



# British Airways Defined Benefit Pension

A Guide For Members  
Living Overseas

# British Airways Defined Benefit Pension In the Spotlight

Once reported to be £2.8 billion in deficit, the British Airways defined benefit scheme was closed in 2017, and replaced by a new defined contribution scheme.

As of March 2021, the Airways Pension Scheme (APS) had 21,319 members in total of which members are either pensioners in payment, dependents, or deferred pensioners.

While deferred pensions will grow in line with RPI (2.9% in 2021), they are no longer actively invested and as such are most likely under-performing.

A deferred pension is the name used when a member is yet to start accessing their pension but are no longer contributing to it.

## Options For International Workers

**For many investors, a pension represents the overwhelming majority of their income during retirement. So, to say pension planning is critical is an understatement. Understanding and controlling your pension assets is vital.**

Transferring your defined benefit pension isn't a new choice, it is however, an option that is often not discussed with scheme members and the general opinion historically has been that you are better to remain in a scheme.





## British Airways Pension Members Scheme

# ‘Gold plated pensions may no longer represent the best option’

In the UK, a defined benefit pension scheme was traditionally seen as the best type of pension scheme to have, so revered, it was often referred to as a ‘gold plated’ pension. Unfortunately, as the pension and economic landscape has developed in recent years, they may no longer represent the best option for retirement and a growing number of schemes have closed their doors to new members.

However, in spite of these changes, many people tend to put off reviewing their existing pension provision assuming that it's either performing as well as it can or it's not worth the hassle of moving it elsewhere.

Of course, your current pension may be the best option available to you, however as an expat working overseas you have access to wider investment opportunities and understanding which, if any is the right fit for you requires qualified advice and support.

Failing to take control of your pension and exploring alternatives today, could have a significant impact on your plans for tomorrow.



# British Airways Pension Income Illustration

Members of the British Airways defined benefit scheme will receive a retirement income based on the following factors: their final salary at retirement or when they leave the company, length of service and the accrual rate.

The retirement income members of the British Airways defined benefit scheme will receive is calculated by multiplying their final salary at retirement or when they leave the company by their length of service, divided by the accrual rate (the percentage of your salary used to calculate your pension each year).

(Years' Service X Final Salary)

\*Accrual Rate

=

Pension Income

\*Typically 1/60th per year

In the simplest of terms, if you worked at British Airways for 10 years, and were in receipt of a £60,000 salary when you left, your retirement income would stand at £10,000 per year.

The value of your pension will increase each year in line with inflation, but this growth is typically capped at 5%. If you stopped contributing to the scheme 10 years prior to retirement, your annual income could be £13,439.00 based on an average rate of inflation of 3% or £1,119 per month in retirement.





## So, What Are Your Options?

In the simplest of terms, you have two options to consider, staying invested in your British Airways defined benefit pension, or transferring to a different investment vehicle. In the next section we will cover the pros and cons of both scenarios.

### There Are A Number Of Factors Making Transferring An Option You May Consider

#### **Inflated transfer values**

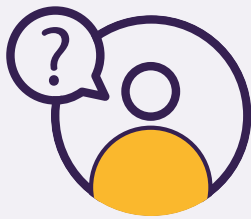
With so much uncertainty in the markets, investors seeking safe havens for their money poured into government backed bonds traditionally seen as low risk investments. As a result, Cash Equivalent Transfer Values (CETV) for defined benefit schemes have hit record highs in recent years. When calculating a CETV, the most important investment return factor used by a scheme actuary is the risk-free investment return based on UK gilt yields which are currently at a record low level. You can read more about CETVs later in this e-book.

#### **UK Pension Reforms**

Often referred to as 'Pension Freedoms', in 2015 new legislation for the UK Pension System announced by then Chancellor George Osborne came into effect. As a result, anyone with a UK based private pension (subject to some exceptions) had the option to transfer out of their scheme to benefit from greater investment freedom upon reaching 55.

