

**PENSIONS CONSULTATIVE COMMITTEE (PCC)  
REPORT TO MEMBERS FOLLOWING THE MEETING ON 16 JANUARY 2018**

A meeting of the PCC took place in London on 16 January 2018.

The PCC has been set up to discuss, co-ordinate, advise and represent the views of the members of the Leonardo Electronics Pension Scheme. There are currently twelve representatives on the Committee and their contact details are attached to this Report.

The meeting was attended by:-

Tony Kingsbury	Capability Green	Chairman
Jim Cull	Edinburgh	
James Fordyce	Edinburgh	
Martin Johnson	Pensioner Representative	
Scott McMillan	Basildon	
Stephen Park	Edinburgh	
Stuart Rushworth	Capability Green	
Tony Sheehan	Basildon (Acting)	
Phil Slade	Capability Green	
Scott Wallace	Edinburgh	
Paul Wilton	Southampton	
Colin Wylie	Edinburgh	
Andrew Letton	HR – Leonardo MW Ltd	
Mike Nixon	Head of Pensions	
Rachael Skuse	Pensions Manager	
Helen Pass	Pensions Administration Manager	

The meeting was held to receive feedback from the Trustee meeting on 12 December 2017.

#### PCC Representatives

Tony Sheehan was introduced as the new acting active member PCC Representative for Basildon.

#### Valuation – strong funding position continues

The Trustee and Company have reached agreement on the 5 April 2017 actuarial valuation. The formal documentation (the Schedule of Contributions and Statement of Funding Principles) has been signed.

The valuation process is normally carried out every three years and looks at how much money the Scheme needs to be able to meet the pension liabilities accrued so far, and compares this with the assets currently held by the Scheme and the contributions being paid.

Past service liabilities:

The funding surplus at 5 April 2017 is £192m, increasing from £79.2m at 5 April 2014. The Scheme funding level at 5 April 2017 is 126%, increasing from 118% at 5 April 2014. This is an excellent position for the Scheme to be in, and highly unusual in comparison to the majority of other defined benefit pension schemes.

The increase in the surplus since the 2014 valuation position is due to:

- Excellent investment return over the period.

- Scheme experience being better than assumed.
- The implementation of the Career Salary benefit changes effective from 5 April 2016.
- Changes to the funding assumptions to reflect updated market conditions, in particular in relation to the rates of improvement in longevity as life expectancy has not been increasing at the rates previously assumed.

Future Service costs:

Whilst there has been an improvement in funding position related to past service benefits (ie: liabilities relating to pensions which have already been earned) there has been a significant increase in the cost of providing pensions going forwards (known as the cost of future accrual).

The Company is currently paying an average of 14.4% of pensionable salaries per annum towards the cost of future accrual. The assessed cost of future accrual (after allowing for member contributions and expenses) has increased to 34.3% of pensionable salaries per annum, which is a rise of 19.9%. The increased cost is primarily due to the significant fall in interest rate expectations over the period since the last valuation.

However, given the strong overall funding position and the strength of the covenant support from the Company, the Trustee and the Company have agreed that there will be no changes to the employee or Company contributions, and no changes to member benefits, as part of this valuation. The consequence of this approach is that a portion of the surplus will be used to support the increased future service cost.

All parties are pleased with this outcome and the further period of pension stability this provides to members of the Scheme.

#### Quarterly Funding Update to 30 September 2017

The funding update figures are now reflective of the membership data as at 5 April 2017, and based on the 2017 valuation assumptions.

The quarterly funding update showed that the Scheme had an estimated surplus of £196 million at 30 September 2017. The surplus had decreased marginally over the quarter.

The cost of new benefit accrual has reduced slightly between 30 June 2017 and 30 September 2017. However, the cost remains significantly higher than the contributions being paid to the Scheme.

#### Buy Up

The Buy Up rates for 2018/19 have been set, and have reduced since last year.

- Main and 2000 Section Buy Up to 1/60<sup>th</sup> = 3.4% of Pensionable Salary (compared to 3.7% for 2017/18)
- 100+ Section Buy Up to 1/95<sup>th</sup> = 1.4% of Pensionable Salary (compared to 1.5% for 2017/18)
- 100+ Section Buy UP to 1/90<sup>th</sup> = 2.9% of Pensionable Salary (compared to 3.2% for 2017/18)

Letters regarding the Buy Up option will be issued to all eligible members in January 2018. If you do not return the Buy Up form by 8 March 2018 the Trustee will assume you wish to remain on your current accrual rate.

#### Investment Performance

- The market value of the total assets of the Scheme at 30 September 2017 was £910 million.
- Investment performance of the return-seeking assets over the quarter had been 0.8% which was in line with the objective. In the longer term the assets were ahead of the return-seeking objective over 12 months, 3 years and 5 years.
- The total investment strategy (both the return-seeking and the matching assets) returned 0.9% ahead of the benchmark (which looks at the change in the Scheme's liabilities). The total fund return is now ahead of benchmark over 12 months, 3 years and 5 years.

