

Airways Pension Scheme (APS) – investment announcement

We are writing to tell you about a change to the APS investment strategy. The Trustees have invested c.£1.3 billion in a Rothesay Life Limited insurance policy which will insure a proportion of the pensions in payment for as long as the Scheme is required to pay them. This type of transaction is often referred to as a 'buy-in'. **There is no change to the way APS benefits are calculated or paid. There is no direct impact on any members, including pensioners who will continue to be paid at the same rate, at the same time and from the same place.**

One of the primary objectives of the Trustees, particularly in relation to investment policy, is to manage risk to achieve a high level of security for pension benefits. One way we have sought to achieve this has been to align the Scheme's investment strategy with the benefits that are expected to be paid, also known as liabilities. However, this alignment of assets with liabilities does not fully protect the Scheme from longevity risk which is the extra cost of providing pensions as a result of people living longer.

The insurance policy entered into with Rothesay Life Limited will provide protection against the cost of pensioners living longer as well as providing a better match for expected pension cashflows.

The investment decision process has been lengthy and thorough and a range of product options and providers were considered as well as the price of the policy and any change in the risks to which the Scheme would be exposed. A key element of this process was ensuring that potential providers were willing to meet the stringent security arrangements required by the Trustees before they contemplated a transaction. Having identified a product which addresses counterparty risk through an acceptable collateral arrangement and favourable pricing terms, the Trustees and their advisers concluded that there was an opportunity to reduce risk within the Scheme at a sensible cost.

Rothesay Life Limited is authorised by the UK Financial Services Authority and has specialist experience in this area having entered into these types of arrangements with a number of other pension schemes. The Trustees are satisfied that the policy meets the objective of mitigating longevity risk and that within the policy there are robust security provisions to protect the Scheme.

We have made this investment decision because we believe it will strengthen the security of your pension benefits by reducing risk. Please be assured that this investment does not affect the payment of pensions. The Trustees will hold the insurance policy as an asset of the Scheme and receive income from it to pay pensions just as they do from the other assets (e.g. shares and bonds) that the Scheme owns. Please be assured that in terms of your pension, nothing changes. The same payments will be made in the usual way and British Airways Pensions will continue to look after your needs as an APS pensioner.

Paul Spencer CBE
Chairman of Trustees