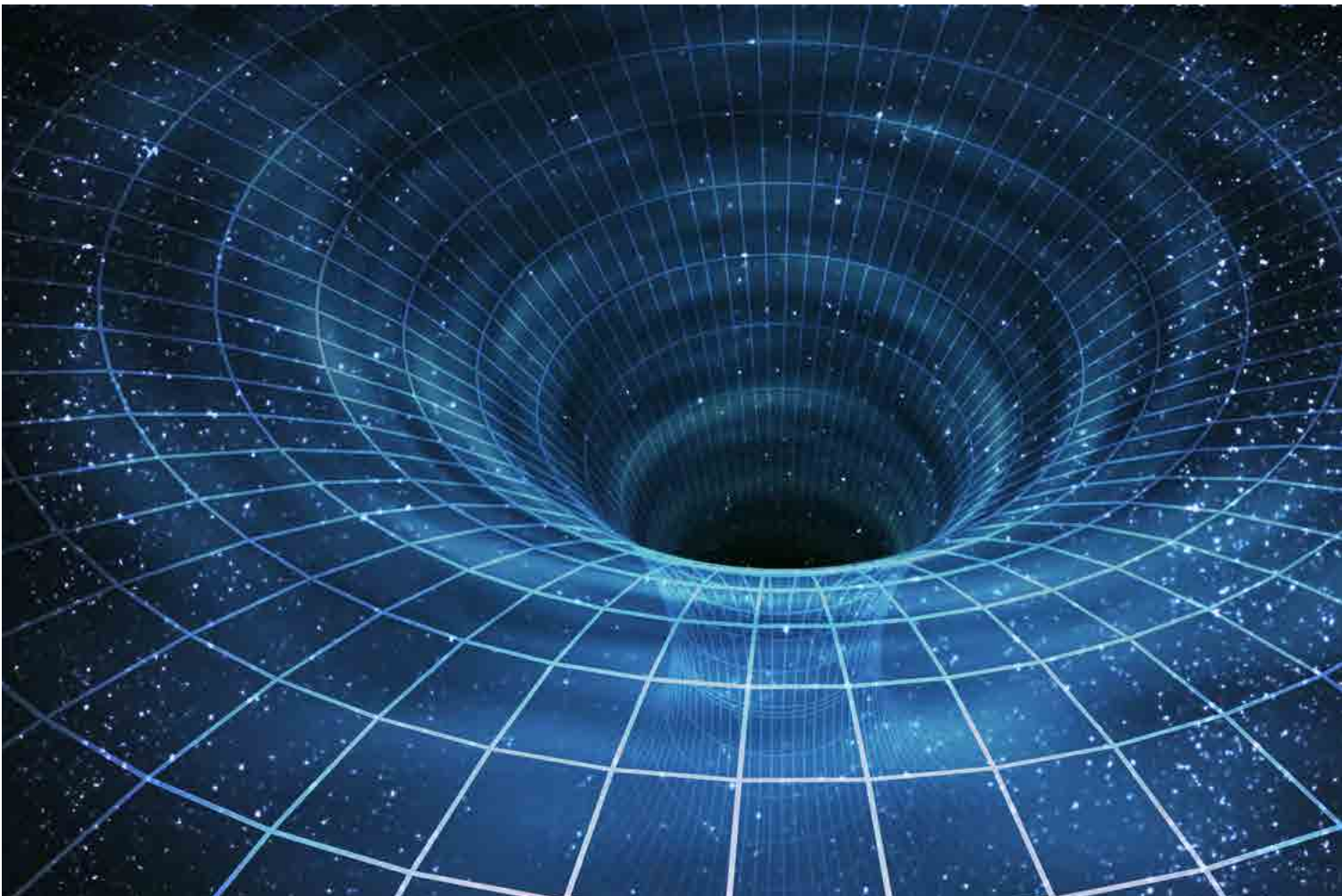
For defined contribution scheme members, this legislation also allowed them to draw a lump sum of up to 25% of their savings completely tax free.

