

SELEX PENSION SCHEME

# IN FOCUS

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ISSUE 21    OCTOBER 2016

 **LEONARDO**

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# WELCOME

**We are pleased to present the latest issue of In Focus, the newsletter for the Selex Pension Scheme. As you will see, we have a new look and format which we hope you will like.**

Included in this issue is the latest information about the Scheme's finances on page 4, taken from the formal Report and Accounts and you can read more about our investments in the update on page 6.

The key project for the Trustee this year has been the implementation of the Career Salary benefit structure, which went 'live' on 6 April 2016. There is further information on this project in the Scheme news section on page 11.

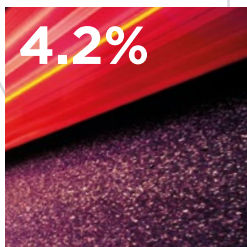
## NEW SCHEME BRANDING

As part of the Leonardo group's reorganisation in the UK, there has been a rebranding exercise with the Company being renamed Leonardo MW Ltd (previously Selex ES Ltd). Following this, there will be a change of name for the Selex Pension Scheme to the Leonardo Electronics Pension Scheme – look out for future communications reflecting our new name.

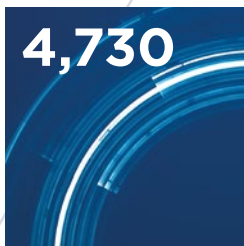
If you are a participating member of the Scheme and haven't yet used our online modelling tool, Pensionline, we would encourage you to do so. This autumn, the pension modeller has been relaunched and it is a really useful retirement planning tool which provides Career Salary benefit illustrations. There are more details about this on page 11.

We hope you find our newsletter interesting and informative. If you have any comments or questions, please get in touch using the contact details on the back page.

**Total investment  
return on  
Scheme assets  
in the year to  
5 April 2016**



**Members in  
the Scheme at  
5 April 2016**



**The value of the  
Scheme's assets  
at 5 April 2016**



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# ■ FINANCIAL HIGHLIGHTS

In the year to 5 April 2016, the Scheme's assets increased to **£747 million**. The table below shows a summary of the financial transactions of the Scheme during the year. This includes how much was paid into the Scheme along with how much was paid out to members in the form of benefits, to our advisers as payment for their services, and in administration expenses.

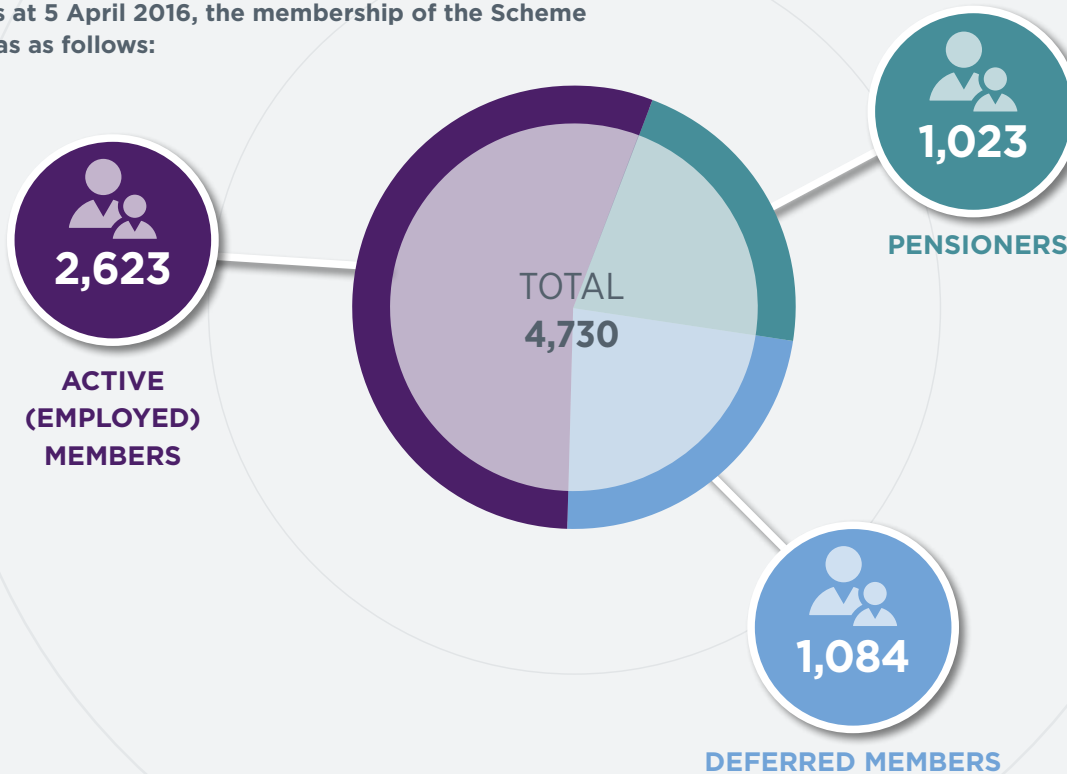
This information has been taken from the Trustee's Annual Report and Accounts 2016 which have been independently audited by RSM UK Audit LLP. If you would like to see a copy of the full Report and Accounts, it is available from the publications section of the pensions website: [www.selexpensions.co.uk](http://www.selexpensions.co.uk)

