JULY 2016

SELEX PENSION SCHEME

GUIDE TO BLOCK 1

2000 section

The Selex Pension Scheme is part of the valuable benefits package that the Leonardo Group provides to UK employees.

From 6 April 2016 the Scheme provides benefits on a ‘Career Salary’ basis which means that each Scheme Year you build up a ‘block’ of pension equal to 1/65th of your Pensionable Salary earned during that Scheme Year. The Scheme is described in more detail in the Member’s Booklet.

Prior to 6 April 2016 the Scheme was linked to the BAE Systems pension arrangements on a ‘Make Whole’ basis. While the Selex and BAE Systems schemes have always been separate arrangements, the pension from the Selex Scheme was based on Pensionable Service with both Selex and BAE Systems less a benefit deduction which was broadly the deferred entitlement in the BAE Systems arrangements.

This link to BAE Systems has now been replaced by ‘Block 1’ of your Career Salary pension. This Guide explains how Block 1 has been calculated. Please note, if you left the Scheme before 5 April 2016, Block 1 does not apply to your benefits. Benefits from any AVCs and SBS contributions are unaffected by the creation of Block 1. References to the ‘Scheme’ throughout this guide mean the Selex Pension Scheme.

The former link with the BAE Systems pension arrangements

Block 1 consists of a one off calculation as at 5 April 2016 representing the value of the Make Whole link assuming your salary were guaranteed to increase in the future at 1% pa above the rate of inflation until your Normal Retirement Date.

To explain the Block 1 calculation it is necessary to first describe how the Make Whole structure worked which was as follows:

Selex pension = **Gross pension** - **BAE Systems benefit deduction**

Where:

- your **gross pension** was calculated using your total Pensionable Service with Selex and BAE Systems and salary information at the date of leaving the Scheme; and
- your **BAE Systems benefit deduction** was calculated using your Pensionable Service in the BAE Systems pension arrangements only and salary information up to 29 April 2005, then increased (broadly in line with inflation) to the date you draw your Selex benefit.

The amount of the BAE Systems benefit deduction was a notional amount calculated using the rules of the BAE Systems Scheme effective as at 29 April 2005. It was not affected by any change to the rules of the BAE Systems Scheme after that date.

The amount of pension actually payable from the BAE Systems arrangements is calculated in accordance with the rules of the BAE Systems Scheme. It is often equal in amount to the BAE Systems benefit deduction but not necessarily so, especially if the pension from BAE Systems is drawn at a different time to the Selex pension or transferred out of the BAE Systems arrangements.

It was possible that a small number of members were not entitled to any benefit from the Scheme. This could occur where the BAE Systems benefit deduction was bigger than the gross pension, for example, if a member’s pensionable earnings did not increase in line with inflation since leaving BAE Systems

Gross pension

The retirement formula under the previous Make Whole structure consisted of the highest amount produced from three different methods, known as Basis 1, Basis 2 and Basis 3.

The **Basis** 1 pension was calculated as follows:

2%
x
Pensionable Service (after 6/4/73 only)
x
Final Pensionable Earnings

-

2%
x
Pensionable Service
x
Average Basic State Pension

-

0.9%
x
Pensionable Service (after 6/4/78 up to maximum of 20 years)x
Final Pensionable Earnings less Average Basic State Pension (subject to a maximum of 6 x Average Basic State Pension)

The **Basis 2** pension was calculated as follows:

50% x Basic Contributions to Scheme **+** **50% x Basic Contributions to BAE Systems Scheme**

The **Basis 3** pension was calculated as follows:

17.5% x Basic Contributions to Scheme with Selex Credited Interest **+** **17.5% x Basic Contributions to BAE Systems Scheme with BAE Systems Credited Interest**

Please note that Basic Contributions were calculated for both schemes as if you made member contributions at a rate of 3% of Pensionable Earnings.

Final Pensionable Earnings meant broadly the best average gross taxable earnings in a three Scheme Year period in the last ten years. This excluded certain temporary allowances such as subsistence, bonus (unless paid before 6 April 2009) and benefits in kind.

BAE Systems benefit deduction

Broadly, under the previous Make Whole structure, your BAE Systems benefit deduction was calculated using the same method as set out above but using:

- your Pensionable Service with BAE Systems only;
- salary information up to 29 April 2005; and
- contributions to the BAE Systems Scheme only.

For example:

- Your Basis 1 pension calculation used:
  - your Pensionable Service up to 29 April 2005; and
  - your Final Pensionable Earnings as at 29 April 2005;
  - the Average Basic State Pension as at 29 April 2005.

The resulting figure was then increased (broadly in line with inflation) over the period between 29 April 2005 and the date you draw your Selex benefit.

- Your Basis 2 pension calculation used your Basic Contributions to the BAE Systems Scheme only.
- Your Basis 3 pension calculation used your Basic Contributions to the BAE Systems Scheme only. BAE Systems Credited Interest was applied to take account of the period between leaving the BAE Systems arrangements and the date you draw your Selex benefit.