## There Are A Number Of Factors Making Transferring An Option You May Consider

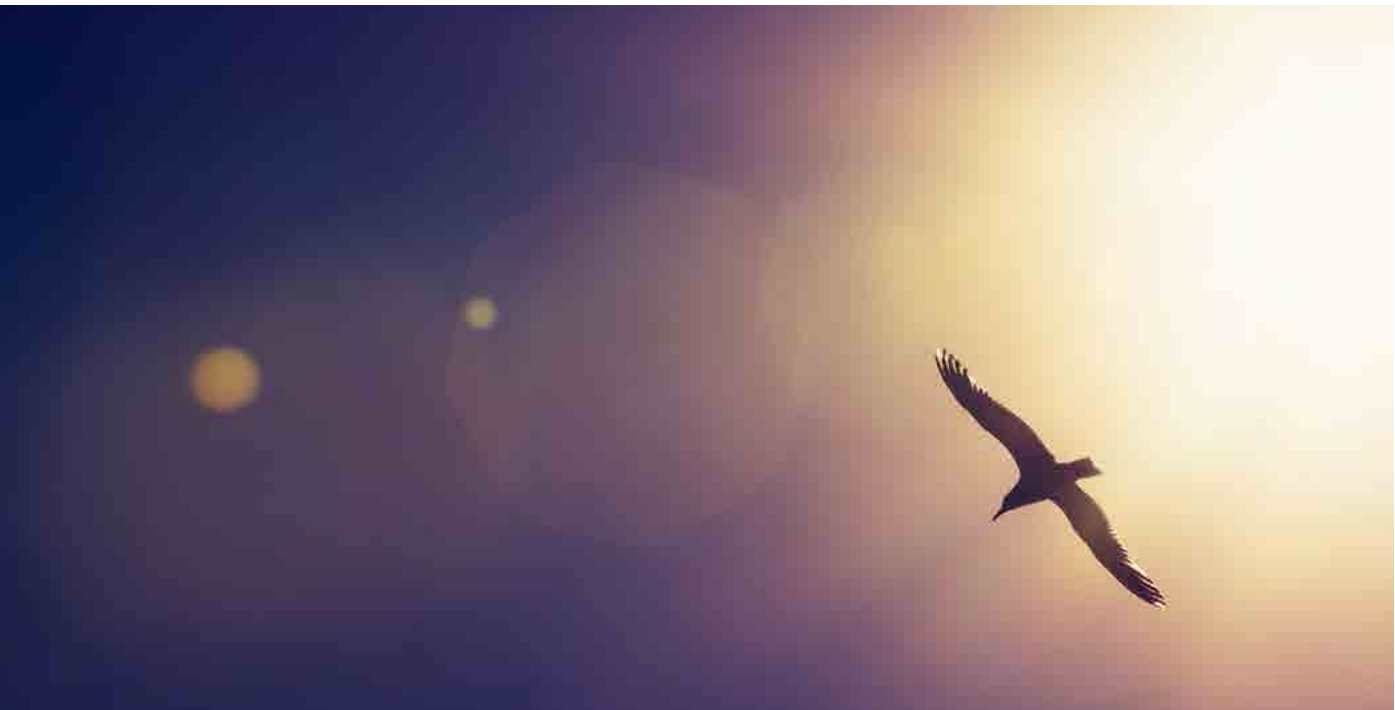


### Companies Encouraging Transfers

Defined benefit schemes represent a vast black hole on the balance sheets of countless businesses. Even though the employer would most likely have to take a hit in terms of initial costs, offloading their pension commitments takes away any long-term liability and risk presented to the future of their company. Members can choose to transfer away from a defined benefit scheme regardless of whether they still work for the employer and although this is less common, some companies are actively incentivising members with cash payments or salary enhancements offered in return for members agreeing to surrender their scheme benefits.







## Why Stay In A Defined Benefit Scheme?

Defined benefit schemes do remain a great benefit for some people to hold. If any of the following points apply to you, transferring might not be the best route to take.

- If you are looking for a low risk, guaranteed lifetime income and your existing pension will provide this, then you may be better staying with your current scheme.
- If your employer has stated that transferring will result in a substantial reduction in the valuation of your benefits.
- If you aren't confident that opting for a different investment strategy would result in inflation beating returns due to the critical yield needed being too high.