<b>Value of Scheme assets at 5 April 2015</b>	<b>£696m</b>
+ Income	£40m
- Benefits and expenses	(£14m)
+ Change in market value of investments	£25m
<b>Value of Scheme assets at 5 April 2016</b>	<b>£747m</b>



# MEMBERSHIP

As at 5 April 2016, the membership of the Scheme was as follows:



# OUR INVESTMENTS

## INVESTMENT STRATEGY

The Trustee is responsible for investing the Scheme's assets in order to pay pensions to members now and in the future. Taking advice from specialist advisers, the Trustee sets out its investment strategy in a document called the Statement of Investment Principles, which was last updated in September 2015.

The Trustee reviewed the investment strategy following the 2014 actuarial valuation and to reflect the Career Salary benefit changes from April 2016. The Scheme's liability hedging strategy was increased to help protect a proportion of the funding surplus, which is being used to support the future service contribution rate.

The majority of the Scheme's assets are invested in the Total Investment Governance Solution (TIGS), which covers a wide range of investment types. The Trustee has delegated the day-to-day management of the assets to the investment manager.

Further information about the Scheme's investments is available in the 2016 Report and Accounts (see page 4).

## Allocation of assets in TIGS as at 5 April 2016.

Asset class	Value	%
UK equities	£31m	6
Overseas equities	£219m	42
Alternatives	£108m	20
Broad market bonds	£146m	28
Property	£7m	1
Cash	£20m	4
Currency hedge	(£6m)	(1)
<b>Total</b>	<b>£525m</b>	<b>100</b>

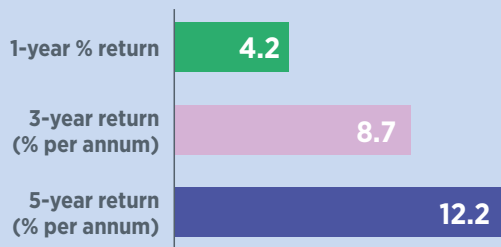


## INVESTMENT PERFORMANCE

The year to 5 April 2016 saw positive performance for the Scheme's total portfolio (which includes the return-seeking portfolio and the liability hedging portfolio).

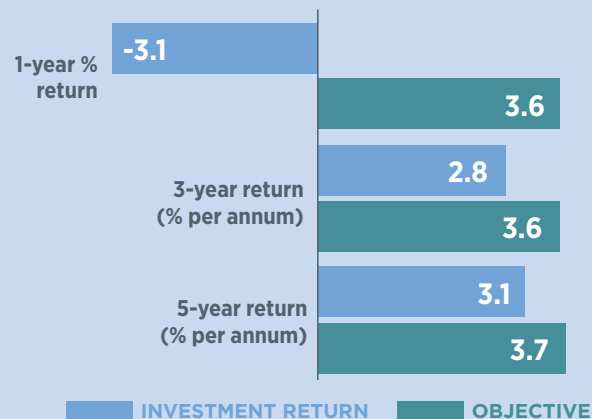
The liability hedging portfolio is designed to protect the Scheme from adverse movements in long-term interest rates and inflation, which directly affect the value of the Scheme's liabilities. The value of the assets in this portfolio moves broadly in line with the Scheme's liabilities when long-term interest rate and inflation expectations change.

