IN FOCUS

SELEX Pension Scheme

A newsletter for the members of the SELEX Pension Scheme

Issue 4. March 2007

In this issue

In this issue of IN FOCUS we provide you with:

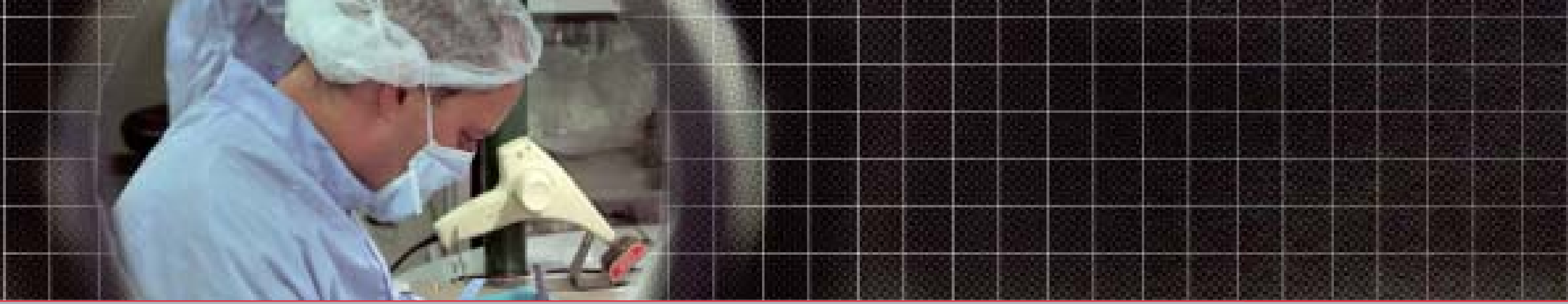
- details of how to access AVC fund performance from Standard Life
- a feature on the Pensions Consultative Committee (the "PCC")
- information on how the new higher tax free cash limits may affect you
- an explanation of stepped pensions
- a reminder of the increase in contributions for some members from 1 April 2007
- a feature on the procedure for retiring
- information on your combined pension forecast for your 2006/07 benefit statement

How to access information on AVC performance

The Scheme's Additional Voluntary Contributions (AVCs) and additional basic contributions within the 100+ Section (ABCs) are invested with Standard Life. We publish the quarterly reports, provided by Standard Life, on the SELEX Pension Scheme website (**www.selexpensions.co.uk**) when these are produced. If you would like to monitor the various fund performances on a more regular basis then we have provided a link on our website directly to the Standard Life web page which details how the funds are performing on a daily basis.

The link can be accessed by selecting the "your pension" tab from the top right hand side of the home page. You should then select the "section information" tab from the left hand side followed by "additional voluntary contributions" and then "fund summaries". The link can be found in the middle of this page.

Please note that not all the funds detailed on the Standard Life website are available for you to invest your AVCs or ABCs in and you should refer to the AVC Guide on the website for a list of the funds available to SELEX members.



Meet the Pensions Consultative Committee

The Pensions Consultative Committee (PCC) was set up as a discussion forum and to provide a point of contact for members who would like to raise pensions issues. The PCC meets with Pensions Management after each Trustee meeting.

The PCC is made up of thirteen individuals who are nominated by Site Consultative Committees.

The current PCC representatives are shown below:

From left to right:
James Fordyce (Edinburgh), Scott Wallace (Edinburgh), Jim Cull* (Edinburgh), Colin Wyllie (Edinburgh), Tony Kingsbury (Luton), Phil Slade (Luton), Jim Thomson* (Edinburgh), Stuart Rushworth* (Luton), Martin Johnson* (Basildon) and Paul Wilton (Southampton).

In addition, the following are representatives of the PCC (but not shown): Scott McMillan (Basildon), Kevin Brooks (Basildon) and Paul Murrell (Christchurch).

* These PCC representatives are also Trustee Directors.

The PCC has held nine meetings to date. A report of each meeting is produced and published on the Scheme website which we would encourage you to visit at **www.selexpensions.co.uk**. The PCC reports to members can be found under the "your pension" section at the top right hand side of the home page. You should then select "scheme information" on the left hand side of the page and then select "consultative committee".

