



### In this issue of **INFocus** we provide you with information about the following:

- ➡ Our Professional Pensions 2014 Defined Contribution Innovation award
- ➡ Details of the online State Pension forecasting for active members, and how you can opt-out
- ➡ Information on the pension changes announced by the Government in the 2014 Budget
- ➡ Notification of the cessation of contracting-out of the State Pension
- ➡ A reminder to complete a Selex Expression of Wish Form
- ➡ Confirmation of a legislative change to the 2000 Section Selected Benefits Scheme (SBS)
- ➡ Notification of a change affecting the processing of data by the Scheme's actuarial advisers
- ➡ A summary of the Trustee Report and Accounts for 2013/14

## Benefit statement notice

The production of Selex Benefit Statements will be later than usual this year due to changes in the Company's payroll provider and the Scheme's AVC provider. The Trustee apologises for this delay and every effort will be taken to keep the delay to a minimum. There is certain pension information which must be provided to members by 5 April 2015, and we are working to issue benefit statements within this deadline. In addition, we are aiming to have the online pension modeller re-launched within this timescale.

## Scheme wins innovation award

**The Scheme has won an award for innovation in the Professional Pensions 2014 Scheme of the Year awards.**

The award recognises the work, done jointly with the other Finmeccanica UK pension schemes, to introduce and govern our shared Defined Contribution (DC) investment strategy and improve the flexibility and efficiency of our voluntary contributions arrangements.

In July 2013, a new investment strategy was launched for our Additional Voluntary Contributions (AVC) arrangement and the 100+ Retirement Accounts. We also introduced the ability for voluntary savings to be paid through the 'Smart' salary sacrifice option, enabling savings in National Insurance contributions.

We were also finalists in the category for DC investment strategy.





## State Pension forecasts

**We would like to make information about your State Pension easily accessible to you. Therefore, over the course of 2015, we are proposing to allow you access to information about your State Pension entitlement through our interactive online modeller, Pensionline.**

The law requires us to ensure that you do not object before we exchange information with the Pension Service, part of the Department for Work and Pensions. We will assume that you consent to receiving the additional information through Pensionline unless you opt-out.

Please note this information will only be available for active contributing members of the Scheme.

So that the Pension Service can identify the correct National Insurance account, we will give them some of your details:

### Details we give the Pension Service:

- ➔ Surname or family name;
- ➔ First name or initial;
- ➔ Gender;
- ➔ Date of birth;
- ➔ National Insurance number; and
- ➔ Pension Scheme reference number.

### The Pension Service then give us:

- ➔ An estimate of the amount of State Pension you may get at State Pension age, based on your contribution record so far; and
- ➔ The earliest age at which you can receive your State Pension.

We will put the information we get from the Pension Service on Pensionline so that you can obtain an estimate of the State Pension you may get based on your National Insurance contribution record so far. The information will not be used for any other purpose.

**If you are happy for us to exchange the information shown above with the Pension Service, you do not need to do anything.**

**If you do not want to access your State Pension forecast through Pensionline, please opt-out by 31 January 2015. We will assume that you consent to receiving the additional information through Pensionline unless you opt out.**

## How to opt-out

You can opt-out by visiting Pensionline at [www.selexpensions.co.uk/4/pension-modeller](http://www.selexpensions.co.uk/4/pension-modeller), logging in and completing the pop up box on the Welcome page. The pop up box will enable you to opt-in or opt-out. If you do not select an option, or choose 'Ask me later', you will be deemed to have opted-in. Alternatively, you can complete the opt-out form which can be obtained from the Scheme website, [www.selexpensions.co.uk](http://www.selexpensions.co.uk). If you have any questions about opting out, please contact Aon Hewitt on 0845 603 5660.

Whatever you decide, if you change your mind at a later date you should contact the Scheme Administrator, Aon Hewitt, to update your decision for subsequent years.

## Keeping up to date

### Pension changes announced by the Government in the 2014 Budget

A number of changes offering 'freedom and choice' for Defined Contribution (DC) pensions were announced in the 2014 Budget, and the Government has confirmed, following a consultation exercise, that these will go ahead from April 2015.

The Selex Pension Scheme offers predominantly Defined Benefit (DB) pensions; however there are also DC funds in the form of the Additional Voluntary Contributions arrangement and the 100+ Retirement Accounts, so we are currently considering what the changes will mean for Selex Pension Scheme members.

