IN FOCUS

SELEX Pension Scheme

A newsletter for members of the SELEX Pension Scheme

Issue 10. March 2010

News

Welcome to our new administration team leader

The Trustee is pleased to welcome Jo Thomas, who has taken on the role of team leader for the SELEX Pension Scheme's administration team at Aon. Jo has 7 years' pensions administration experience. She joined Aon as a senior administrator in July 2008 and was promoted to team leader in November 2009.

Jo has passed the Diploma in Pensions Certificate and is currently studying for the Advanced Diploma in Retirement Provision. Jo leads an administration team consisting of 6 people and is responsible for the allocating and checking of work, training members of the team and ensuring that service levels are met.

Increase in the Minimum Pension Age – Reminder

As announced in the June 2009 edition of In Focus and on the SELEX Pensions website (www.selexpensions.co.uk), the earliest age at which you can draw your pension benefits from the SELEX Pension Scheme is now age 55 (from 6 April 2010). If you suffer from a permanent breakdown in health and the Trustee and Company agree that you are eligible for an ill health pension then you may still be able to take your pension benefits before age 55.

Members with benefits in a BAE Systems pension arrangement

If you have benefits in a BAE Systems pension arrangement you should check which Minimum Pension Age applies to you under that pension arrangement, as this is not necessarily the same age that applies to your SELEX benefits. If you are considering drawing your BAE Systems pension at a different time to your SELEX pension, it is recommended that you seek independent financial advice as this may have an impact on the amount of pension payable. **By drawing the pensions at different times, you may receive different benefits than if both pensions are taken together.**

In this issue

In this issue of IN FOCUS we provide you with:

Increase in Member Contributions from 1 April 2010 – Reminder

Members are reminded that member contributions are increasing by 0.75% of pensionable salary on 1 April 2010. This is the second phase of the contribution increases agreed as part of the Actuarial Valuation changes in 2009. Members are referred to Valuation Bulletin Edition 4, issued directly to members by the Company in June 2009, for further details.

State Pension Benefits – Changes on the way

You may have seen in the media that the UK State Pension system is changing. We thought you might find it helpful if we provide you with a summary of some of the changes. Please note, however, that some of the changes have not yet been finalised and may be amended.

The changes will affect both the Basic State Pension (BSP), and the State Second Pension (S2P) which is earned on top of the BSP.

Basic State Pension changes

The BSP is a retirement income you can claim once you have reached your State Pension Age if you have paid or been credited with sufficient National Insurance contributions during your working life.

The full BSP is currently £4,953.00 per annum for a single person and £7,919.60 per annum for a married couple (2009/10).

Single person
£4,953.00 per annum

Married couple
£7,919.60 per annum

Key changes to the BSP are:

- **State Pension Age** - as detailed in the June 2009 edition of InFocus, the State Pension Age is increasing in stages to 68 from 2046.
- **Qualifying Years for a full BSP** - currently men need 44 qualifying years to qualify for the full BSP and women need 39. After 6 April 2010 this will reduce to 30 qualifying years for both men and women.
- **Qualifying Years to receive any BSP** - currently you need 10 or 11 qualifying years to be entitled to the minimum BSP payable. After 6 April 2010 any number of qualifying years will give an entitlement to some level of BSP.
- **Increases** - the BSP currently increases in line with price inflation, but it is proposed that from April 2012 at the earliest, it will increase in line with earnings.
- **Contributory credits** - after 6 April 2010 carers of children and of the disabled or sick may be eligible for contributory National Insurance credits. This means carers will be able to continue building up BSP even if they are not paying National Insurance contributions.

State Second Pension (S2P)

The S2P is an additional State Pension which is paid on top of the BSP. It was previously known as the State Earnings Related Pension Scheme (SERPS) and is based on earnings between certain limits set by the Government each year.

Current S2P Structure

The benefit payable currently depends upon your earnings throughout your working life. The current structure is summarised below:

- Earnings below the Lower Earnings Limit (currently £4,940 per annum) do not qualify for S2P benefit.
- Earnings between the Lower Earnings Limit (currently £4,940 per annum) and the Low Earnings Threshold (currently £13,900 per annum) qualify you for a flat rate S2P benefit.
- Earnings between the Low Earnings Threshold (currently £13,900 per annum) and Upper Accrual Point (currently £40,040 per annum) increase the S2P benefit you qualify for in line with your earnings. There are two different accrual rates within this band.
- Earnings above the Upper Accrual Point (currently £40,040 per annum) do not qualify for S2P benefit.

Note: Members of the Main section of the SELEX Pension Scheme are contracted out of S2P and will not accrue S2P benefits while in the SELEX Pension Scheme. Please see below for more details.

Proposed changes to S2P

The Government proposes to change the S2P into a flat rate (non-earnings related) benefit for anyone earning more than the Lower Earnings Limit (currently £4,940 per annum).

This will be phased in though a number of changes, including freezing the Upper Accrual Point at the current rate of £40,040 and reducing the accrual rate for earnings within certain bands. This will bring the benefit to a flat level, but will take a number of years to accomplish.