Since its creation the PCC has raised a number of issues on behalf of the membership which have been discussed with Pensions Management and reported back to the Trustee Directors. Items to which the PCC has contributed include:

- suggesting items to include on the members' website;
- commenting on the Scheme booklets and documentation;
- reviewing company proposals, for example in relation to the introduction of SMART;
- providing comments on the format of documentation including retirement quotations; and
- bringing individual member queries to Pensions Management's attention.

If you have any issues which you would like to raise then please contact one of the PCC representatives (contact details on the website).

Impact of the increased tax free cash lump sums

In our December 2006 edition of IN FOCUS we explained the changes which had been made to the Scheme following the introduction of the Finance Act 2004, which came into force in April 2006.

One change which the Company and Trustee decided to adopt is to allow members (with the consent of the Trustee) to take a higher tax free cash lump sum on retirement. The maximum amount allowed under the legislation equates to broadly 25% of the value of your pension benefits.

The following example shows a comparison between the previous limits and the new higher limits which have been adopted. While the new rules are intended to be simpler, you will note that there are still some complicated adjustments to be made to work out the maximum benefit. In most instances, the tax free cash available to you will be higher than previously.

Example

For illustrative purposes we will assume that the member has a pension of £10,000 and is a post-1989 member. He would be entitled to the following pension and cash amounts:

- under the previous limits the maximum tax free cash which could be taken was:

  2.25 x £10,000 = **£22,500**

  If the member chooses to take the above cash lump sum, they would have been able to draw a reduced pension of around **£8,729** per annum.

- under the new limits, the maximum tax free cash which can be taken is:

  25% x overall pension fund value = **£48,427**

  If the member chooses to take the above cash lump sum, they would be able to draw a reduced pension of around **£7,264** per annum.

The member's overall pension fund value is as follows:

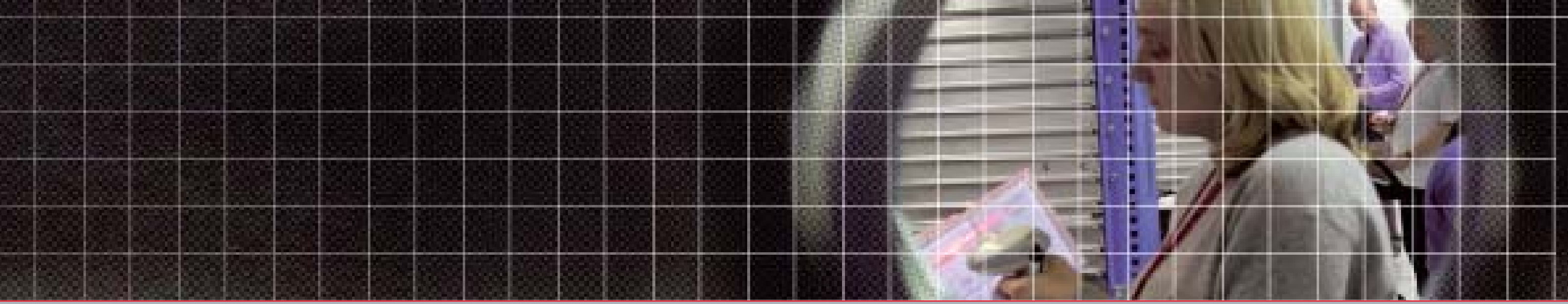
(1) Capital value of annual pension
= £7,264 x 20
= **£145,280**

plus

(2) Maximum cash lump sum of £48,427
= Overall pension fund value
= **£193,707**

The maximum lump sum is worked out by multiplying the annual pension by a factor of 20 but with an adjustment for the difference between 20 and the commutation factor used by the Scheme which (for February 2007) is 17.7. **Please note, the commutation factor used by the Scheme varies depending on your age and what section of the Scheme you are in.**

Please note that the larger the cash lump sum you choose to take at your retirement the lower your residual annual pension will be. To simplify the illustration we have not included detail on how the BAE offset operates. Any tax free cash calculation when you retire will be complex and this is intended as a basic illustration only.