### The Scheme's total investment performance, as at 5 April 2016, over one year, three years and five years:



The performance of the Scheme's return-seeking portfolio alone, which includes TIGS, was negative over the year as a result of challenging market conditions. Markets were subject to high levels of volatility over the year to March 2016, with most return-seeking asset classes finishing down for the year.

### The Scheme's return-seeking portfolio performance, as at 5 April 2016, over one year, three years and five years:



# SUMMARY FUNDING STATEMENT

This is your update on the funding position of the Scheme, which the Trustee is required to provide to you each year. Set out below are details of the Scheme's funding position as at the 5 April 2014 actuarial valuation, together with the interim valuations as at 5 April 2015 and 5 April 2016.

## DEFINITIONS

### FUNDING LEVEL %

the value of the assets, expressed as a percentage of the value of the liabilities.

### ASSETS

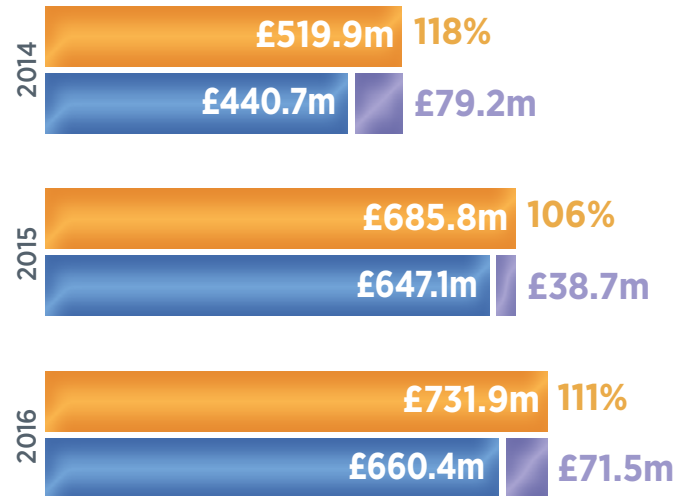
the amount of money held by the Scheme in various forms. This includes cash, equities, bonds, swaps and other investments.

### LIABILITIES

the amount of money the Scheme is estimated to need to pay all of its future benefits.

### SURPLUS

the amount by which the Scheme's assets exceed its liabilities.





## **CHANGE IN FUNDING POSITION SINCE LAST SUMMARY FUNDING STATEMENT**

As at 5 April 2015, there was an estimated surplus of £38.7 million. At 5 April 2016, the estimated surplus was £71.5 million, an increase of £32.8 million over the year.

The 2016 funding position takes account of the changes to the Scheme's benefit structure, in particular the move from a Final Salary basis to a Career Salary basis with effect from 5 April 2016. The 2015 funding position was assessed on the Final Salary basis, because at that date, the changes to the benefit structure had not taken effect. The increase in the surplus between 5 April 2015 and 5 April 2016 is mainly due to the benefit structure changes. Specifically, on the Final Salary basis, members' benefits are assumed to increase in line with pensionable earnings increases while they remain in Pensionable Service, whereas on the Career Salary basis, members' benefits are assumed to increase in line with the Career Salary in-service revaluation rate. Due to this change in assumption, the value of the liabilities on the Career Salary basis is lower than on the Final Salary basis (all else being equal).

The value of the liabilities as at 5 April 2014 was calculated using assumptions agreed as part of the actuarial valuation by the Company and Trustee. The assumptions used to value the liabilities as at 5 April 2015 and 5 April 2016 are consistent with those in 2014, but reflect changes in the relevant interest and inflation rates.

The next detailed calculation of the Scheme's funding position will occur as part of the formal actuarial valuation as at 5 April 2017. The Trustee does, however, monitor the funding of the Scheme on a regular basis and will take action if necessary.

## **BUYOUT/DISCONTINUANCE BASIS**

This is the amount of money needed to buy an insurance policy to pay your benefits. This would only be relevant if it was decided to wind up the Scheme. At 5 April 2014, the Actuary valued the Scheme at 100% funded on a discontinuance basis, equivalent to a £27.9 million improvement in the funding position since the last formal discontinuance valuation (as at 5 April 2011). The main reason for this increase is that a significant portion of the liabilities has grown in line with salary inflation over the period, which has been

# SUMMARY FUNDING STATEMENT continued

lower than the rate of increase that had been assumed. It is a legal requirement to produce these discontinuance figures and it does not mean that there is any intention to wind up the Scheme.

