LEONARDO
ELECTRONICS PENSION SCHEME

IN FOCUS

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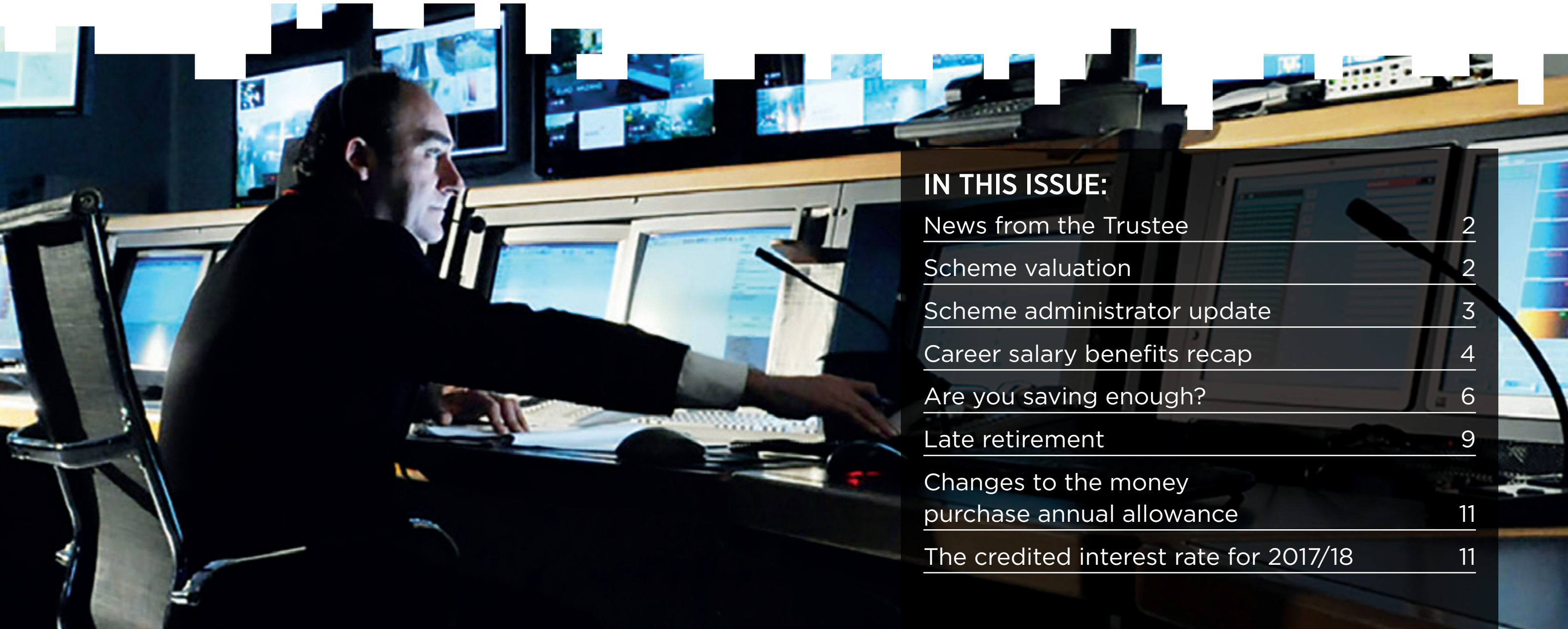
Issue 23

Summer 2017



IN THIS ISSUE:

NEWS FROM THE TRUSTEE

WELCOME TO OUR NEW CHAIRMAN

We are pleased to confirm that Bernard Walsh has been appointed as the new Chairman of the Trustee Board. Bernard has been a Trustee of the Scheme since 2008 and he also chairs the Administration Sub-committee.

Bernard takes over from Geoff Munday, who has served as Chairman since 2005. We thank Geoff for his long service and valuable contribution to the management of the Scheme and wish him all the best for the future.

WELCOME TO OUR NEW TRUSTEE DIRECTOR

We welcome Lynda McVay as a Company Nominated Director. Lynda is based in Edinburgh and will sit on the full Trustee Board and on the Administration Sub-committee.

