IN FOCUS
SELEX Pension Scheme
SPECIAL EDITION
DECEMBER 2011

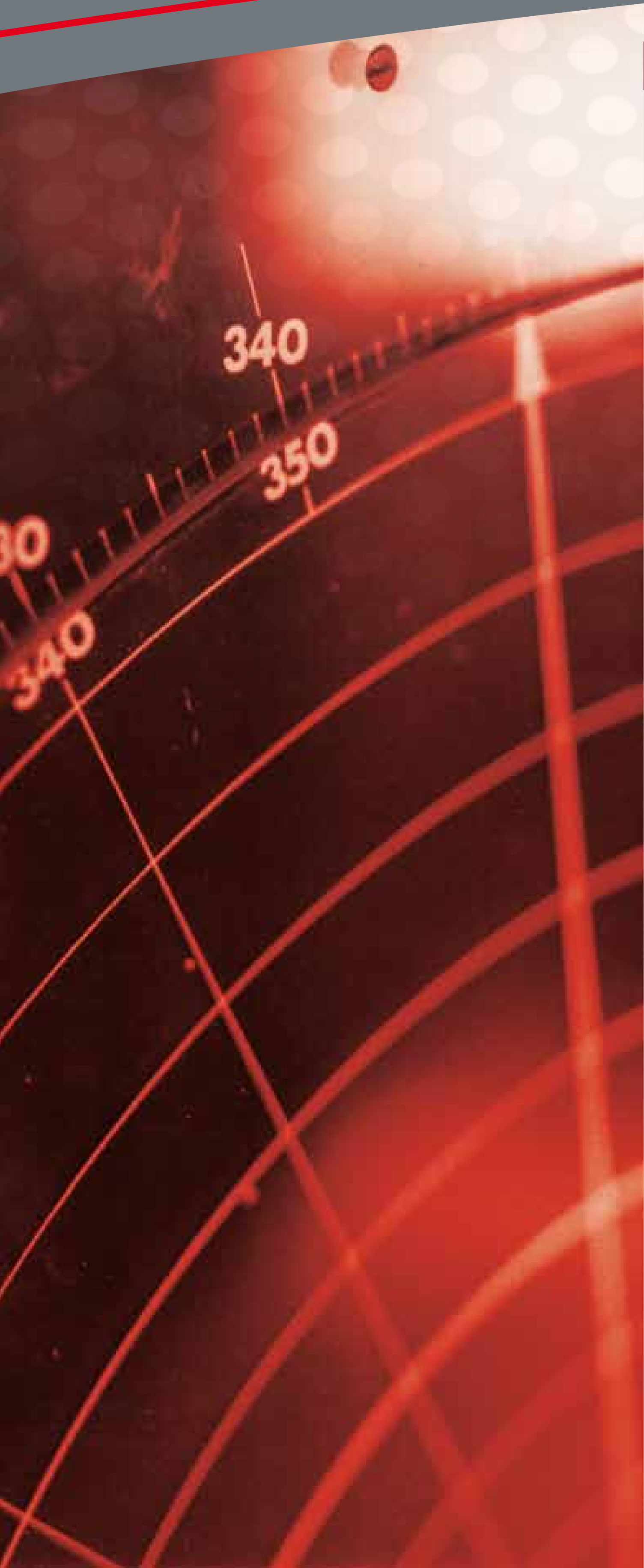
News on the valuation from the Trustee and the Company

The Actuarial Valuation

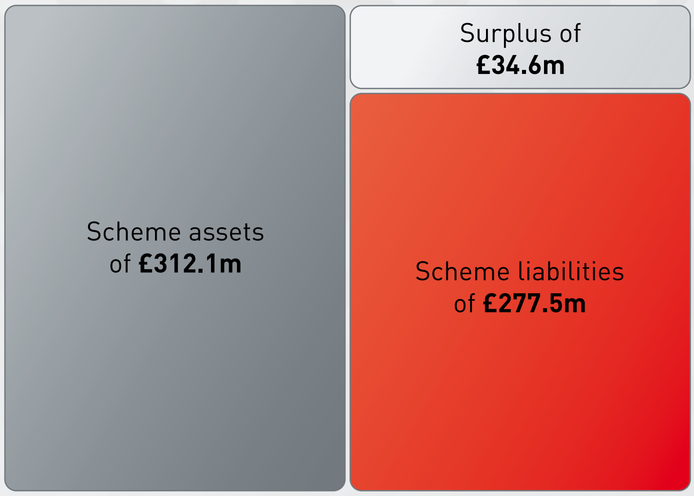
This special newsletter provides you with information on the positive outcome of the actuarial valuation of the SELEX Pension Scheme as at 5 April 2011.