**In some cases, a defined benefit pension transfer is not possible. Public sector unfunded defined benefit scheme members are prohibited from transferring, and where an employee is within one year of their retirement age, it is left to the discretion of the trustees of the scheme.**



# What Are The differences Between A Defined Benefit Pension And A Personal Pension?

Most workplace pension schemes opt for the 'catch all' approach. However, the priorities of a director approaching retirement age will be markedly different than the needs of a second-year associate.

In fact, it's more often the case that your pension will be at odds with your aspirations and by choosing to ignore this, you could be running the risk of undermining one of the most valuable assets of your overall retirement strategy. While a defined benefit pension is invested by a Trustee and is very rigid in terms of its benefits, *with a personal pension you have full control of both how your money is invested, and how you draw down your income.*







## What Are The differences Between A Defined Benefit Pension And A Personal Pension?

### Personal Pension

### Defined Benefit



#### Access And Income Drawdown

With a personal pension you can control the amount you draw down. This can be beneficial in the earlier years of your retirement when you may be receiving other forms of income and it may prove tax efficient to draw less and rather leaving it invested to grow

Upon reaching retirement age, a defined benefit pension will begin paying you an income that is guaranteed for life. While the amount will increase in line with inflation, once you start drawing your income you can't make any changes.



#### Investment Control

A personal pension allows you to choose the location, which currencies and different asset classes you invest in.

A defined benefit scheme will typically be invested in sterling and UK based assets.



#### Passing On Your Wealth

When you pass away, whoever you nominate as your beneficiary will receive 100% of your personal pension. You can nominate anyone you like as your beneficiary.

While a defined benefit pension in the same circumstances can only be passed on to a spousal partner who will receive equivalent to 66% of the pension income amount.



#### Currency

A personal pension can be structured to offer drawdown access in a range of major currencies meaning the risk of losing funds to fluctuating exchange rates can be mitigated.

The recipient of a defined benefit pension will always be paid in GBP into a UK bank account. For international residents this will mean transferring their income into an overseas bank account at which point you are at the mercy of exchange rates.



#### Lump Sum Draw Down

Since 2015, members of a personal pension scheme have been able to take up to 25% of their fund as a tax-free lump sum. This can be withdrawn in tranches to mitigate against falling into a higher tax bracket.

Often lump sum withdrawals are available to members of defined benefit schemes in return for a reduced annual income. However, the terms differ from scheme to scheme.



## If You Are Considering A Pension Transfer

You are required by law to take qualified advice before any transfers above £30,000 can take place. Although with something as important as your retirement plans it could be argued that any transfer, regardless of size should only be completed after receiving advice.

If you wish to establish whether a pension transfer is the right option for you, you must contact your British Airways scheme administrator in the first instance to request a written transfer offer. You can do this yourself or via a financial adviser. At this stage an offer will be calculated, known as a Cash Equivalent Transfer Value (CETV).

Each offer is usually guaranteed for three months, which gives you a reasonable window to seek advice and explore your options before completing the transfer. If for some reason your offer expires, you can request a new valuation but there is a possibility that you will incur a charge for this.

Although your transfer offer may only be valid for three months, this doesn't mean you need to decide where you are going to reinvest your money within this timeframe too. The decisions you make now will probably shape the rest of your life so taking a while to consider your options is only natural.



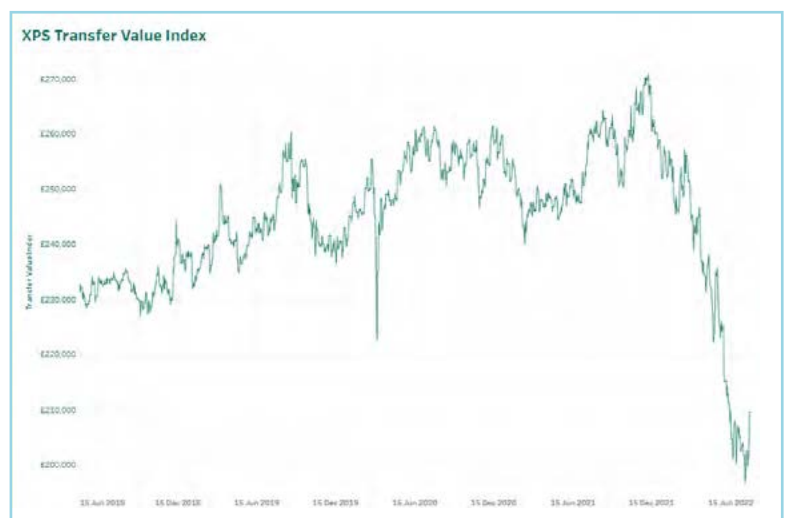
### How Are CETV's Calculated?