RESULTS OF MEMBER TRUSTEE ELECTIONS

In October 2016, the Pensions Consultative Committee (PCC) held elections to appoint two representatives to stand as Member Nominated Directors (MNDs) on the Trustee Board. The existing MNDs whose positions were due for review, Jim Cull and Stuart Rushworth, were re-elected for a six-year term of office.

THE SCHEME'S ACTUARIAL VALUATION IS DUE

The next actuarial valuation of the Scheme is due with an effective date of 5 April 2017. The valuation process is normally carried out every three years and is akin to a financial health check to ensure there is enough money in the Scheme to pay members' pension benefits when they retire.

The Scheme Actuary calculates how much money the Scheme needs to be able to meet all its pension liabilities and compares this with the assets currently held by the Scheme and the contributions being paid.

The results of the valuation are expected towards the end of the year.

SCHEME ADMINISTRATOR UPDATE

The Trustee regularly reviews the Scheme advisers in accordance with best practice governance standards.

In light of some changes in Aon Hewitt's business model (including a decision to close their Bristol administration office), we are changing the administrator who looks after our pensions.

The new administrator will be PS Administration Limited – also known as PSAL. We expect this will mean a number of improvements in how your pension is run and how you can access information about your pension online. The change will be completed during the first half of 2018 and you will hear more from us about the new service as we get closer to the changeover date.

You should continue to contact Aon Hewitt until the administrator is changed.

> Whilst we are working closely with Aon Hewitt and PSAL to make this transition as smooth as possible, there may be some implications for our usual service provision and we appreciate your patience during this period. If you are looking to retire within the next 12 months, we would encourage you to use Aon Hewitt's online modelling tool, 'Pensionline', to help you plan ahead for your retirement.

CAREER SALARY BENEFITS

- HOW IT WORKS

The new Career Salary benefit structure has been in place for almost 18 months. Here is a reminder of how Career Salary works.

Each year, from 6 April to 5 April, you will build up a block of pension. The size of your block will depend on your 'accrual rate':

- If you are in the Main or 2000 section, your accrual rate is 1/65th.
- If you are in the 100+ section, your accrual rate is 1/100th.

Your earnings in a particular year are multiplied by your accrual rate to give you a block of pension. Your accrual rate will be higher if you have chosen to Buy Up (there is more about Buy Up on page 6).

Each block you build up in the Scheme receives an inflation-plus increase every year to protect your pension against the rise in the cost of living. This is called 'revaluation', and the increase is 1% above the rate of CPI inflation (up to a maximum of 6%).

For members who are earning Career Salary benefits, there is no longer a direct link between our Scheme and the BAE Systems pension scheme in terms of any changes in your salary. When you retire, you will need to seek pension quotes from both the Leonardo Electronics and the BAE Systems schemes. Please be aware that there may be adverse implications if you take your Leonardo and BAE pensions at different times (particularly on early retirement from the 2000 section) and you should consider your retirement decisions carefully.

Your 5 April 2016 benefit statement showed the value of your Block 1 pension, which was made up of the pension you had built up in the Scheme to that date. It also showed your projected pension to Normal Retirement Date. Your 5 April 2017 benefit statement will include Block 1, the revaluation applied to Block 1, and the value of the Block 2 pension you have earned during the year. It will also show your projected pension to Normal Retirement Date.

ARE YOU SAVING ENOUGH?

There are two ways that you can pay voluntary contributions to the Scheme to secure extra benefits:

ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

AVCs are passed to an external provider for investment on a 'money purchase' basis. You can choose between a range of investment funds or use a default investment strategy. This means that you accumulate a pot of money in an account in your name, which can be used to provide extra retirement benefits. There is no guarantee as to the amount of your AVC account or the extra benefits you will be able to secure.

You can start or change AVCs in any month, subject to giving written notice. You should regularly review your investment choices to ensure they remain appropriate for your circumstances and retirement plans. Please refer to the AVC Guide for further information.