An actuarial valuation is carried out by the Scheme Actuary every three years and identifies the amount of assets which the Scheme holds in comparison to the amount which is needed to be able to pay the pension benefits (the liabilities). If the liabilities exceed the assets then there is a deficit which needs to be funded. If the assets exceed the liabilities then there is a surplus and no deficit funding is required. In addition to looking at the assets and liabilities, the Scheme Actuary will also determine the cost of each year of future pension accrual.

Results of the 5 April 2011 valuation



The SELEX Pension Scheme Trustee and the Company have agreed the basis for the 5 April 2011 actuarial valuation and the results are as follows:



As at 5 April 2011, there was a surplus within the Scheme of £34.6 million. You may recall that the 5 April 2008 actuarial valuation identified a funding deficit. The key factors in this positive result are excellent investment performance over the period and Scheme experience being better than assumed.

At this valuation, the cost of future pension accrual has increased by 1.9% of pensionable salaries per annum. This is due to a combination of the change in the contracting-out basis (see page 3), changes in interest rates and inflation rates and the increase in the average age of the membership. The Company has previously accepted responsibility for the funding impact associated with the closure of the Scheme to new joiners. The Company does not, however, welcome the overall increase in future service costs, but has agreed with the Trustee to meet the higher rate on this occasion.

The results of the valuation have been discussed with the Pensions Consultative Committee at a meeting on 21 November 2011. All parties agree that the position of a surplus is an excellent achievement and the Company recognises the significant contribution of the Trustee and its advisers in achieving this outcome.

Are there any changes to Scheme benefits or member contributions?
No. The Scheme will continue on its current basis and there will be no changes to Scheme benefits or member contributions as a result of this actuarial valuation. There is a change to the contracting-out status of the Main Section members (see below).

What will happen to the deficit contributions which were payable under the recovery plan following the 2008 valuation?
The deficit contributions will cease when the new valuation documentation is signed by the Trustee and the Company.

What will happen to the surplus?
The surplus will remain within the Scheme as a buffer against future volatile economic conditions. Since 5 April 2011, market conditions have continued to be volatile and there has been an unfavourable impact on the funding position of the Scheme.

During the 2008 valuation, the Company stated that if at future actuarial valuations there is a cost arising from a further rise in life expectancy, it was intended that this would be borne by members and this would be subject to a separate formal consultation at the time. Is there any additional cost for members?
No. There is no material additional cost from a rise in life expectancy as a result of the 2011 actuarial valuation and therefore this provision has not been triggered during the current valuation. This principle will remain in place for future valuations.

When will the actuarial valuation be completed?
The Scheme Actuary is currently preparing the final valuation documentation and the Trustee and Company are working to a deadline of 31 December 2011 for signing the documentation.

Contracting-out status

As you will be aware from earlier Reports to Members, the Main Section of the SELEX Pension Scheme is currently contracted-out of the State Second Pension (S2P) which is the earnings-related part of the State Pension benefit. It is currently contracted-out on what is known as the "defined contribution" basis. This means that Main Section members do not build up an entitlement to S2P and instead have a protected rights account in the SELEX Pension Scheme which acts as an underpin to their pension benefits.

From 6 April 2012 the Government has decided to cease contracting-out on a defined contribution basis. The Company therefore has to make a change to the basis on which the Main Section is contracted-out and from 6 April 2012 the Main Section will be contracted-out on the alternative "reference scheme" basis. There is an additional cost to contracting-out on the reference scheme basis and this cost has been included in the Company's future service contribution rate.

Legal advice is being sought regarding the changes required to the Scheme Rules to effect the change in contracting-out status. Member documentation will also be updated in due course to reflect this change.

Will there be any additional cost for members as a result of the change in contracting-out basis?
There is no additional cost to members as a result of the change in contracting-out basis. However, as a separate issue, the Government is making a small change to the levels of National Insurance (NI) payable by members who are contracted-out of S2P with effect from 6 April 2012. It is expected members will see an increase in their NI contributions of 0.2% of band earnings (broadly annual earnings between £5K - £40K) as a result of this Government change.

Do members need to do anything to change contracting-out status?
No. Your membership of the Scheme will continue without interruption and you will remain contracted-out of S2P. From 6 April 2012, Scheme benefits will need to meet a minimum level known as the "reference scheme test" and the Scheme Actuary will check to ensure this test is satisfied.

Further Information

If you have any questions on the outcome of the actuarial valuation or the change to the contracting-out basis you can contact the Scheme using the details below:

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Disclaimer

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