IN FOCUS
Selex Pension Scheme
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New Additional Voluntary Contribution and Retirement Account investment options, and SMART voluntary contributions

The last edition of InFocus contained an Investment Special with details of new investment options available for members paying Additional Voluntary Contributions or members of the 100+ Section (who have a Retirement Account).

We are pleased to confirm that the transfer of funds from Standard Life to the new investment options with Skandia took place in September and the funds are now invested in this new way. The first contributions to the new funds were invested following the July payroll and SMART voluntary contributions were also paid for the first time in that payroll.

You may be interested to note that these investment options have been deployed by our sister scheme, Finmeccanica FuturePlanner, on an award-winning basis. The FuturePlanner investment strategy has won Employee Benefits magazine's award for Best DC Pension Default Investment 2013.

employee benefits AWARDS 2013 WINNER

In this issue of InFocus we provide you with information about:

- New investment options and SMART voluntary contributions;
- Changes to HMRC limits on pension savings;
- Death benefits for members of the 2000 Section
- Tracing previous pensions;
- Pension liberation fraud;
- Member-nominated Trustee director elections; and
- A summary of the Trustee Report and Accounts for 2012/13.

Changes to HMRC limits on pension savings

Some changes are being made to the tax rules governing pensions.

The **Lifetime Allowance** is a limit on the total capital value of all your pension arrangements (excluding State benefits) which you can build up without paying extra tax. If the value of your benefits when you draw them is more than the Lifetime Allowance, you will have to pay tax on the excess.

The Lifetime Allowance for 2013/14 is £1.5 million and is reducing to £1.25 million for the 2014/15 tax year.

As the allowance is so high, most Scheme members' pension savings will be significantly under the limit.

The **Annual Allowance** is a limit to the amount of pension saving you can have each year before potentially being subject to tax.

The Annual Allowance for 2013/14 is £50,000, but this will reduce to £40,000 in 2014/15.

In the Selex Pension Scheme, your pension savings for Annual Allowance purposes are worked out by measuring the growth in your benefits between 6 April and 5 April each year. The allowance covers all your benefits, except your State pension, so any other pension savings you are making also need to be factored in when checking your savings against the allowance. If you exceed the limit, you may be subject to an Annual Allowance tax charge, although you may be able to use unused allowance from the previous three tax years to offset any charge.

The vast majority of members will not be affected.

Each year you will be informed on your Benefit Statement of the percentage of the Lifetime and Annual Allowances you have used.

Death benefits for members of the 2000 Section

The Scheme provides benefits for members' beneficiaries if they unfortunately die in service. These benefits include a tax-free lump sum and, in some cases, a spouse's pension. However, if you are a member of the 2000 Section, no spouse's pension would be payable if you died in service.

Your beneficiaries could use the lump sum payable to purchase an annuity (an annual pension) if they so wish. However, you might want to consider purchasing additional life cover in order to provide a larger lump sum upon your death.

Members of the 2000 Section can do this by paying SBS Death in Service contributions. You can find more details on the Scheme website at **www.selexpensions.co.uk**, but essentially this is additional life cover provided by Legal & General at a favourable rate. The contributions would be deducted directly from your salary (via SMART if applicable) and sent to Legal & General by the company.

For example, a 50 year old could purchase additional life cover of £100,000 for a monthly contribution of £21. After SMART and tax savings this would mean a reduction to the member's take home pay of £14.28 per month.

If you wish to start paying SBS Death in Service contributions, you can only do this in the April payroll of each year. In order to meet the payroll deadline you would need to have returned the necessary form (available from the website) to Aon Hewitt by the middle of March.

Pension liberation fraud may seriously damage your wealth

It starts with an innocent-looking text or email:

"Records show that your pension has lost a minimum of £3,904.32 since 2007. To get that back as soon as possible complete the form at www.dodgywebsite.com."

You may receive cold calls, or spot pop-up adverts on the Internet, appearing to come from financial advisers. Scamsters know that in these difficult times people are looking for ways to supplement their income or pay off debts.

Pension liberation fraud occurs when people are enticed to access their workplace or private pension before age 55. With the exception of cases of serious illness, and under a few legacy arrangements, the minimum age for taking your pension is 55. This is because the Government gives generous tax reliefs to encourage people to save for retirement.

The fraudsters who peddle pension liberation schemes, sometimes called 'pension loans' or 'cashbacks', operate by encouraging you to transfer your pension pot to a fake pension scheme. Of course, they don't tell you it is bogus; they disguise it by setting it up under the HM Revenue and Customs (HMRC) tax regime as a registered pension scheme. They let you access the fund, after deducting high commission fees (up to 30%), but they don't warn you of the potentially serious tax consequences.

Taking money out of your pension when you are under 55 is known as an unauthorised payment. This means that, when the scam is uncovered by HMRC, you will get hit with a tax bill, which could be more than half the value of your fund.

You might wonder why trustees and administrators of workplace pensions don't stop members' pensions being transferred to dodgy pension schemes. Certainly they are aware of this problem and carry out checks, but they will not necessarily be able to spot a fake scheme if it has been properly registered. Once you have completed the discharge forms, trustees have an obligation not to hold on to your money and must pay transfers within a set period.