The initial changes commenced in 2009 (with the freezing of the Upper Accrual Point) and the other changes are expected to commence in 2010, although dates have not been finalised.

Contracting Out – Main section

If you are in the Main section of the SELEX Pension Scheme you are currently "contracted out" of S2P on a money purchase basis. This means that you pay lower National Insurance contributions, and you do not accrue any S2P benefit.

The SELEX Pension Scheme provides you with a minimum money purchase benefit, your Protected Rights Account. At retirement, your Protected Rights Account is converted to an annual pension. If this is higher than the annual pension you have accrued in the Main section you will receive the higher Protected Rights pension. However, in most cases, the SELEX Pension Scheme benefits exceed the benefits you have accrued in your Protected Rights account and you will therefore receive this higher benefit.

With effect from an anticipated date of April 2012, the Government has proposed that contracting out in this way will be abolished. The Trustee and the Company are currently reviewing the options available for the Main section following this change.

Further information

If you would like any further information on the proposed changes to the State Pension please visit the Government website at **http://www.direct.gov.uk/en/Pensionsandretirementplanning/StatePension/DG_069498**

Rates for 2010/11

Revaluation Factors (Main section only)

The SELEX revaluation factors for Individual Pension Accounts (IPA) and Protected Rights Accounts (PRA) as at 5 April 2010 are 19.1%.

Credited Interest (2000 section only)

The SELEX Credited Interest rate for the 2010/11 Scheme Year is 4.25%.

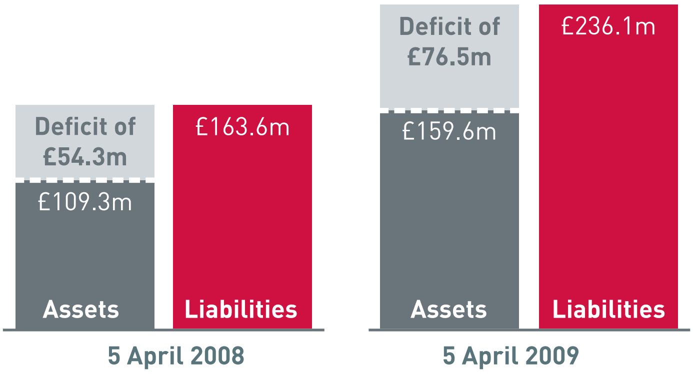
Summary Funding Statement

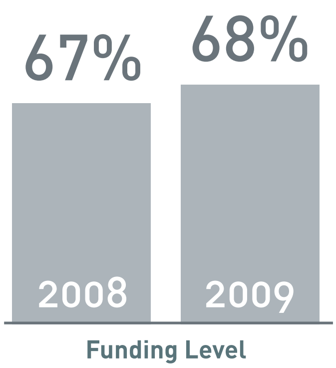
Annual Funding Update

This is your update on the funding position of the Scheme which the Trustee is required to provide you with each year.

Set out below are details of the Scheme's funding position as at 5 April 2008 (the date of the most recent formal funding valuation of the Scheme) and at 5 April 2009, based on an interim funding valuation at this date. In addition you will also find information on how the funding position changes over time.

Valuation results





Definitions:

Assets: The amount of money held by the Scheme in various forms. This includes cash, equities, bonds, swaps and other investments.

Liabilities: The amount of money the Scheme will need to pay all of its future benefits.

Deficit: The shortfall between the Scheme's assets and liabilities.

Funding level: The relative value of the Scheme's assets and liabilities, expressed as a percentage figure.

Interim valuation results as at 5 April 2009

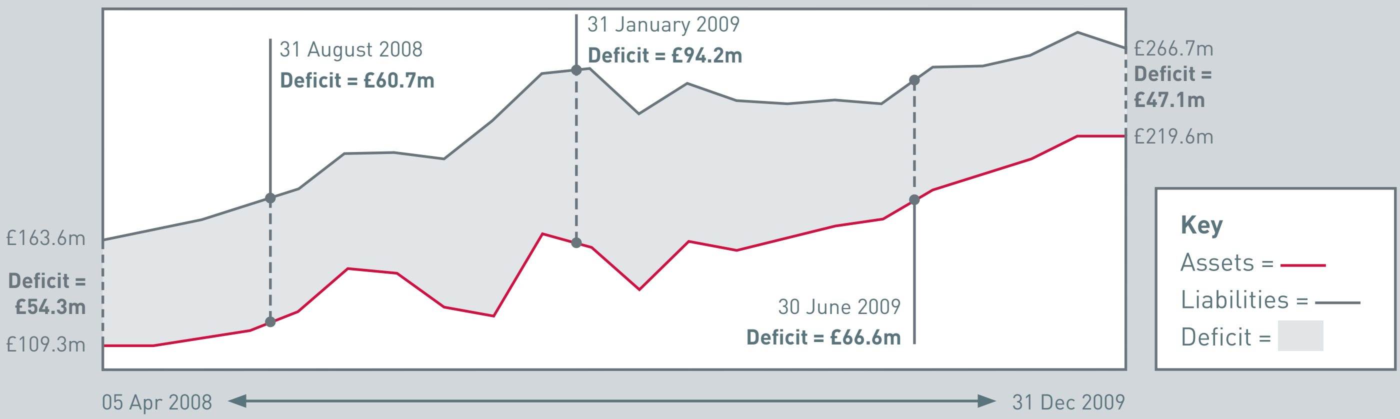
The increase in the deficit between the two dates occurred largely because the Scheme's investments in TIGS underperformed relative to the benchmark over the year. The year to 5 April 2009 was challenging with the financial markets experiencing a volatile period with significant falls in asset values for many investors. The increase in the deficit was not as great as it could have been however, as the Scheme's swaps portfolio provided protection against adverse changes in market conditions, in particular very low interest rates.