#### What are the changes?

The Government plans to introduce a Pensions Tax Bill later this year which will set out the details of the new system and is consulting still on some of the detail. In summary, the flexibilities which the Government has announced are:

- ➡ Flexibility at retirement to choose either an annuity product (a pension income from an insurance company), income drawdown (which allows you to keep your fund invested and take cash from it regularly as an income) or as a cash lump sum.
- ➡ Cash is taxed at an individual's marginal tax rate at the time it is taken (other than the 25% which can be taken tax-free).
- ➡ Simplified regulatory framework for retirement products to increase member choice and access to such investments.
- ➡ Access to free impartial guidance for all DC members at the point of retirement. The guidance will be provided by independent organisations such as the Pensions Advisory Service and the Money Advice Service. This may be face-to-face, telephone or internet based.
- ➡ Members of private sector DB schemes will be permitted to transfer their benefits (other than pensions in payment) to a DC scheme to take advantage of the new flexibilities if they wish, but they must take independent financial advice first. Trustees have powers to protect the funding of DB schemes if they consider that large outflows of transfers put this at risk.

Alongside, the increased retirement flexibility, the Government has announced a couple of other changes:

- ➡ In advance of April 2015 there has been an increase in the thresholds to enable members with small pension pots to qualify for trivial commutation (taking small benefits as cash). From 27 March 2014, the limit has increased from £18,000 to £30,000 across all of a member's schemes; and from £2,000 to £10,000 for a single scheme.
- ➡ In the context of the increase in State Pension age to 67, the minimum age for accessing a private pension will rise from age 55 to 57 in 2028. From then on, the intention is to set it at ten years below State Pension age.
- ➡ The Government has closed a potential loophole by introducing measures aimed at stopping people taking a tax-free lump sum from their pension pot, and then diverting the whole of their salary into a pension scheme in order to avoid tax and National Insurance (NI) contributions. Members who have drawn down more than the tax-free lump sum from a DC pension will only be allowed to make restricted pension contributions up to an annual limit of £10,000, without incurring tax charges.

The Government has produced an online announcement setting out eight things you should know about the pension reforms at **[www.gov.uk/government/news/pension-reforms-eight-things-you-should-know](http://www.gov.uk/government/news/pension-reforms-eight-things-you-should-know)**.

The Selex Pension Scheme already offers members with DC savings support in making the most of their retirement options and we will review this service in light of the new regime. The Company will also consider if any changes are appropriate to enable members to take advantage of the new flexibilities with their DB funds.



## Abolition of contracting-out of the State Pension

**The Government has announced that, with introduction of the Single Tier State Pension from April 2016, pension schemes will no longer be able to 'contract-out' of the State Pension.**

Within the Selex Pension Scheme, there are sections which are currently 'contracted-out' of the State Pension (the Main Section) and sections which, although 'contracted-in', have benefits which are calculated by reference to the State Pension (the 2000 Section).

The Government plans to reform the current State Pension system by introducing a simple Single Tier State Pension with effect from April 2016. This will replace the current basic State Pension and State Second Pension, with protections for those who have built up benefits under the existing system.

The Company and Trustee are considering the impact of the cessation of 'contracting-out' on the Selex Pension Scheme and further information will be provided to members once available.

The Government has produced an online factsheet providing basic details of the Single Tier State Pension and how it may impact individuals:

[www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/181237/single-tier-pension-fact-sheet.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/181237/single-tier-pension-fact-sheet.pdf).

## Does the Trustee know to whom you would like any death benefits to be paid?

**Did you know that in the event of your death, the Selex Trustee needs to decide to whom any death benefits should be paid? An important piece of information the Trustee will consider is whether you completed an Expression of Wish Form.**

Whilst the Trustee has discretion on how to distribute the benefits and is not bound by a member's wishes, an Expression of Wish Form will be considered before any decision is made. Active, deferred and pensioner members should complete a form, and keep it updated if your circumstances change.

It is particularly important to complete an Expression of Wish Form if you would like the Trustee to consider persons to whom you are not related, such as an unmarried partner or a close friend.

It is perhaps even more important to complete one if you have a complicated family or personal life as it can be very difficult for the Trustee to determine what you would want to happen without a completed form. Don't forget that you can always change the form again in future if your wishes change.

### How to make your wishes known

If you are unsure whether you have completed a Selex Pension Scheme Expression of Wish Form, please check your most recent annual benefit statement, or contact Aon Hewitt on 0845 6035660. Please note, if you were a member of a BAE Systems Pension Scheme before you joined the Selex Pension Scheme, you will need to complete separate forms for Selex and BAE.