The Pensions Regulator has recently highlighted pension liberation fraud and you may have read press coverage suggesting that individuals have handed over more than £400 million since 2008. A leaflet and case studies with more information can be found in the news section of the Scheme website at **www.selexpensions.co.uk**. If you think you may have been targeted, you can report it to Action Fraud on the hotline: 0300 123 2040.

Pension liberation fraudsters could seriously damage your wealth, but they won't get to you if you heed the advice on protecting yourself and your retirement income.

Pensions: lost and found

What is your most valuable possession? Perhaps it is your house, or maybe your car? But what about your pension?

After a long career, the total value of your pension benefits from all your employers and private schemes will, almost certainly, be more than your car. It may even be worth more than your house. We keep our homes safe and secure; we insure our cars against loss or damage and sometimes fit them with tracking devices, but it seems we don't take equally good care of our pensions.

A recent survey carried out for Age UK found that 23% of people in the UK have lost track of one or more pensions.

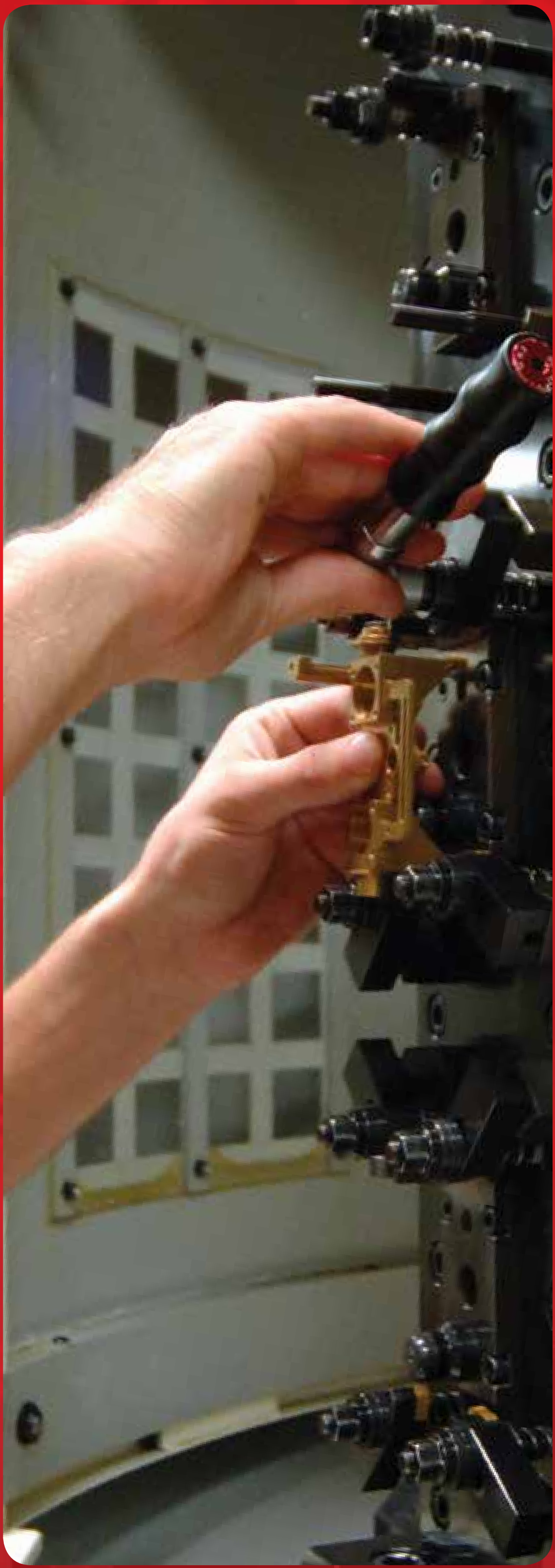
The survey also shows how society has changed. We no longer expect a job for life and move around freely between employers. It seems that almost a quarter of 25 to 34 year olds have already worked for around six employers, which is as many employers as most of today's over 65 year olds have had over a working lifetime.

According to Age UK's survey, most missing pensions are simply "lost in the mists of time".

Here is a word of caution if you started work before the mid-1970s and stayed in a job for only a short time. In those days, early leavers from defined benefit occupational pension schemes didn't automatically qualify for a preserved pension. The law changed from 6 April 1975, so that pension schemes had to keep a benefit for anyone aged over 26 who had more than five years' service. In 1986 the age limit of 26 was removed, and the five years' service early leavers needed to qualify for a pension was reduced to two years from 6 April 1988.

So if you think you've lost a pension, how can you find it? Clearly it's not going to turn up down the back of your sofa along with a few lost coins and crumpled paper hankies. You may be able to find a letter from your pension scheme administrators. If not, you will need details of your previous employer, type of business, address and the dates you were in the scheme. You can then contact the Pensions Tracing Service at: **https://www.gov.uk/find-lost-pension** or by phone on 0845 6002 537 (Monday to Friday 8am to 6pm). This is a free service and is part of the Department for Work and Pensions (DWP).