### Allocation of Assets

At 30 September 2017 the Trustee held 72.3% of the Scheme's assets "on-risk" and 27.7% "off-risk". On-risk assets are those seeking to generate an investment return (e.g. equities, commodities, high yield bonds). Off-risk assets are those seeking to manage risk and match Scheme liabilities (e.g.: Government gilts, cash).

### Increase in liability hedging level

The Trustee has increased the level of hedging on the Scheme's past service liabilities to 100% of the liability value (from 95%). An additional level of hedging is also being put in place equivalent to the value of the expected future service cost over the three year valuation period. This is a risk reduction measure, and will help protect against movements in interest rates and inflation expectations which can affect the funding level of the Scheme.

### Administration

#### *Scheme administrator*

The administration of the pension Scheme will move from Aon Hewitt to PS Administration Limited (known as PSAL) with effect from 1 February 2018. Contact details for PSAL have been issued to members in January 2018. Log in details for PSAL's online facility 'MyPension' will be communicated to members in the near future.

From 1 February 2018, you can contact PSAL at:

- Telephone: 0117 440 2491
- Email: [LEPS@psadmin.com](mailto:LEPS@psadmin.com)
- Write to: Leonardo Electronics Pension Scheme, PS Administration Limited, Queen's Quay, 33-35 Queen Square, Bristol, BS1 4LU.

### General Data Protection Regulation

There are new data protection regulations coming into force in May 2018, the General Data Protection Regulation. The Trustee is working with its advisers to ensure its processes and terms of business with advisers are compliant with the new, more stringent, requirements. Further information will be provided to members in due course.

### Annual Benefit Statements

Annual Benefit Statements for active members of the Scheme were posted in November 2017. Statements for deferred members were posted in December 2017.

### Joint DC investment committee meeting

A joint DC investment committee meeting of the Leonardo UK pension schemes was held on 21 November 2017. The Leonardo Electronics Pension Scheme benefits which are invested in the common DC strategy are the Additional Voluntary Contributions and the 100+ Retirement Accounts.

### *Investment performance*

The majority of the P-Solve 'blend funds' (which make up the default fund in the DC investment strategy) had out-performed their long term targets since the inception of the funds.

### *Administration*

The pension administration of the FuturePlanner pension arrangement moved from Aon Hewitt to PSAL on 1 December 2017. Member feedback on the PSAL service has been good.

### Date of the Next Meeting

The next meeting of the PCC is scheduled for 17 April 2018.

### **Contact Details**

<b>Name</b>	<b>Location</b>	<b>Email Address</b>	<b>Phone Number</b>
Jim Cull	Edinburgh	<a href="mailto:James.Cull@leonardocompany.com">James.Cull@leonardocompany.com</a>	0131 343 8768
James Fordyce	Edinburgh	<a href="mailto:James.Fordyce@leonardocompany.com">James.Fordyce@leonardocompany.com</a>	0131 343 4658
Martin Johnson	Pensioner Representative	<a href="mailto:martin.h.johnson@gmail.com">martin.h.johnson@gmail.com</a>	
Tony Kingsbury	Capability Green	<a href="mailto:Tony.Kingsbury@leonardocompany.com">Tony.Kingsbury@leonardocompany.com</a>	01582 886052
Scott McMillan	Basildon	<a href="mailto:Scott.McMillan@leonardocompany.com">Scott.McMillan@leonardocompany.com</a>	01268 887094
Stephen Park	Edinburgh	<a href="mailto:Stephen.Park@leonardocompany.com">Stephen.Park@leonardocompany.com</a>	0131 3435105
Stuart Rushworth	Capability Green	<a href="mailto:Stuart.Rushworth@leonardocompany.com">Stuart.Rushworth@leonardocompany.com</a>	01582 886258
Tony Sheehan (Acting Representative)	Basildon	<a href="mailto:Antony.Sheehan@leonardocompany.com">Antony.Sheehan@leonardocompany.com</a>	01268 883159
Phil Slade	Capability Green	<a href="mailto:Phil.Slade@leonardocompany.com">Phil.Slade@leonardocompany.com</a>	01582 886580
Scott Wallace	Edinburgh	<a href="mailto:Scott.Wallace@leonardocompany.com">Scott.Wallace@leonardocompany.com</a>	01313 435334
Paul Wilton	Southampton	<a href="mailto:Paul.Wilton@leonardocompany.com">Paul.Wilton@leonardocompany.com</a>	02380 316775
Colin Wyllie	Edinburgh	<a href="mailto:Colin.Wyllie@leonardocompany.com">Colin.Wyllie@leonardocompany.com</a>	01313 438136