A financial actuary will take into account a range of factors such as; your age, the schemes retirement age, your marital status, the cost of living and current gilt values, and the pension transfer value index. When the index is high, higher transfer values are available, meaning you'll receive a higher offer should you choose to move your pension into another scheme.

### Why Now Could Be The Best Time.

Many private sector pensions are at serious risk of entering the Pension Protection Fund which already looks after £39bn assets for over 295,000 members. The PPF isn't a pension scheme, rather a lifeboat for schemes that become insolvent funded by a levy on eligible defined benefit schemes. Members of schemes which enter the fund will receive compensation on 90% of what their pension was worth at the time of insolvency.

A prolonged period of low interest rates which prompted investors to turn to gilts in search of low-risk investments resulting in some of the lowest gilt yields of all time which has in turn driven up CETVs. As rates begin to increase, we have already seen some schemes reduce their transfer value offers. That said, compared to historic levels, gilts remain low. However, if rates continue to rise, we could see a unique window of opportunity close in the near future.



Source: <https://www.xpsgroup.com>  
<https://www.xpsgroup.com/what-we-do/technology-and-trackers/xps-transfer-watch/xps-transfer-value-tracker/#:~:text=The%20XPS%20Transfer%20Value%20Index,can%20be%20provided%20to%20members>



# British Airways Scheme Member Case Studies



## Kevin - France

Before moving to France, Kevin had worked for a number of FTSE100 companies including British Airways, Rolls-Royce and Shell accruing defined benefit pensions of varying sizes.

Although based in Central France at present, Kevin intends to retire to the south of the country and opening a guest house with his wife.

With both intending on to work past their retirement age, Kevin chose to transfer his three DB pensions moving them into a single SIPP.

This resulted in less of his savings being eroded by management fees (one rather than three) and provided him with greater control over how and when he will access his money through his later years.



## Diane - Belgium

Whilst working for British Airways earlier in her career, Diane contributed to a defined benefit scheme before moving to mainland Europe.

With a CETV equal to 30X the value of her pension, she opted to transfer her money to a personal pension which will allow her to ensure as much of her wealth is passed on to her daughter as possible when she dies.



## Understanding the Bigger Picture

### How Skybound Wealth Can Help

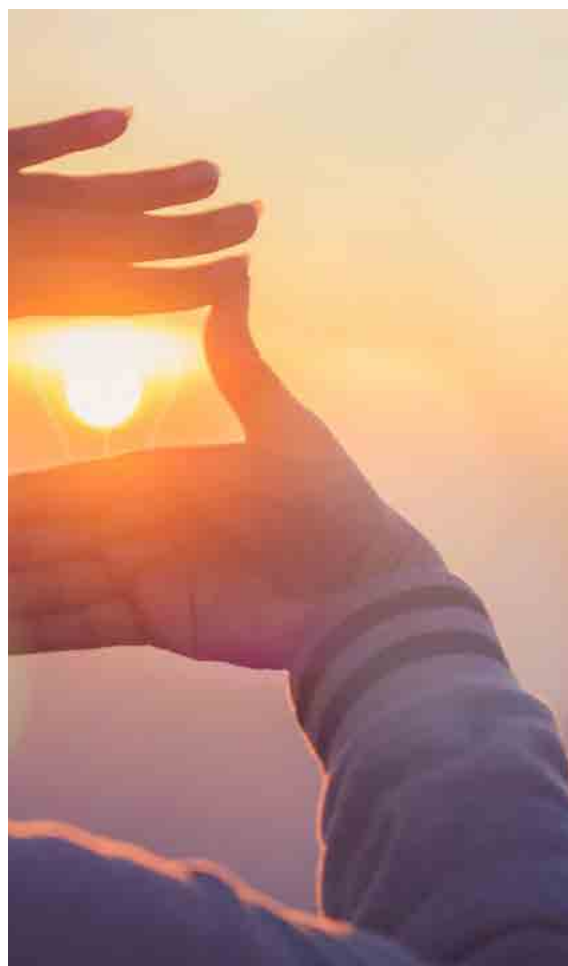
We know how dangerous generic advice is when your future is at stake so it's vitally important we understand your needs objectives and priorities before we talk through your options.