BUY UP OPTION

You can choose to pay extra contributions to the Scheme to purchase a higher accrual rate under the Buy Up option. This provides additional Career Salary pension which is 'defined benefit' in nature. The amount of extra contribution is reviewed each year and you can decide each year whether you want to participate. For example, by paying the standard core contribution rate of 7.5% of earnings, you will accrue 1/65th (1/100th for 100+ section members) of your Pensionable Salary each Scheme Year. However, if you choose the Buy Up option and pay an extra contribution, you can increase your accrual rate for that Scheme Year as follows:

- If you are in the Main or 2000 section, you can increase your accrual rate from 1/65th to 1/60th.
- If you are in the 100+ section, you can increase your accrual rate from 1/100th to either 1/95th or 1/90th.

You will be given the opportunity to Buy Up in the lead up to the beginning of each Scheme Year on 6 April. Please refer to the Buy Up Guide for further information.

SELECTED BENEFITS SCHEME (SBS)

A closed group of members in the 2000 section pay SBS to secure extra retirement benefits as an alternative to both AVCs and the Buy Up option. The SBS arrangement is closed to new contributors.

Members paying SBS are not able to change the rate they pay and are not able to pay AVCs or use the Buy Up option. They are able, however, to cease their SBS payments in order to pay AVCs and/or use the Buy Up option, should they wish to do so. Once SBS contributions have ceased, they cannot be restarted. Please refer to the SBS Guide for further information.

TAX ALLOWANCES

All voluntary contributions are deducted from your salary before tax. If you have chosen to participate in Smart, your voluntary contributions will also be paid through Smart and benefit from National Insurance savings.

Contributions to pension schemes are subject to an annual allowance, above which a tax charge is payable. The standard annual allowance for 2017/18 is £40,000, but may be lower if you have accessed some of your pension savings flexibly or are a high earner. For further information, visit **www.gov.uk/tax-on-your-private-pension/annual-allowance**

THE £50,000 VOLUNTARY SAVINGS CASH ALLOWANCE

This section covers cash payments out of AVCs/SBS/100+ Retirement Accounts (collectively referred to as 'Voluntary Savings')

As many of our members are aware, the Scheme allows you to use the whole of your Voluntary Savings pot, up to an upper limit of £50,000 towards your Pension Commencement Lump Sum ('PCLS'), typically referred to as your 'tax-free cash sum'. This is subject to HMRC Rules which provide that the PCLS taken cannot exceed 25% of your total Scheme pension value. The £50,000 limit does not apply to 100+ Retirement Accounts.

Recently we have had questions about this allowance so we thought it would be useful to remind you of its history.

As a general rule, the HMRC tax rules allow you to take:

- broadly 25% of your defined benefit pension as a PCLS (and your pension entitlement would be reduced to take account of this); and
- 25% of your Voluntary Savings fund as a PCLS (and you would be required to use the remainder to purchase a lifetime annuity, or alternatively there are options to take all/part of the fund as an UFPLS cash sum, with 25% being tax free and 75% being subject to tax).

When the tax rules were introduced, many members did not want to use their remaining Voluntary Savings funds to buy an annuity due to the perceived poor value given by the market to the relatively small sums of money saved. Therefore, as a concession, the Company and the Trustee changed the Rules of the Scheme to allow Voluntary Savings of up to £50,000 to be used towards your PCLS (members can save more than £50,000 into Voluntary Savings overall).

The advantage of this £50,000 concession is that members with small Voluntary Savings pots can still get good value for money for their savings. However, it must be noted that by allowing this concession, the Company is allowing members to take a higher level of 'defined benefit' pension (as less cash is taken out of the core Scheme benefits) and hence pass on risks to the Company such as investment risk & longevity risk. For this reason, the Company would not wish to increase this limit.

With the increased flexibility around taking Voluntary Savings, there are now more options available to members rather than purchasing an annuity (such as UFPLS or transferring out to a provider which allows drawdown), some of which could give good value for money irrespective of the size of the savings pot.

Where can I find out more about Voluntary Savings?
For more information please visit the 'Voluntary Savings' section of the Scheme website – **www.leonardoelectronicspensions.co.uk** – where you can find the guides to each of these options.

LATE RETIREMENT

We are seeing an increase in the number of employees wishing to work past their Normal Retirement Date (age 65 for most Scheme members).