The assumptions used to value the liabilities as at 5 April 2009 are consistent with the formal valuation as at 5 April 2008 but reflect changes in the relevant interest and inflation rates.

Summary Funding Statement – Continued

Development of funding position over time

The next detailed calculation of the Scheme's funding position will occur as part of the formal actuarial valuation as at 5 April 2011. The Trustee does, however, monitor the funding of the Scheme on a regular basis and will take action at an earlier date if necessary. The following graph shows how the assets and liabilities and the approximate funding position have fluctuated between April 2008 and December 2009:



What is the Trustee doing to eliminate the deficit?

As a result of the 5 April 2008 valuation, the Trustee and the Company agreed that the participating employers will pay additional contributions each year (in addition to the cost of funding future benefits) to eliminate the shortfall over a ten year period starting from 1 July 2009. The additional contributions will be paid quarterly in advance starting at £6.71m in the first year and increasing each year up to £10.33m in the final year.

Buyout/discontinuance basis

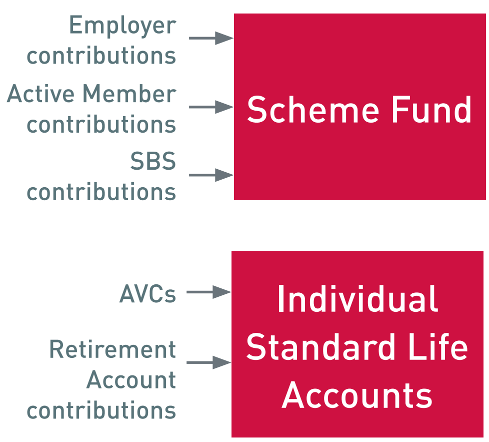
When the valuation was carried out at 5 April 2008, the Actuary also valued the Scheme on a discontinuance basis. This is the amount of money needed to buy an insurance policy to pay your benefits. This would only be relevant if it was decided to wind up the Scheme. The Actuary valued the Scheme as 93% funded on a discontinuance basis, which is equivalent to a £7.8m increase in the deficit since the last discontinuance valuation. It is a legal requirement to produce these discontinuance figures and it does not mean there is any intention to wind up the Scheme.

We appreciate you may have some questions and we hope the following information will answer these queries.

How is my pension funded?

Active members and the participating employers pay contributions to the Scheme based upon members' pensionable salaries. The Scheme holds the money in a common fund from which it pays members' pensions when they retire.

If you pay voluntary contributions to the Selected Benefits Scheme then these contributions are also held in this common fund. Other AVCs and your Retirement Account (100+ Section) are held separately with Standard Life.



How is the amount of money the Scheme needs worked out?

The Trustee obtains regular valuations of the benefits earned by members. Using this information and recommendations from the Scheme Actuary, the Trustee and the Company must agree on the future contributions that must be paid to ensure there is sufficient money in the Scheme to pay the benefits.

Which funding basis is used?

The ongoing funding basis is used to assess the amount needed to ensure the Scheme is adequately funded and to determine how much needs to be paid into the Scheme by participating employers and members. It assumes that SELEX will continue in business and support the Scheme.

The discontinuance basis is not used as it assumes that benefits will be secured by buying insurance policies. Insurers need to make a profit and therefore charge more to insure pensions than it costs the Scheme to provide benefits. This basis would be relevant if the Scheme wound up and the benefits needed to be insured.

What would happen if the Scheme started to wind up?

We are legally required to tell you what would happen if the Scheme were to wind up. This does not mean that there is any intention to wind up the Scheme in the foreseeable future.

If the Scheme was to start to wind up, SELEX is required to pay enough into the Scheme to enable the members' benefits to be insured with an insurance company. If SELEX is not able to pay the deficit (if any), the Pension Protection Fund (PPF) might be able to take over the Scheme and pay some compensation to members.

The PPF's main function is to provide compensation to members of eligible defined benefit (final salary) pension schemes, when there is a qualifying insolvency event in relation to the employer, and where there are insufficient assets in the pension scheme to cover the Pension Protection Fund level of compensation.

Other information

The law requires the Trustee to inform you that no payments have been made from the Scheme to any participating employers in the last 12 months.

If you are thinking of leaving the Scheme for any reason, you should consult a professional adviser, such as an independent financial adviser, before taking any action.

If you require any further information about the Scheme then please contact the Pension Administrator, Aon, using the details below.

Remember, if you move house, please keep the Pension Administrator informed so you can continue to receive up to date information.

Contact details

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