm that they have the intention of moving towards RPI when that is possible through the discretionary' –

Geoff Smith

We have a stated position that the Board has said that they are working towards RPI. My question was, naively, what specifically have they done to move in that direction?

Mark Wood

Paul?

Paul Spencer

What we've done is had a whole series of meetings of a sub-group to try and come up with a framework that we believe is a sensible, prudent framework that, as conditions hopefully improve, we will utilise that framework, agreed by all the trustees, to be able to determine the size of increase we can give as is appropriate under those economic conditions and the funding level and the covenant.

Mark Wood

So if I could just inject a question on your behalf – Paul, is it possible to talk about a timeframe for that discussion?

Paul Spencer

At the moment we do have the valuation process going on as well and I can't stress enough how much time and effort we're putting behind that to try and get that absolutely right on your behalf. But we are fitting in other meetings. As I said, I have a broad church of trustees with different viewpoints. We are debating very hard those different viewpoints to come to a common approach. I believe we've made good progress. I think it might be good if we ask Cliff, who, as you know, resigned and has come back, if he'd maybe like to say something on that.

Mark Wood

That would be very helpful. Cliff.

Cliff Pocock, Trustee

Thank you, Paul. I should say I'm used to hospital passes; I used to play rugby with Mike Post, so I'm used to it. Geoff's question actually picks up a really important point. If I just deal with the funding side, first of all. The very first question talked about funding as well. Those of you who were here 12 months ago probably remember I stood at that rostrum as a member, and spent quite a bit of time talking about the importance of the forthcoming valuation. Now, I don't want to say anything at all that would in any way endanger us achieving what we want to achieve, but I think Paul has said – very kindly – that we have a strong valuation team, and I think we do. And I think we're led by Paul, who's actually probably the strongest negotiator I've sat down with, and all I can say is I'm very glad he's on our side of the table and not on the other side of the table.

The other part of Geoff's question was: what progress have we made? And I think – although we haven't seen a single pound in our pocket of pension increases as yet, I think we have made considerable progress in-house, although that may not be readily apparent. I think some of the language you heard today differed from the language that you heard 12 months ago in, say, trustee newsletters. 12 months ago, there was heavy use of the word 'maximise' in reference to maximising the security of the fund. That's why, quote, 'We can't pay you discretionary increases at this stage'. This year, you heard the word 'balance' and it's about balancing the security of the fund with the recognised need to fulfil your legitimate expectations that RPI will be paid. So, my own opinion is the debate is about not if RPI will be paid at some time in the future, but when and how we might get there to giving you RPI. So I think that's a very important change of emphasis.

I think there's another issue that I hold – I think is very important. This is a personal view. I think there is an issue of fairness across the whole membership. We need to recognise, as Mike intimated, that if the Trustees spend too long in delivering discretionary increases, then that's going to disadvantage the oldest members, who, by and large, are those on the smaller pensions. So, there is a sense of urgency here; we have to get on with it and address the situation. I also recognise there is a counter-argument that we also need to be fair to those members who are still gainfully employed and will be relying on an APS pension in 50 years' time. So I think there are lots of balances here, but the message you are getting: it is about balances, and I think, for me, that is a considerable improvement and that is progress. I realise it is not tangible – there have been no tangible results – but it is progress.

The other point I would just make is – that Paul has made in his speech – is there is now, I'm very pleased to say, a strong, healthy and vigorous debate within the Trustee Board, and I think that's progress and that's good for you as members.

[Applause]

Mark Wood

Now we've got a number of questions over here. I want to take these four questions, so if we could have a microphone there, and then to the front row with the lady with the orange – I'm not sure if it is orange; peach perhaps.

Participant

Coral.

Mark Wood

Coral – thank you – pullover, and then we're going to go into the far room, to take questions from the far room, and then we'll come back here. Sir.

Participant

Very short, simple question. British Airways is now a private sector company. Why can we not break the link to government orders?

Mark Wood

Anthony, do you want to respond to that? Anthony doesn't want to respond to that, but he's going to.