Once you and your lost pension have been reunited, why not keep in touch by making sure you inform the pension administrators of your new address whenever you move house.



Election for new member-nominated Trustee directors

The Trustee of the Selex Pension Scheme performs a vital role in looking after the money in our fund and making sure the right pensions are paid in accordance with the Rules. The Trustee is made up of eight Trustee directors: four Company Nominated Directors (CNDs) and four Member Nominated Directors (MNDs).

The law requires all pension schemes to have at least one third of the Trustee board nominated by the members. However, the Selex Pension Scheme has always had four of the eight Trustee directors nominated by members.

The current MNDs were appointed for a three year term of office in October 2010. This will expire on 31 October 2013 so it is therefore necessary to hold another election. The existing MNDs are each eligible to be re-elected if they wish to stand.

Each MND is a member of the Pensions Consultative Committee (PCC), which elects four of its representatives to sit on the board of directors of Selex Pension Scheme (Trustee) Limited, the Trustee of the Scheme.

In the past, MNDs have been elected to serve for a three year period. This time, two MNDs will be elected to serve for a three year period, and two will be elected to serve for a six year period, with the period intended to be six years thereafter. This is to reduce the risk of several new Trustee directors being appointed at the same time and, hence, safeguard the continuity of the work of the Trustee board.

The process will be carried out as follows:

- The PCC will nominate two of its representatives to serve as MNDs for a three year term of office and two to serve for a six year term of office, from 31 October 2013.
- In the event that there are more representatives nominated than vacancies, an election will be conducted by secret ballot, either at a meeting of the PCC or by post or electronic communication.
- Each PCC representative will have one vote per MND vacancy and the representatives with the most votes shall be considered elected.
- Any representative with equal votes shall be put forward for a further ballot of the PCC.
- If there are insufficient nominations, the process will be repeated at each PCC meeting. If a vacancy remains outstanding after a year, the Trustee directors will consider adopting an alternative method of nomination and selection.

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 2013.

The audit work has been completed by our independent auditors, Ernst & Young LLP. We are due to sign the accounts shortly and the figures are not expected to change in any material respect before signature.

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**.

Scheme assets

Since the Scheme's inception, its assets have grown to £514 million. Further information is set out below:

	Assets of the Scheme at 5 April 2012	**£414m**
+	**Income** (Company contributions, member contributions and other income)	£35m
-	**Outgoings** (Pensions, lump sums, death in service insurance and administration expenses)	(£6m)
+	**Net return on investments** (Market value of investments after allowing for expenses) made up of: • An increase in the derivatives value, including swaps, of £22m; • An increase in other asset values, including TIGS and DC funds of £43m; and • Investment income of £6m.	£71m
=	**Assets of the Scheme at 5 April 2013**	**£514m**

Overall investment performance

The performance of the Scheme's total investment strategy (including liability hedging and TIGS) as at 5 April 2013 is set out in the table below:

12 months:
16.6%

3 years (p.a.):
15.3%

Membership numbers

The majority of our members are current employees who are paying contributions and building up benefits. This chart shows that out of a total of 4,799 members, 66% are employed (active) members.

Membership as at 5 April 2013

Employed (active) members 3,165
Pensioners 743
Deferred Pensioners 891

Investing the assets of the Scheme

We have worked with the Scheme's investment manager, P-Solve Investments Limited, to further develop and refine the investment strategy. The year to 5 April 2013 was a difficult time for investors, with volatile market conditions.

Despite the continued unsettled outlook, it is pleasing that the Scheme has managed to maintain and increase its funding surplus, which stood at £48m at the end of the year. Against this there is concern at the cost of future service benefits, which is significantly ahead of the rate set at the last valuation.

P-Solve Investments Limited continued to monitor and develop the investment strategy. The Scheme's swaps portfolio has undergone some restructuring during the year to ensure these provide appropriate protection for the Scheme.

A number of changes were made to the return-seeking investment portfolio to make the most of future opportunities in a risk controlled way.

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

In August 2012 the liability hedge was updated to account for the Scheme switching 10% of its assets from 'on risk' investments to 'off risk' investments.

The mark-to-market value of the swaps contracts as at 5 April 2013 was £11.8m (5 April 2012: £24.8m), with £30m having been released from the swaps over the year and reinvested mainly into gilts. A positive mark-to-market value of the swaps represents a rise in the value of the swaps from the Scheme's perspective. However, this rise will have been necessary to offset the rise in the value of the Scheme's liabilities and so the impact of the rate changes 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 Investments Limited.

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 Investments Limited 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 allocation 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 Investments Limited is also responsible for selecting, combining and replacing fund managers.

Contact details

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

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AON Hewitt

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

TIGS investment portfolio

The allocation of assets varies each month but our assets in TIGS were invested as follows as at 5 April 2013:

IGS Assets as at 5 April 2013

- UK equities 3.26%
- Overseas equities 28.94%
- Alternative asset classes 29.24%
- Property 0.65%
- Cash 10.16%
- Currency hedge 0.35%
- Global bonds 21.14%
- Commodities 6.26%

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.