For more information and to obtain a form, please visit our website at:  
[www.selexpensions.co.uk/54/expression-of-wish-form](http://www.selexpensions.co.uk/54/expression-of-wish-form).



## Legislative change to the Selected Benefits Scheme voluntary savings fund

**The Selected Benefits Scheme (SBS) is a voluntary savings arrangement within the 2000 Section of the Selex Pension Scheme. New legislation came into force in July 2014 which changed the legal status of SBS from a 'money purchase benefit' to a 'defined benefit'.**

While the change is technical in nature, it would mean that members' SBS funds potentially have a lower level of protection in the unlikely event that the Scheme became subject to the Pension Protection Fund regime following Company insolvency.

Members who are currently paying into, or have paid into, the Selex SBS for additional retirement benefits will be receiving a communication setting out further detail on the implications of the legislative change. The Company and Trustee are planning to offer a one off transfer option for SBS members who are concerned about the legislative change to switch their fund to the Scheme's Additional Voluntary Contributions (AVC) arrangement.

Please note, this legislative change applies to SBS funds for retirement benefits only – it does not affect the Additional Voluntary Contributions arrangement with Skandia, or SBS death in service benefits.

## Data Protection Act – fair processing notice

**For the purposes of the Data Protection Act 1998 the Trustee is a data controller. Recent guidance from the Information Commissioner's Office has resulted in our actuaries, Punter Southall Limited, being classed as a joint data controller with the Trustee when providing actuarial services. The Trustee may also appoint other third parties to assist it with the operation of the Scheme.**

As a member of the Scheme you agree to provide personal data to the Trustee, and consent to the processing and disclosure of this data to the Company and such professionals and other third parties that the Trustee has chosen to assist it. The data will be held during your membership of the Scheme or any longer period necessary to answer questions relating to your benefits.



## Report and Accounts

Each year we are required to publish a report and audited accounts for the Scheme. The summary below is based on the accounts for the year to 5 April 2014.

The audit work has been completed by our independent auditors, Ernst & Young LLP, and the accounts have been signed.

If you would like to see a copy of the full annual Report and Accounts, a copy will be placed on the Scheme's website, [www.selexpensions.co.uk](http://www.selexpensions.co.uk).

### Scheme assets

Since the Scheme's inception, its assets have grown to £531 million. Further information is set out below:

	<b>Assets of the Scheme at 5 April 2013</b>	<b>£514m</b>
<b>+</b>	<b>Income</b> (Company contributions, member contributions and other income)	£33m
<b>-</b>	<b>Outgoings</b> (Pensions, lump sums, death in service insurance and administration expenses)	(£7m)
<b>-</b>	<b>Net return on investments</b> (Market value of investments after allowing for expenses) made up of: <ul style="list-style-type: none"><li>• A decrease in the derivatives value, including swaps, of £4m;</li><li>• An overall decrease in other asset values (encompassing a fall in gilts values, investment expenses and an increase in TIGS and DC funds) of £13m; and</li><li>• Investment income of £7m.</li></ul>	(£10m)
<b>=</b>	<b>Assets of the Scheme at 5 April 2014</b>	<b>£530m</b>



## Overall investment performance

The performance of the Scheme's total investment strategy (including liability hedging and TIGS) as at 5 April 2014 is shown in the graph below:

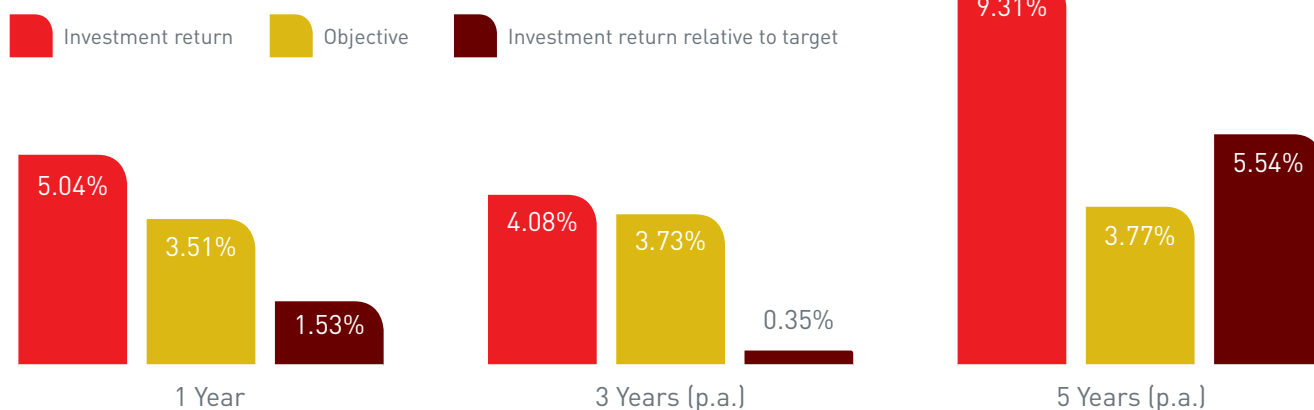


The 1 Year total return figure is negative due to the reduction in the value of the swaps. This will, however, have been offset by a commensurate fall in the value of the Scheme's liabilities.

## Total Investment Governance Solution (TIGS) investment performance

The performance of the Scheme's return-seeking assets has been positive over the year to 5 April 2014, outperforming its investment objective as follows:

### TIGS including EDOS



### What's EDOS?

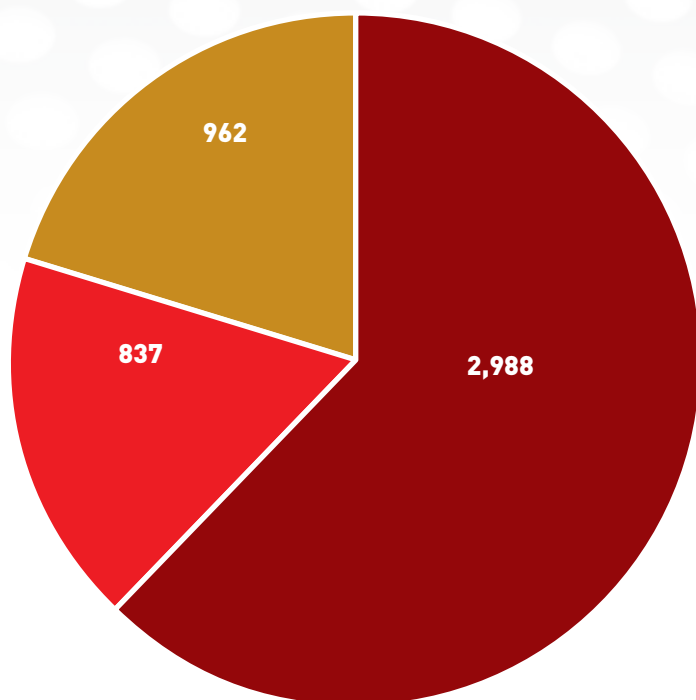
**EDOS stands for Equity Derivative Overlay Strategy, which is a type of investment strategy held by the Selex Pension Scheme.**




## Report and Accounts – continued

### Membership numbers

The majority of our members are current employees who are paying contributions and building up benefits.

Membership as at 5 April 2014



-  **Employed (active) members**
-  **Pensioners**
-  **Deferred pensioners**

This chart shows that out of 4,787 members, 62% are employed [active] members

### Investing the assets of the Scheme

We have worked with the Scheme's investment manager, P-Solve, to further develop the investment strategy. The year to 5 April 2014 was challenging, with volatile market conditions.

Despite the continued unsettled outlook, it is pleasing that the Scheme has managed to increase its funding surplus, which stood at an estimated £72m at the end of the year. Against this the Company is concerned at the cost of future service benefits, which is significantly above the rate assumed during the last actuarial valuation in 2011.

The Scheme's swaps portfolio has undergone some restructuring during the year and a number of changes were made to the return-seeking investment portfolio to benefit from market opportunities and to control risk.

The Scheme's investment strategy is set out in the Statement of Investment Principles, a copy of which is available on request from the Scheme Administrator, Aon Hewitt.

### Liability hedging portfolio (gilts and swaps)

The liability hedge is designed to protect the Scheme from adverse movements in long-term interest rates and inflation, which directly impact the value of the Scheme's liabilities.

The value of the gilts that are part of the hedging portfolio tends to move in line with the Scheme's liabilities when interest rates and inflation rates change. Similarly, the swaps in the hedging portfolio are designed such that, if interest rates fall significantly (and so the liabilities rise in value), the bank pays the Scheme to cover the rise in the value of the liabilities.

Conversely, if the value of the liabilities falls due to interest rate and inflation changes, the Scheme pays the bank under the swap contracts an amount that is in line with this fall in liabilities.