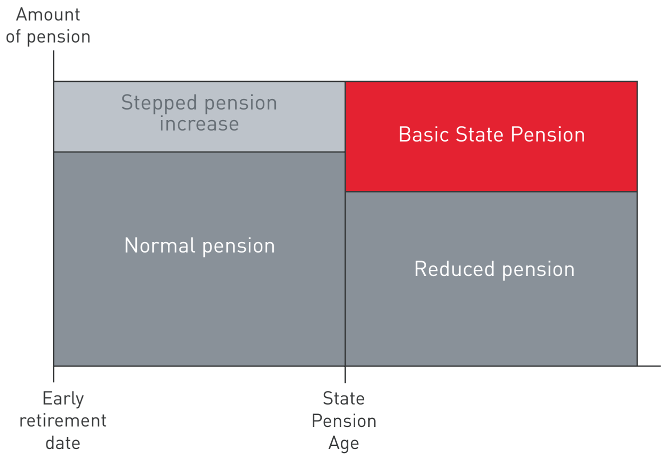


Clarification of how stepped pensions work

Under the Scheme Rules, members taking early retirement have the option of a "stepped pension", subject to the consent of the Trustee. This is not an option for members of the 100+ Section. The aim of this option is to provide members with a more level income (from the State and the Scheme combined) before and after State Pension Age.

What is a stepped pension?

A stepped pension is used to provide you with the same level of pension before and after you begin drawing your State pension. To achieve this, the Scheme pays you your normal pension when you take early retirement, plus a percentage of your Basic State Pension. Once you reach State Pension Age and begin to receive your Basic State Pension from the Government, the amount paid to you from the Scheme will reduce by the full amount of your Basic State Pension. This is shown in a simplified diagram below.



N.B. This graph is not to scale

Where is my stepped pension paid from?

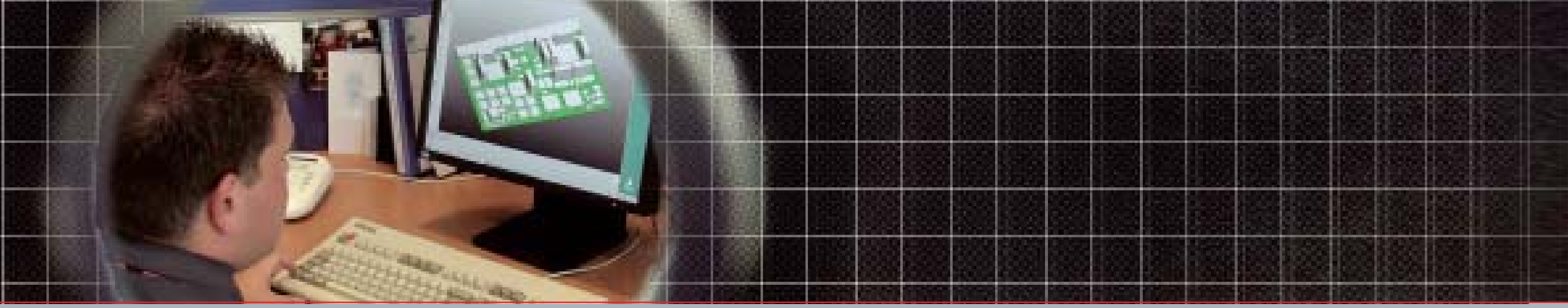
Due to the design of the Scheme, the stepped pension will normally be provided by the BAE Systems schemes rather than the SELEX Scheme. If, however, BAE do not provide a full stepped pension then the Trustee will normally use its discretion to provide it from the SELEX Scheme.

Reminder – contribution increases in 2007

There are some increases in member contributions due to take place in 2007, which were notified to you in the April 2006 newsflash.

2000 Section – member contributions will increase from 5% to 6% on 1 April 2007.

100+ Section (only members who have joined the 100+ Section of the Selex Scheme since 29 April 2005) – member contributions will increase from 5% to 6% on 1 April 2007.



Procedure for retiring from active service

We thought it may be useful to issue some reminders on the various procedures for retiring and beginning to draw your pension benefits. In this issue we cover the position for retiring from active service when reaching your Normal Retirement Date.

Have you reached age 65 and are you leaving employment?

YES
The Pensions Service Centre will send you a quote 2-3 months before your 65th birthday.

Approach your employer who will complete a leavers form and send it to the Pensions Service Centre.

You review and choose which option to take from your retirement quote, including whether you wish to take tax free cash as part of your pension.