## HOW IS MY PENSION FUNDED?

Active members and the participating employers pay contributions to the Scheme based on members' Pensionable Salaries. The Scheme holds the money in a common fund from which it pays members' pensions when they retire. If you pay voluntary contributions to the Selected Benefits Scheme (SBS), these contributions are also held in this common fund. Other Additional Voluntary Contributions and 100+ Retirement Accounts are held separately with Old Mutual Wealth.

## HOW IS THE AMOUNT OF MONEY THE SCHEME NEEDS WORKED OUT?

The Trustee obtains regular valuations of the benefits earned by members. Using this information and recommendations from the Scheme Actuary, the Trustee and the Company must agree on the future contributions that are required to ensure there is sufficient money in the Scheme to pay the benefits.

## WHICH FUNDING BASIS IS USED?

The ongoing funding basis is used to determine how much needs to be paid into the Scheme by participating employers and members. It assumes that Selex will continue in business and support the Scheme. The discontinuance basis is not used, however it would be relevant if the Scheme were to wind up.

## WHAT IF THE SCHEME STARTED TO WIND UP?

We are legally required to tell you what would happen if the Scheme were to wind up. It does not mean there is any intention to wind up the Scheme in the foreseeable future. If the Scheme were to wind up, Selex is required to pay enough into the Scheme to secure the members' benefits with an insurance company. If Selex is not able to pay the deficit (if any), the Pension Protection Fund (PPF) might be able to take over the Scheme and pay compensation to members.

## OTHER INFORMATION

No payments have been made from the Scheme to any participating employers in the last 12 months. If you are thinking of leaving the Scheme, you should consult a professional independent financial adviser first.



# SCHEME NEWS

## CAREER SALARY IMPLEMENTATION

The 2014 actuarial valuation showed that the cost of future pension accrual had increased significantly, leaving a contribution shortfall.

The Company consulted with active members regarding Scheme benefit changes to help address this increasing cost and reduce risk. Following the consultation, the Scheme Rules were amended in March 2016 to implement a new Career Salary benefit basis with effect from 6 April 2016.

## BLOCK 1 STATEMENTS

In each Scheme year, active members build up a 'block' of pension based on that year's Pensionable Salary. Block 1 consists of a one-off calculation at 5 April 2016, which represents the value of the pension earned up to that date. Active members will have received a pension statement this autumn detailing the value of their first block of pension in the new Career Salary benefit structure. For more information, see [www.selexpensions.co.uk](http://www.selexpensions.co.uk).

## RELAUNCH OF PENSIONLINE MODELLER

Pensionline was relaunched this autumn and has been upgraded to include the Block 1 values calculated for members' pensions as at 5 April 2016.

The pension modeller is a particularly useful retirement planning tool. The new version provides active members with Career Salary benefit illustrations, so you can see how much Career Salary pension you have earned, and an illustration of what you might be able to earn if you continue to participate in the Scheme.

If you have access to the pension modeller, you will have received a website relaunch letter with your Block 1 statement containing your Pensionline login details. Please note, the Pensionline modeller is not available to deferred and pensioner members.

For Pensionline, please visit [www.selexpensions.co.uk/4/pension-modeller](http://www.selexpensions.co.uk/4/pension-modeller), and select 'Launch the modeller'.

# SCHEME NEWS continued



## DO YOU HAVE AVCS OR DC SAVINGS?

If you have Additional Voluntary Contributions (AVCs) or defined contribution (DC) savings in your Retirement Account as part of the 100+ Section, please make sure you have selected your target retirement age (TRA). This is your preferred retirement age for the purposes of the 'lifestyle profile' investment strategy. If you have not made a selection, the default target retirement age is Normal Retirement Date (age 65 for most members).

Please note, your TRA will have a direct effect on when your investments are switched in the investment lifestyle profile. Your funds are automatically switched from investments designed to give you growth in the early years, to those which help reduce unexpected fluctuations in the value of your benefits in the years leading up to your TRA. It is important that you regularly review your selected TRA and update it if your retirement plans change.

A selected TRA that is earlier than your actual planned retirement age could mean you miss out on potential growth of your DC funds. Similarly, a TRA that is later than your actual planned retirement age could mean your savings are exposed to higher investment risk for

longer than is prudent. You can check your TRA by visiting Pensionline at [www.selexpensions.co.uk/4/pension-modeller](http://www.selexpensions.co.uk/4/pension-modeller).