Anthony Arter

I know I've been blamed for giving us discretionary power – or giving the trustees the discretionary power to pay increases above the government review order increases. But the point about it is, as we all know, they are now looking at RPI and changing, perhaps, what RPI will mean in terms of increases. That discretionary power that you have in your rules could prove to be very valuable, provided that, once again, the trustees get through the discussions and agreement on the framework on how it operates. Once we get there, actually, that discretionary power will then, if you like, be very, very useful in terms of RPI and CPI if they're worth next to nothing in the future – which could easily be the case as far as you're concerned, when RPI isn't worth what you thought it was going to be worth because the government have moved the goalposts. And I think that discretionary power – I know it's dismissed, but actually, used in the right way – and you've heard at least the chair and also one of the members of the Trustee Board – they are very keen to give you what they believe you deserve. And I think that discretionary power, with the framework formed correctly, will give you that extra ability to have the increases that you want and you then can move away from, perhaps, the government review orders within Rule 15. And that's why – I know it was my idea in the first place, but actually I do think that it is valuable for you, or valuable for the Trustee Board, to have that discretion and that power, so that they can ignore what the government might do in the future.

Mark Wood

Thank you, Anthony. You've got a microphone, thank you.

Participant

Thank you. I just want to make a point: I know people have actually mentioned about the pension holidays. I think people probably don't realise that pension holidays was something that the government imposed on companies with surpluses, because pensions were given tax free and they didn't want the people – the companies to actually use the taxes to actually give too much money in the pensions. So, actually, that probably is not – we can't blame British Airways for that, or BA, but it was the previous government.

I'm just reading the 'In Focus' of the December – the APS December update, and it says in here, 'If future increases were assumed to be based on CPI, assuming CPI to be 0.5 lower than RPI, this would improve the 2011 funding level to around 97%'. Now, I've always heard that actually private pensions, if there is a deficit, it is paid by the company. That is being paid by the pensioners. And, just to say, my husband will be 91 in five months and he hasn't got time to wait. Thank you.

Mark Wood

So, I think we take notice of the observation rather than the question. Sir, right behind you.

Participant

Mr Chairman, thank you. I'm sorry, this is a supplementary question that goes back to the moment when Captain Post handed the newspaper article of Sir Colin Marshall, making a promise that we would have our pensions linked to the cost of living index. It was then pointed out – correct me if I'm wrong – the speaker said, 'Ah yes, but it did not say the RPI'. In those days, the cost of living index was known as the cost of living index. When they wanted to have different indexes, that cost of living index became known as RPI, because CPI got introduced. Please advise me if my perception is wrong. Thank you.

Mark Wood

Well I think RPI was introduced in 1961 as a general index, so –

Participant

Was it not therefore –

Mark Wood

CPI is a subsequent –

Participant

Yes, indeed. So when Sir Colin's article was there, and he was saying we were going to have a rise linked to the cost of living index, he was obviously referring to RPI.

Mark Wood

He would indeed have been doing that. Let me read the paragraph; it might just be helpful so that we've all got it. 'Index linking. The new scheme will be index linked in line with the cost of living index up to a maximum of 5% in any one year, but it will not offer unlimited inflation-proofing like the present scheme'. And then it goes on to clarify that. That's your highlighted paragraph.

Participant

That was NAPS [inaudible].

Mark Wood

That's your highlighted paragraph. Yes, exactly. Exactly. But I think your point is that it was – the language was a 'cost of living index' – that would have been RPI at that point.

Participant

Absolutely, yes. Sir Colin promised cost of living index unlimited, which is what the terms of APS was at that time.

Mark Wood

Yes. I think there was another question just in this area here. Is that right? There we are.

Participant

Just an observation and a reminder to everybody – especially to everybody on the stage, apart from Captain Post – that NAPS was created to allow the privatisation of British Airways, because the City institutions were horrified at what a good pension fund we had in APS, so they created NAPS. And I was offered – and we were all offered – bribes. We were offered bribes – that's all it is – to get out of APS; and we turned it down, because we accepted we were responsible people with a young family at the time, that 'I want RPI increases' and that's what... We can play around with what he meant – what Colin Marshall meant by RPI, but it was RPI. That's what we agreed to and that's why I turned down nearly a year's salary at the age of my late 20s with a couple of young kids.

Mark Wood

And I think again, this a point Captain Post made well in his introductory statement.

Participant

I appreciate I'm repeating myself, but that is why NAPS was created and everybody needs to remember.

Mark Wood

No, I don't think you're repeating yourself; you're repeating what he said. Thank you very much. Could we go into the far room and perhaps somebody can just... The far room have all left. Both of you in the far room, would you... Obviously the 3.30 is just about to start. I think I'm getting a signal there are no questions over there, is that right? If there's anybody's awake. They're all done. Right here in the back row and then in the third row here. Thank you very much.

Participant

Yeah. I've got two sons at university – all very nice – and they have taken out student loans, and the government are giving these student loans, which are accumulating using an index. So, the government are establishing and maintaining an index. Would you like to know which index that is?

