

“The Pension Deficit with Wings”

The above description of British Airways plc was provided by its Chief Executive, Willie Walsh. So what is behind the description? I think the recently threatened industrial action over the festive period may have masked the [announcement](#) regarding the funding of their pension schemes.

The deficit in the two pension schemes totalled £3.7bn. This figure was “as at” 31st March 2009, arguably unfortunately close to the low point of the equity markets, however, it could also be compared to the net assets of the company at 31st December 2008 of £2bn and the trading loss in 2008 of £441m. For those currently or prospectively involved with pension scheme funding there are significant further details, including –

- The older scheme, the Airways Pension Scheme (APS), closed in 1984 had a £1bn deficit and
- The newer scheme started in 1984, the New Airways Pension Scheme (NAPS), had a £2.7bn deficit.
- The December member [update](#) outlines the “exhaustive research and analysis” that went into the assessment of the employer covenant which is correctly identified as crucial to the valuation process.
- The crucial assumptions underlying the valuation are also included and pleasingly include allowance for the continued improvement in longevity in line with the “medium cohort” with a 1.25% per annum underpin.
- Courtesy of the excellent pension scheme web site www.mybapension.com the (January 2010) Statement of Investment Principles [NAPS](#) and [APS](#) can be considered. As may be anticipated the more mature (more pension liabilities) APS involves mainly bond type investments, whilst NAPS is mainly in equities. In both cases self investment is to be avoided except in exceptional circumstances!
- The discount or investment return therefore varies between the two schemes namely 4.6% (or gilts + 0.5%) for the older and more mature APS, and 6.1% (or gilts + 2.5%) for the less mature NAPS.
- Despite market movements since March 2009, the deficits have not improved materially.

There was also a small step back for one man, Roger Maynard, and a great leap forward for governance. Mr. Maynard, chairman of both boards of trustees, main BA board director and a key person in the negotiations over the BA merger with Iberia, stepped down from his trustee positions to avoid any “perceived” conflict of interest. The publicity surrounding the deficit also included explicit comment on the Pensions Regulator’s (TPR) view that the technical provisions or funding target may not be sufficiently prudent. I suggest that analysis or comment may focus on the “heroic” or non-guaranteed (gilts + 2.5%) equity returns needed to produce the NAPS benefits. With continuing talks over BA’s takeoff and landing slots at Heathrow, the European Commission and US antitrust regulators will join TPR, employees and unions in determining the future of the pension deficit with wings.

Pension Protection Fund Purple Book

The Pension Protection Fund (PPF) has published its fourth [Purple Book](#) on 19th January 2010. The Book covering 2009 is very comprehensive, weighing in at 156 pages! Unsurprisingly the recession and turmoil in financial markets features prominently and –

- A better data base has now been extracted from the PPF levy invoice processes, TPR Exchange details and deficit reduction contributions and information surrounding contingent asset.
- The demise of defined benefit provision is also evident from schemes closing to new entrants and accrual.
- Funding deteriorated in the year to March 2009 on all measures – accounting, buy out and PPF coverage (s179) but interestingly size matters as very large and very small schemes showed materially higher levels of funding than those of intermediate size!
- On the investment front, there was a continuing and general move away from equities, with more mature schemes (more pensioner liabilities) and the better funded schemes in particular moving out of equities.
- Pleasingly the number of schemes with security (contingent assets, CAs) increases and the CAs in force for 2009/10 reduced the respective schemes’ levies by around £100m. Good news for the levy paying sponsoring employer but more importantly for the security of member benefits!

And finally; I was pleased to find another ACMCA – the Arnavone Community Marine Conservation Area in the Solomon Islands in Melanesia, east of Papua New Guinea. This Pacific ACMCA covers an area of 157 square kilometres and includes several islands significant as the nesting habitat of the endangered Hawksbill turtle.

Feedback on Pension Snippets is also always welcome. For any comment, further assistance, advisory or trustee services, contact me on 07714 064964 or via allan@acmca.co.uk For further ACM/ACMCA detail, the full CV, occasional lecture notes and published articles and previous Snippets - visit the web site at www.acmca.co.uk