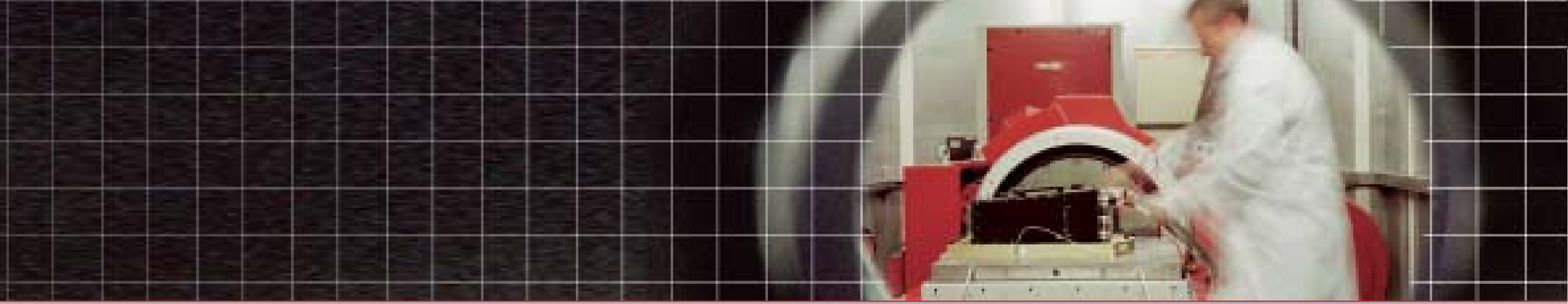
You should complete and return your option forms to the Pensions Service Centre together with the HMRC questionnaire and your marriage/birth certificates.

The Pensions Service Centre obtain your final pay details after your leaving date.

The Pensions Service Centre process your pension and authorise your pensioner status. Your pension benefits will be confirmed to you by letter.

The Pensions Service Centre will transfer your cash lump sum (if applicable) to your bank account and Xchanging payroll will put your pension into payment (which will be backdated where appropriate to your retirement date). **You should note that this will normally be implemented 6-8 weeks after your retirement date.**

NO
Early or late retirement will be covered in another issue of IN FOCUS



Combined pension forecast

In the same way that this exercise was carried out last year, we need to provide any new members who have joined the Scheme since February 2006 with details about the combined pension forecast. **You do not need to do anything unless you do not wish your 2007 benefit statement to contain a forecast of your State benefits.**

It is possible for your 2007 benefit statement to include State benefits information to give you a better picture of your total income in retirement. We believe that it would be beneficial to obtain a full statement including your State benefits: therefore we propose to automatically apply for your State benefit information on your behalf and include it on your benefit statement.

In order to do this, we need your agreement to provide specific information to the Department of Work and Pensions (DWP) and in return the DWP will provide the information we will need to include your State benefits in your benefit statement.

We will provide the DWP with your:
- surname and family name;
- first names;
- sex;
- date of birth;
- National Insurance number; and
- pension member number.

The DWP will then provide details of:
- the amount of State Pension you have earned so far;
- the earliest age at which you can receive your State Pension; and
- the amount your State Pension is likely to be when you reach State Pension Age.

We will only use the information we get from the DWP to provide you with a combined pension forecast of your SELEX Pension Scheme benefits and State Pension entitlement.

If you are happy for us to give the DWP the details listed above, you do not need to do anything. We will provide the information about you to the DWP, and receive State Pension information from them for as long as you are a member of this Scheme. We will include the information the DWP gives us in the next and future annual benefit statements we send to you.

If you do not want us to give the DWP the information about you shown above, please telephone the Pensions Service Centre on 01772 677300 or email **selex.pensions@hr.xchanging.com** before 30 April 2007 to confirm that you do not want the SELEX Pension Scheme to give you a combined pension forecast statement including a State Pension forecast. If you do this, your next annual benefit statement will not include any information on your State Pension entitlement.

Even though you may agree to us giving information about you to the DWP, if you change your mind, you can contact the Pensions Service Centre at any time to stop us sending this information.

Contact details

Pensions Helpline: **01772 677300**

Email: **selex.pensions@hr.xchanging.com**

Pensions Website: **www.selexpensions.co.uk**

Address: **SELEX Pension Scheme, Pensions Service Centre, Fulwood Park, Caxton Road, Fulwood, Preston, PR2 9NZ.**

The majority of queries addressed to Xchanging are dealt with in two weeks. Some queries may take longer to process.