

Message from the NAPS Trustee: Deferral of BA's deficit reduction contributions to NAPS

The Trustee of New Airways Pension Scheme (the NAPS Trustee) announced today that, following a request from British Airways Plc (BA), it has reached an agreement with BA to defer payment of its pension deficit contributions (DRCs) for a period of twelve months.

- ◆ The agreement covers the £37.5 million per month DRCs BA would otherwise have paid between 19 October 2020 and 19 September 2021
 - ◆ The DRCs deferral has a total value of £450 million
 - ◆ The agreement is supported through security covering the full amount of the deferral, as well as certain protections over payments from BA to IAG until it is repaid
 - ◆ BA's deferred DRCs plus interest will be added to the end of the current recovery plan, which is due to end in 2023
 - ◆ The Trustee agreed a series of interim deferrals while negotiations were taking place
 - ◆ The Pensions Regulator has been fully informed about the discussions throughout
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Background to the agreement

Shortly after the Government announced the first national lockdown in March 2020, The Pensions Regulator issued [guidance](#) to help trustees of defined benefit pension schemes to deal with issues that have arisen during the COVID-19 situation. The guidance included dealing with requests from sponsoring employers to suspend or reduce pension contributions. (The NAPS Trustee has had regard to this guidance throughout the negotiation process with BA.)

The Government's response to the COVID-19 pandemic was both swift and severe and, as you will be aware, has had a particularly dramatic impact on the travel industry. When BA approached the NAPS Trustee regarding a potential deferral of its DRCs in October 2020, given the significant challenges facing the airline industry, the NAPS Trustee concluded that there was a genuine need to offer support to BA and, provided suitable protections could be obtained, that it would be in the best interests of the Scheme beneficiaries to do so given the need for BA to be able to support New Airways Pension Scheme (the Scheme) over the longer term.

With the subsequent announcement of further domestic and international travel restrictions the Trustee's position remains that there is a genuine need to offer support to BA.

In December 2020, we updated you on the NAPS Trustee's negotiations with BA regarding its request to defer its DRCs to the Scheme, having initially agreed to a two-month deferral of the DRCs due in October and November 2020. On 18 December 2020, the NAPS Trustee agreed to extend this deferral to include BA's December 2020 contribution to allow the complex negotiations to continue. A further interim extension was agreed on 15 January 2021 following agreement on non-binding Heads of Terms for an extended twelve-month deferral. These temporary deferral extensions were supported by BA providing the Scheme with security over some of its assets.

The agreement

On 19 February 2021, the NAPS Trustee reached agreement allowing BA to defer its DRCs to the Scheme for twelve months, back-dated to 19 October 2020. Under the terms of the agreement the deferred contributions, with interest, will be paid back at the end of the current recovery plan, which was otherwise due to end by 31 March 2023. Importantly, the deferral will be backed by security granted by BA over specified property assets.

In return for its agreement to this deferral, and in line with The Pensions Regulator's guidance on such requests, the NAPS Trustee has negotiated some additional protections from BA on security, dividends and other payments out of the company, as well as information sharing. If there is a material improvement in BA's financial position before 2023, discussions will take place on an early restart of contributions or earlier repayment of the deferred amounts.

The NAPS Trustee has considered whether the Scheme is being treated fairly under the agreement. Having considered detailed advice from its advisers, the NAPS Trustee concluded that the agreement achieves this aim through security over the full amount of the deferred DRCs and protections over certain payments from BA to IAG until it is repaid. The NAPS Trustee will have security for the full £450 million of deferred DRCs with immediate effect until the last payment due under the 2018 Recovery Plan has been paid (a total value of £1.1625 billion).

Having received advice, the NAPS Trustee has decided that the value of the security assets supports the deferral of twelve months of DRCs and that the package is equitable relative to the position agreed by BA with other stakeholders.

Glossary

Deficit reduction contributions (DRCs)

Contributions BA makes to the Scheme to improve the funding position and remove the funding shortfall over time.

Deficit

The difference between the value of the Scheme's assets and its liabilities, where the value of the assets is not enough to cover the value of the Scheme's expected future benefit payments and expenses. Deficits are often referred to as funding shortfalls.

Recovery Plan

While the Scheme has a funding shortfall, a recovery plan has been agreed with BA. The recovery plan aims to eliminate the deficit so that the Scheme has the resources needed to pay pension benefits to members over their lifetimes.

As a result of the deferral, a revised recovery plan and schedule of contributions have been agreed with BA. [Copies of these documents are available on the member website](#) together with the actuarial certification prepared by Aaron Punwani, Scheme Actuary to NAPS.

The NAPS Trustee has been in contact with The Pensions Regulator throughout the negotiation process and the Regulator is aware of the agreement which has been reached.

From the Trustee of New Airways Pension Scheme

22 February 2021