Block 1

To calculate Block 1 of your Career Salary benefit a transitional version of this Make Whole calculation will be run using the Basis 1 formula. It will be based on the assumption that your future rate of salary increases is already known.

The rate of future increase that is being assumed is guaranteed salary growth of 1% above inflation until your Normal Retirement Date. The measure of inflation being used is the Actuary's best estimate of the future growth in the Consumer Prices Index. In broad terms, the Block 1 calculation is made up of your pension earned to 5 April 2016, plus a 'transitional uplift' based on assumed future salary increases.

The gross Basis 1 formula becomes:

2% x Pensionable Service (after 6/4/73 only) x Assumed Final Pensionable Earnings at Normal Retirement Date if your salary grows at estimated future inflation plus 1% pa	**-**	**2% x Pensionable Service x Assumed Average Basic State Pension at your Normal Retirement Date based on estimated future inflation**	**-**	**0.9% x Pensionable Service (after 6/4/78 up to maximum of 20 years adjusted pro rata to 5 April 2016) x Assumed Final Pensionable Earnings at Normal Retirement Date less Assumed Average Basic State Pension (subject to a maximum of 6 x Assumed Average Basic State Pension)**

In the same way the BAE Systems Basis 1 benefit deduction will be calculated based on assumed future inflation (but without the 1% above inflation guaranteed salary increase element). The deduction is therefore based on the relevant data as at 29 April 2005 but the pension is revalued to take account of the period between 29 April 2005 and Normal Retirement Date based on the Actuary's best estimate of future inflation.

Your Block 1 pension is, then, calculated using the Make Whole approach but expressed in today's terms, as follows:

Block 1 pension	**=**	**Assumed gross pension based on assumed salary growth to Normal Retirement Date of estimated future inflation plus 1% pa and assumed Average Basic State Pension**	**-**	**Assumed BAE Systems benefit deduction based on estimated future inflation**

The figures are expressed in today's terms using a consistent discount rate (i.e. estimated future inflation plus 1% pa).

In the majority of cases Block 1 calculated in this way will exceed the amount of your pension accrued so far. However if the amount produced by the Basis 2 or Basis 3 formula as at 5 April 2016 would provide a higher figure then Block 1 will reflect this higher amount as applicable.

Members who reach Normal Retirement Date before 5 April 2017 will not receive a 'transitional uplift' element within the Block 1 calculation (as Final Pensionable Earnings is calculated in whole Scheme Years only).

Under the Make Whole structure it was possible that the Scheme could provide an accrued benefit value of zero, particularly where a member's pensionable earnings had not increased in line with inflation since leaving BAE Systems in 2005. For the avoidance of doubt the Block 1 pension in such circumstances would also be a minimum of zero and future Career Salary accrual will be earned on top of this.

Block 1 Statement

The result of the Block 1 calculation will be set out for you in a Block 1 Statement. This is an important document showing the amount of your pension built up to 5 April 2016 which you should keep for your records.

In contrast to the Make Whole structure, your pension will not fall below the amount shown in the Block 1 statement (other than through options you may choose to exercise). You should note that the Block 1 amount is calculated on the basis that you retire at your Normal Retirement Date. If you retire early, then early retirement factors would be applied to your benefits.

Future years of accrual from 6 April 2016 will be based on the new Career Salary rate of 1/65th of your Pensionable Salary for each Scheme Year (or 1/60th if you use the Buy Up option).

Block 1 (and the new blocks of Career Salary accrual for each subsequent year of membership) will be revalued each following 5 April by 1% above the growth in the Consumer Prices Index (subject to a maximum of 6% each year) for so long as you remain in Pensionable Service.

Deferred pension underpin

It is expected that the Block 1 benefit will be higher than the amount of your accrued pension at 5 April 2016 under the Make Whole structure.

However to ensure that your accrued pension is protected following the introduction of the Career Salary structure, a deferred pension underpin also applies. This underpin is based on the amount of pension you would have been entitled to if you had left Pensionable Service on 5 April 2016. It is guaranteed that your pension will never be less than this underpin amount which is revalued (under the Basis 1 formula) broadly in line with inflation until you draw your benefits.

Further information

The Scheme has a website - www.selexpensions.co.uk - which provides lots more information about the Scheme, including guides and modelling tools.

If you wish to discuss a pensions matter please contact the Scheme's administrator, Aon Hewitt

Telephone: 0345 603 5660

Email: selex.pensions@aonhewitt.com

Write to: Selex Pension Scheme, Aon Hewitt, PO Box 196, Huddersfield, HD8 1EG.

This Guide is intended as a helpful summary of how Block 1 of your Career Salary benefit will be calculated based on agreed principles. The Trustees and Company retain the power to adjust the calculation to reflect the underlying principles. The Guide is not a legal document and **if there is any conflict between the Guide and the Rules of the Scheme, the Rules will prevail**. You should take independent financial advice if you are in any doubt about your personal financial position. More information (including the meaning of defined terms) can be found in the Scheme booklet.