## IS YOUR EXPRESSION OF WISH FORM UP TO DATE?

It is important to keep your Expression of Wish form up to date with any changes in your personal circumstances. We keep details of your wishes on your record so that in the event of your death, we can easily identify anyone you have nominated for consideration to receive any lump sum or pension that is payable.

The Trustee has discretion to decide who will receive the benefits, but they take your wishes into account.

We have designed a new Expression of Wish form which combines the lump sum nomination and the dependant's pension nomination. If you need to update your Expression of Wish, please download a form from the 'Forms' section of the pensions website at [www.selexpensions.co.uk](http://www.selexpensions.co.uk).

# ■ PENSION NEWS

## TAX ALLOWANCES ON PENSION SAVINGS

Changes to both the Annual Allowance (AA) and the Lifetime Allowance (LTA) came into effect in April 2016. These allowances apply to people who are still paying into a pension and/or have not yet started to draw their pension. They do not apply to you if you are already receiving your pension.

Currently, the standard AA is set at £40,000. This is the maximum amount of tax-free pension savings that you can make in one year. For most people, it will remain at this level. However, with effect from 6 April 2016, a tapered AA was introduced for high earners and for some, their AA may be as low as £10,000.

The LTA is the tax-free limit on the total value of pension savings from all sources. With effect from 6 April 2016, the standard LTA was reduced from £1.25 million to £1 million. From April 2018, it will be index-linked in line with the Consumer Prices Index (CPI).

Anyone who is affected by this reduction can apply to HMRC to protect their pension savings against the LTA charge. For more information on the LTA and whether you can apply for protection, please refer to HMRC for guidance or seek financial advice: [www.gov.uk/tax-on-your-private-pension/lifetime-allowance](http://www.gov.uk/tax-on-your-private-pension/lifetime-allowance).



# PENSION NEWS continued

## THE NEW STATE PENSION

The State Pension has changed for people who reach State Pension Age on or after 6 April 2016. From this date, a new State Pension has replaced the basic State Pension and additional State Pension (the earnings-related top-up formerly known as State Second Pension or SERPS). If you reached State Pension Age before 6 April 2016, these changes do not affect you.

The full new State Pension is £155.65 per week in the 2016/17 tax year. To qualify for the full amount, you will need to have 35 years or more of National Insurance (NI) contributions or credits. A minimum of 10 years is required to qualify for any amount; anyone with qualifying years between 10 and 35 will receive a proportionate amount.

If any of your qualifying years of NI contributions were contracted-out (which will be the case if you are a member of the Main Section of the Selex Pension Scheme), your new State Pension will be subject to deductions, reflecting the fact that you paid lower NI contributions during that time.

To find out more about your new State Pension entitlement, you can ask HMRC for a forecast of your State Pension by calling the Future Pension Centre on 0345 3000 168 or by visiting [www.gov.uk/check-state-pension](http://www.gov.uk/check-state-pension)





## BEWARE OF PENSION SCAMS

People have lost their life savings after falling for a pension scam. Don't let it happen to you.

We urge members to continue to be vigilant about pension scams. The new pension freedoms have brought with them increased opportunities for scammers who may try to lure you with promises of upfront cash and one-off deals with guaranteed high returns. Please be very careful of any such promises as risk-free, guaranteed investment returns are highly unlikely.

Please also be wary of unsolicited texts, emails and cold calls, as scammers may claim to be from Pension Wise or other government-backed organisations – these organisations would NEVER call you to offer a pension review.

To find out more, visit: [www.pension-scams.com](http://www.pension-scams.com)

## HOW WILL BREXIT AFFECT THE SCHEME?

On 23 June 2016, the UK voted to leave the EU. Whilst it is still too early to say how events will unfold and how this will affect the Scheme, it is expected that volatility in investment markets will continue for some time as the UK negotiates its exit from the EU.

It is worth noting, however, that pensions are a long-term investment and the Scheme's assets are invested in a broadly diversified mix of investments and markets around the world in order to help reduce the impact of market volatility and fluctuations in interest rates and inflation.



# 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:

## SELEX PENSION SCHEME

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### Disclaimer

The content of this newsletter is given for the purpose of providing you with information about the Scheme only and has no legal effect. The rules of the Scheme govern how the Trustee must act and if the rules of the Scheme are inconsistent with the information given in this newsletter, the rules will prevail.