In August 2013, the interest rate hedge was updated so as to increase the short term interest rate protection. New inflation swaps were traded in March 2014 so as to update the inflation hedge in line with the designated hedging targets.

The mark-to-market value of the swaps contracts as at 5 April 2014 was -£1.3m (5 April 2013: £11.8m). A negative mark-to-market value of the swaps represents a fall in the value of the swaps from the Scheme's perspective. However this fall will have been offset by a fall in value of the Scheme's liabilities and so the impact on the Scheme's finances will (as intended) have been broadly neutral.

### Return-seeking portfolio (TIGS)

The majority of the assets of the Scheme continue to be invested in the Total Investment Governance Solution (TIGS) provided by P-Solve.

TIGS is a fully delegated service designed to deliver performance in excess of a client specific target through exposure to diversified investment arrangements. P-Solve invests and manages the Scheme's assets on the Trustee's behalf.

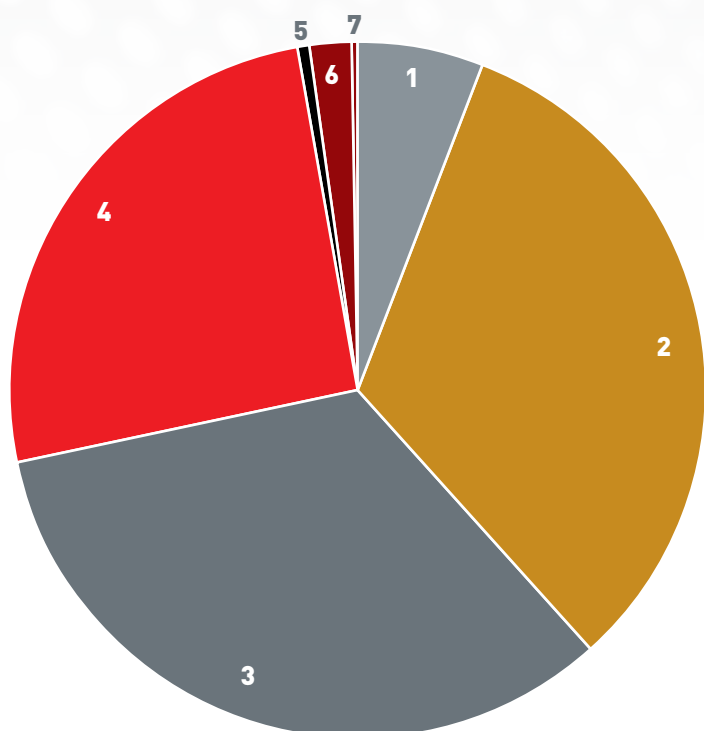
The service reduces the risks and costs of decision delay and provides access to a broad range of asset classes and increased investment specialisation, such as commodities, high yield bonds, leveraged loans and other alternative asset classes, as well as currency hedging. In addition to the delegated responsibility for dynamic asset allocation, P-Solve is also responsible for selecting, monitoring and replacing fund managers.

As set out above, the TIGS portfolio performed well and exceeded the return objectives over the year to 5 April 2014.

### Total Investment Governance Solution investment portfolio

The allocation of assets varies each month but our assets in TIGS were invested as follows as at 5 April 2014.

TIGS Assets as at 5 April 2014



<b>1</b> UK equities	<b>6.1%</b>
<b>2</b> Overseas equities	<b>32.3%</b>
<b>3</b> Global bonds	<b>33.5%</b>
<b>4</b> Alternative asset classes	<b>25.5%</b>
<b>5</b> Property	<b>0.4%</b>
<b>6</b> Cash	<b>2.1%</b>
<b>7</b> Currency hedge	<b>0.1%</b>



## Contact details

You can contact the Selex Pension Scheme administration team at Aon Hewitt by:

**Telephone:** 0845 603 5660

**Email:** [selex.pensions@aonhewitt.com](mailto:selex.pensions@aonhewitt.com)

**Pensions Website:** [www.selexpensions.co.uk](http://www.selexpensions.co.uk)

**Address:** Selex Pension Scheme,  
Aon Hewitt,  
25 Marsh Street,  
Bristol  
BS1 4AQ



**REMEMBER, IF YOU MOVE HOUSE, PLEASE  
KEEP THE PENSION ADMINISTRATOR  
INFORMED SO YOU CAN CONTINUE TO  
RECEIVE UP TO DATE INFORMATION.**



## 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. Copies of the rules are available from the Pension Administrator, Aon Hewitt.