**Our advice will depend on the answers you give to the following questions:**

## Making the most of your journey

- What existing plans have you got in place? You may not need to change anything.
- Where do you live today, where may you move to before and through retirement?
- What is the total value of your pension plans?
- What are your circumstances – are you married? Do you have children If not, do you plan to?
- How is your tax status affected by both the country you reside in and plan to retire in?
- What are your priorities? We need to ensure your priorities are met, even if at the expense of other potential benefits
- What does your investment risk profile look like?
- How long until you will retire? Do you want to work part time? Will you return to work?
- Do you need flexibility?
- Do you need a lump sum to pay off a mortgage or even buy that yacht?

With all of the above, plus any additional questions that may arise covered, we will build a picture of your overall financial planning and wealth.







### **Compare And Contrast**

The next stage is where we will provide a breakdown of all options available to you including income projections, tax benefits and an overall cashflow forecast based on your entire investment portfolio. It might be there are a number of options that appeal to you, rest assured our team of international wealth planning experts are on hand to answer any questions you may have at this time.



### **What Happens Next?**

No matter how big or how small your UK pension, Skybound Wealth's dedicated Pensions Division is here to help you get your finances in order. From tracking down your pension and speaking to your Administrators on your behalf, our team can conduct your UK pension review and help you negotiate the minefield of small print, help you to understand just exactly how your pension is performing and explore the options available to you.

# What Our Clients Say...

At Skybound Wealth we are constantly asking our clients for feedback to enable us to gauge the service provided and identify ways we can improve.

With over 400 reviews rating Skybound Wealth 4 star or above on Trustpilot, here are some of our most recent reviews:

## Charles says...

The review was based on facts and statistics. Informed advice was given based on the review of my financial position, balancing the risks and benefits associated with my current and future financial position. Outlook of future investments with attractive returns was provided based on historical data.

## Bobby says...

Just had my review. Professional as always. Being able to meet online was a great help too, even if I do struggle with the modern technology, my advisor talked me through how to use Zoom!

## Anthony says...

Professional and efficient team based in UAE providing clear advice on investment structure and portfolio spread removing the headache from day-to-day management.

## Magdalena says...

Skybound Wealth Management financial advisors have been helping me for few years to manage my finances. They never go wrong with advice or switching the funds.

## Mandy says...

I continue to have good working relations with Skybound Wealth Management. The team is professional in responding to requests and also follows up to ensure action is taken timely. They are responsible, flexible and take into consideration the concerns of their clients.

## Ebix says...

My experience was very cordial, informative, and professional. I got the impression that I was dealing with a very knowledgeable and experienced individual. I am a very satisfied customer and cannot wait for the next review.



# Working Together For A Brighter Future

Through a combination of passion for what we do, a desire to innovate and our ambition to define the future of the offshore wealth advice industry, Skybound Wealth Management exists to guide you through the important financial decisions required today, to ensure you benefit from the freedom of tomorrow.

## **Award winning international financial planning advice from Skybound Wealth Management.**

In the words of International Adviser, 'Skybound is an established business with an impressive track record, impressive plans, extensive regulations a great strategy and all-round client focus.'

Skybound Wealth received seven awards across three jurisdictions, which recognise the efforts of every member of the Skybound family.



## **Skybound Wealth Management is a signatory of the United Nations Principles for Responsible Investing (PRI).**

As signatories, Skybound Wealth commits to upholding PRI principles that aim to develop a more sustainable global financial system. Part of how we do this is by integrating ESG considerations into our investment portfolios.

*Signatory of:*







HENDERSON  
(NEVADA)

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GENEVA

ABU DHABI

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