If you plan to work past your Normal Retirement Date, please take time to read the Scheme Booklet and our 'Working beyond age 65' guide, which set out the pension options available to you. You will have the choice of either continuing to make contributions to the Scheme or ceasing contributions (by opting-out of the Scheme).

OPTION 1

If you elect to continue to pay contributions to the Scheme after age 65, you will continue to earn blocks of pension for each year of Service up to your date of leaving. Whilst you continue to contribute, you will be eligible for the death benefits applicable to 'active' members of the Scheme.

OPTION 2

If you elect not to pay contributions to the Scheme on or after age 65, your pension will be calculated as if you had left on your Normal Retirement Date (or later date of opting-out), and will then be increased for late payment on a basis determined by the Trustee after considering advice from the Scheme Actuary. Once you cease contributing, you will be eligible for the death benefits applicable to 'deferred' members of the Scheme.

There are some important differences in the lump sum death benefits which would be payable under each option, in particular the 4 x Pensionable Salary life cover lump sum is only available for active contributing members, and therefore only payable under option 1.

If you elect for option 2, you could apply to join FuturePlanner (the Company's defined contribution pension arrangement) which provides a life cover benefit if joined immediately after leaving the Leonardo Electronics Scheme.

It is important that you contact the Scheme administrator before you reach age 65 to decide which option you wish to take. If you stay in employment after age 75, you will be treated for all purposes of the Scheme as having left on reaching that age.

For full details, please download the 'Working beyond age 65' guide, which is available at **www.leonardoelectronicspensions.co.uk/64/member-guides**

KEEPING UP TO DATE

TRANSFERS TO OVERSEAS SCHEMES

The Government announced the introduction of a 25% charge on certain transfers made on or after 9 March 2017 to Qualifying Recognised Overseas Pension Schemes (QROPS) in a bid to crack down on unfair tax advantages available through foreign pension schemes.

The charge is targeted at those seeking to reduce the tax payable by moving their pension wealth to another jurisdiction. However, exceptions will apply allowing transfers to be made tax free where:

- people have a genuine need to transfer their pension (e.g. emigrating, where the individual and overseas pension scheme are in the same country), or
- when the individual and the pension are both located within the European Economic Area (EEA).

More information can be found on the Government website at **www.gov.uk/transferring-your-pension**.

REDUCTION IN MONEY PURCHASE ANNUAL ALLOWANCE

Individuals who ‘flexibly access’ pension benefits from a money purchase pension arrangement are subject to a money purchase annual allowance (MPAA), limiting the tax relief available on contributions they can make to future money purchase pension benefits.

Whilst your core Leonardo Electronics Pension Scheme benefits are not money purchase in nature, where members flexibly access their Scheme Voluntary Savings, including AVCs, Retirement Account or SBS funds (for example by taking them as a taxed cash lump sum, known as UFPLS, or transferring them into a drawdown product from which the member takes an income), the MPAA will apply.

The Government has announced that the MPAA limit will reduce from £10,000 p.a. to £4,000 p.a. and that this is intended to take effect from 6 April 2017. Individuals who have flexibly accessed benefits and are subject to this limit, therefore, need to be aware that money purchase saving above the £4,000 p.a. limit will incur an annual allowance tax charge in future.

If you have flexibly accessed any pension benefits (from this scheme or other pension schemes), you are under a duty to notify our Scheme Administrator, Aon Hewitt. As with any financial decisions, you should seek independent financial advice when making decisions in relation to your pension benefits.

Further information on the MPAA, and other annual allowance limits, can be found on the Government website at **www.gov.uk/tax-on-your-private-pension/annual-allowance**.

CREDITED INTEREST (2017/18)

The Leonardo Electronics Credited Interest rate for the 2017/18 Scheme Year is 9.75%. This rate is relevant for the 2000 section of the Scheme – in particular, it sets how voluntary contributions under the Selected Benefits Scheme (SBS) are increased.

KEEP IN TOUCH

Please remember to let us know if any of your details, such as your address, change. If you have any queries about your pension, please contact the administrator:

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