So, here is the question: if the government is using an index, why can we not challenge the order and say, 'It is duplicitous, it is wrong, it is immoral and, actually, it is almost fraudulent to, on one hand, use one index one day but use another index another day'? Because that's currently what's happening. For me, I am accumulating two loans for my sons at RPI yet being paid a pension at CPI. Now, to do both at the same time is wrong and deceitful. Why not challenge the government and say, 'You can't do both. Which is it going to be?' Because that is fairness for society.

[Applause]

Mark Wood

I guess the comparison is somewhat outside the Scheme, and Anthony Arter has – do please respond – Anthony Arter has made the point, but I'll just ask you to repeat again the point regarding the appropriate index.

Participant

Could I just make the point? My point is: we don't need to accept the order, and if they say, 'That is it', we say, 'No. What you have done is wrong'. So, you send it back to them saying, 'That order is incorrect'.

Mark Wood

On the basis that they're applying a different index?

Participant

Yeah.

Mark Wood

Yeah.

Anthony Arter

I really wish life were that simple. I really do. It would make my life much easier. Unfortunately, we have to look back at that unions case and, at the time, they were using various indices. We heard about the Bank of England with their own pension scheme paying RPI. There were different indices being applied across the board for different reasons, and the unions have spent millions fighting the corner of people such as yourselves who are affected by this change – millions. We have to take account of the result of the unions' case, because what we don't want to do is spend your scheme money and waste it, given where we are. That's really important, because we're not talking about a few thousand pounds here; we are talking – if you were to fight this again – we are talking about a considerable sum of money, and that's why we have to take account of what happened with the unions' case. It's very, very important, that, because, again, going back to this famous counsel's opinion, counsel said, 'That's not the purpose of your fund is to spend money'. That's good from counsel, because if he could find a way of going to court then he would, but he said, 'That's not the purpose of the use of your funds is to fight these cases in court – it's really not'. So, we've got to make sure that, if we were go to court, we have appropriate grounds in which to do so; and that's why we went to counsel in the first place, to explore that. And unfortunately, in terms of Rule 15 and the appropriateness of CPI, I'm afraid we've exhausted the avenues in that respect.

Mark Wood

There was question here, I think. Can we get a microphone down in here and then we'll come to you, sir.

Participant

I think you can hear me, yes?

Mark Wood

Yes.

Participant

I'm not sure this is the most appropriate forum to raise this, but I'm going to ask it anyway. I believe, in one of the presentations, somebody mentioned 974 current members paying into the Scheme – I think that's correct. I'm one of those 974 so I'd like to raise this question on behalf of the other 973. During the last two years, British Airways has begun to pay increases in basic pay again, and I believe when I joined this scheme I joined a final salary pension scheme. Those increases on basic pay are not appropriate for pensionable use. So, therefore, the money that we or the company would have been paying into the Scheme is not going into the Scheme to bolster it up, and therefore is impacting on our pension when we do retire. What I'd like to know is: is the Board, in their negotiations with British Airways, representing those 974 people in terms of making

any basic increase in pay pensionable? Because our final salary pension scheme is not appropriate for us.

[Applause]

Mark Wood

Paul, would you like to respond quickly?

Paul Spencer

I have to say we're not, because, as trustees of the pension fund, our duties are to administer the rules of the funds as they are. I'm afraid it's an HR/union-type situation where your union should be negotiating this on your behalf with the company. We can't get into remuneration-type questions, because we don't have any remit at all in that area. I totally sympathise with you; I actually sympathise with a lot of current employees who are getting increases substantially below what, actually, some of the pension funds are paying out. Many people are getting very little increases, if any at all.

Mark Wood

But I think, if I heard the question, it was a slightly different issue, which was the eligibility of the increase for the pension entitlement – slightly off our subject today. So, if I may, what I might suggest is if you wouldn't mind making yourself known to one of the team, and then that specific question can be answered.

Participant

What I'm basically saying is: we are APS members and we would like some representation in terms of what the company is doing to us. And also, it is impacting on the APS scheme. If they're not contributing to the Scheme, as they should be, then it's impacting on the deficit.

Mark Wood

Yeah. No, understood, but I think it's slightly away from our topic today, so, if we may, we'll deal with it separately. Sir, could I go to you right at the back, in the corner? We're obviously short of microphones, so it needs to be recycled, sorry. Thank you very much. We're down to the one last remaining working microphone, I think. Thank you.

Participant

Hi. I understood that a verbal contract was a contract – it didn't have to be on paper – and Colin Marshall made a verbal contract, and he reiterated it umpteen times. So, why are we not using that verbal contract to pursue our claim rather than what's written in Clause 15?

Mark Wood

And you're referring to the time when people elected to stay in the Scheme?

Participant

Absolutely, yes. And I'd point out that Mervyn King has decided his pension will be – guess what – because he said CPI erodes your pension year on year.

[Applause]

Anthony Arter

Well I beat you to it talking about the Bank of England, didn't I? He's in the Bank of England scheme, so... But with regard to the question of... We looked at this, and if you remember, those of you who were here last year, we talked about this at length – about there were different messages given at different times. Verbal contract, yes – in theory it's much harder to prove, of course, a verbal contract, but, of course, if it can be proved in court it can be a contract. But the whole point about this was there was a number of different messages at different times about –

Participant

Colin Marshall said RPI; [inaudible].

Anthony Arter

Well, it was index at that time.

Participant

[Inaudible]

Anthony Arter

I know, I know. But the trouble is you go back to the rule – unfortunately you've got to back to the rules of the Scheme. And I know this is hard to really accept, but you go back to the rules of the Scheme and it refers to the government increase – it refers to the pensions increase review order. And that is what we're talking about and that is what's determined by the government as an appropriate index – or it's not determined by them as an appropriate index, but it is an appropriate index.

Participant

He said RPI.

Anthony Arter

Going back in history, we looked at loads and loads of communications – loads of them – and we talked about it on our last occasion; those of you that were here will know about this – and we looked at whether any possible course of action and counsel were adamant, having looked at all the various materials, that as far as a collective action was concerned, no. There's a possibility of an individual, but that individual would have to take that decision, but he said it's quite unlikely to succeed. So that's unfortunate, but that is where we are and I know it's very hard to accept.

Participant

[Inaudible]

Mark Wood

And actually – just one second, madam. Just address the very specific aspect of the question, which is the verbal contract.

Anthony Arter

Verbal contract – as I say, you'd have to prove it in a court of law, and a verbal contract is extremely hard to prove. You'd have to prove at the time... The whole point about this verbal contract is: what did he actually mean? What did he say? And don't forget when counsel talked about written communications there were some written communications that referred to RPI, because that was the only index at the time.

Participant

[Inaudible]

Anthony Arter

It was the only index at the time. So of course – some refer to RPI; some refer to CPI – sorry, to 'the index'. The whole point is it wasn't consistent.

Captain Mike Post

Anthony, could you just clarify something? In this *BA News* – this was basically the start of the programme to sell NAPS to us, which all of us here rejected – it was Colin Marshall who told us that we get cost of living index increases; he was nothing to do with the pension fund. So, can you guide us then on what we can do now? Because it was Lord Marshall who actually made the promise, so how should we pursue this breach of promise?

Anthony Arter

As far as the trust is concerned –

Captain Mike Post

No, I'm not saying as far as the trust is concerned.

Anthony Arter

Well I'm not giving you employment law as regards suing BA; that's a different issue, which you may want to look at it, but I would say now it's extremely unlikely that anyone would succeed. I just want to warn individuals not to get any hopes up whatsoever. In terms he referred to a cost of living index, and it's precisely what is prescribed in the rules, so I'm sure that at the time he was fully aware of what the rules said. Of course it was only RPI; of course he could have said 'RPI';

he actually said 'cost of living index'. So that doesn't help the cause very much when you think about it. If at the very least he'd said RPI, it might have helped, but, having said that, we have seen correspondence, as you know, Mike, which actually refers to RPI, and still counsel said in fact there was very, very little – very little – chance of success.

Participant

All our contributions, all our premiums...

Mark Wood

Just wait for a microphone for the benefit of the other room. Thank you. I think you're on.

Participant

All our contributions, all the premiums that we paid for, were based on RPI; all the actuarial transfers in and out of the fund were based on RPI projections. As far as I can see – what annoys everybody here, I think, at the moment – we contributed, we paid premiums, for an RPI-indexed pension. For it not to be paid now on the small print that's written into the agreement somewhere seems a fiddle – embezzlement – in the same category as Robert Maxwell, [Carlo Blouse?] and all those other sort of problems in the past.

If I just sort of move it on a little bit, I mean I can understand it's a very long-term contract – 50 years, 60 years this is going to be running for. It's very difficult to anticipate everything that could crop up. If, for instance, instead of living a few years longer we lived to 120, I think it would be quite unreasonable for us to carry on drawing pensions based on RPI, or any other index, and have to effectively draw on the next generation of BA employees, generation after that, two or three generations down the line. Some arrangement would have to be met, because future employees just couldn't – they wouldn't stand for it, as they're not part of the same deal, have the benefit of the same contract. But what the real problem is that the present employees are actually benefitting, quite directly, from the pensions holiday of 12 years or so that BA had, which left our fund in deficit. So, the counterargument of us not being an unfair burden on future employees is exactly the same as that we shouldn't be subsidising them through our pensions holiday. So, I would suggest that the immediate problems are: one, that we are not getting paid the increase that we feel we have paid the premiums for; and two, if the company put back in the money from the pensions holiday, we wouldn't be talking about a deficit – it wouldn't be there at all.

[Applause]

Mark Wood

Well, thank you again. I think you're very eloquently re-expressing points that Captain Post made. Now, it's five to four. I've got a very persistent hand in the air just here, so if we may, we'll take this question and this question very quickly, as we lost a bit of time right at the beginning, and then we must move on to the resolutions. Let me repeat: if there are other questions that people wish to raise, there will be an opportunity immediately after this meeting, as Paul indicated earlier, to remain with the trustees. Alternatively, please let one of the team have the question and we can be sure it gets back to you. Sir?

Participant

It's not a question; it's just what I think. If the money that was offered to us in 1984 – that would solve the problem. Just index link it to now and offer us all that amount of money and this problem would go away.

[Applause]

Mark Wood

Thank you very much. And then just a final – I'll come to you in a second, sir.

Participant

I just wanted to say: you talk about the cost of living index, the retail price index, the CPI. If you just forget about all that and just give us the discretionary increase to whichever is the highest, that'll solve it, wouldn't it? You can do that without going to court, without all the rest of it – £6 million court – forget all that; just give us the increase to whatever it is and that's the end of it.

[Applause]

Mark Wood

And then finally... Questions are getting shorter and more punchy as we get towards the end. You get three words.

Participant

Mine's not a question; it's a point of clarification. As someone who has actually had been involved in the pension scheme and also in industrial relations, I can assure you that it was normal parlance within British Airways to refer to the RPI as 'cost of living index' and that has been the case right from the start. So, if there is any doubt amongst those who have not got any corporate memory, I would like to make that point very clear. And it's not just myself who's been involved in that – who knows about it; all those other people who were involved know it. Thank you very much.

Mark Wood

And I think actually it was implicit in your opening statement, Paul, that that indeed was the case, so I don't think that's a point of dispute. Now, can I draw us to – sorry, if there are further questions, let's collect those up at the end.

Resolutions

Mark Wood

Can I draw your attention to the three questions? I think we're going to get the three questions on the screen. Is that right? And this is the ballot. Now, of course, we have a relatively small proportion of the total membership of the schemes here, but it is important that we have a show of hands in relation to these questions. I'm hoping that we've got the screens up in the other two rooms as well.

So, let me read the first question, which is: 'The APS Trustees should restore RPI pension increases backdated to April 2011, thus meeting members' expectations'. Now, we're going to have a count whilst we're here, so we're going to wait until we've got both rooms counted as well as this central room. And I'd like to start by a show of hands for those who do not agree with this resolution – those who do not agree with this resolution. This should be a fairly short count, I think.

[Show of hands]

I think we've got the all clear. And then, secondly, those who would prefer to abstain in relation to this resolution.

[Show of hands]

Thank you. And those in favour of this resolution.

[Show of hands]

I'm not sure we need to count, because I think we can deduct two zeros from the total attendance. Thank you very much.

The second resolution, which we have on the screen here, is: 'The APS Trustees should retain a funding target sufficient to pay RPI pension increases'. The same format: those against this resolution.

[Show of hands]

Those who prefer to abstain.

[Show of hands]

We have one abstention here; I don't see any other abstentions. And those in favour.

[Show of hands]

Thank you very much. So, the arithmetic's a little trickier on this one, but...

And then the third resolution: 'Because of serious conflict of interest issues, APS trustees, appointed by British Airways, should not be NAPS beneficiaries'. Those who do not agree.

[Show of hands]

Thank you. Those who would prefer to abstain.

[Show of hands]

We have one abstention here; we're clear in both other rooms. Thank you. And those in favour.

[Show of hands]

Very good. Thank you very much indeed.

That concludes the formal part of the meeting this afternoon. Thank you all for attending, and thank you to the Board and particularly to our two expert advisers to the Scheme for assisting in answering the questions. Have a very good weekend.

[Applause]

This Verbatim Transcript was produced by Ubiquis UK ☎ +44 (0) 20 7269 0370
<http://www.ubiquis.co.uk> / infouk@ubiquis.com