

Awards

The Scheme won three awards last month from Professional Pensions, the UK's leading publication for the occupational pensions industry. The Scheme received awards for:

- Pension Scheme of the Year
- Trustee Development Award
- Website Design Award

Overall the judges have commended the resources that have been made available to the Scheme and the commitment of the trustee directors in the short life of the Scheme.



In this issue

In this issue of  FOCUS we provide you with:

- a summary of changes resulting from the new pensions legislation; and
- details of other recent legislative changes, namely the introduction of rights for civil partners and age discrimination.

News

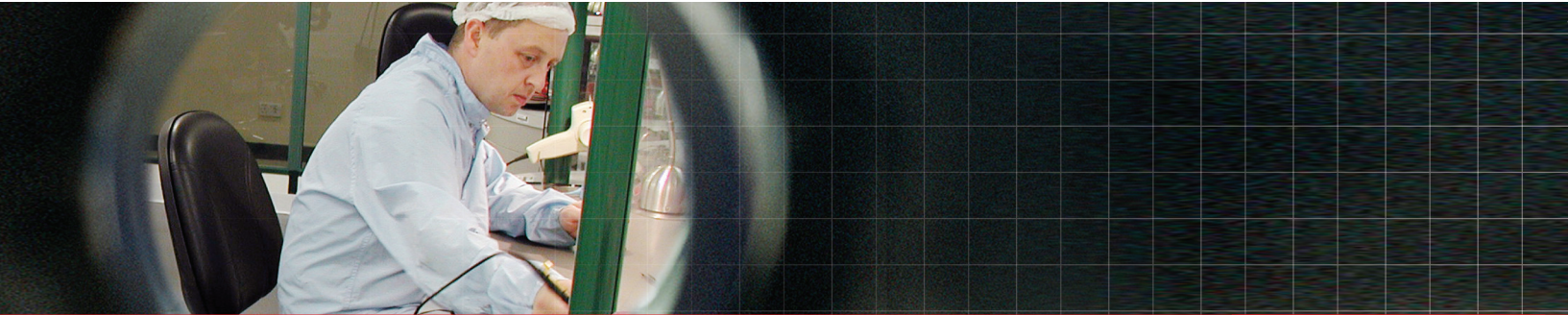
Scheme booklets

We are pleased to inform you that the member booklets for the Scheme are now on the Scheme website. Copies can be downloaded at www.selexpensions.co.uk

You will find the following booklets on the website: 2000 Section, Main Section, 100+ Section, SBS Guide (2000 Section members only), Retirement Account Guide (100+ Section members only) and AVC Guide (all sections).

2006 Benefit statements

The number of recent pension changes has resulted in a very heavy workload and consequential computer systems changes for Xchanging who provide our pensions administration service. As a result of this the benefit statements for 2006 have been delayed. We are awaiting confirmation of timescales but do not anticipate they will be available before the end of March 2007. We sincerely apologise for this delay and are doing everything possible to ensure that these statements are issued as soon as possible.



Changes to pensions legislation and how they affect you

Introduction

The Pensions Act 2004 and the Finance Act 2004 largely came into effect in 2006. Some measures automatically came into force on A Day (6 April 2006) and other measures gave the Company the option to change the SELEX Pension Scheme, if it wished, to offer benefits that could not have been offered under the previous tax regime.

The changes that will have the biggest impact on most members are the optional changes which the Company can choose to make. The Company has considered the ways it could adapt the Scheme following the relaxation of the tax rules and has decided that it will allow you:

- to take increased tax free cash lump sums on retirement if you wish; and
- to have increased flexibility in using your AVC funds.



Increased tax free cash lump sums

The Company wants to allow you to have the option to exploit the new limits for tax free cash lump sums.

For members who retire on or after 1 December 2006, the rules of the Scheme will allow you to take broadly 25% of your pension benefits as a tax free cash lump sum from the Scheme (subject to the consent of the Trustee being given where required by the rules of the Scheme).

In most cases it is expected that this change will result in higher tax free cash being offered to members. However, if current lump sum entitlements are higher, you will retain that higher entitlement.

In the past, the rules provided that no part of an AVC fund (which started after March 1987) can be taken as cash and that it can only be used to provide a pension. The Scheme rules have been changed to allow AVC funds to be included when calculating the amount of tax free cash available and you may use your AVCs first as your tax free cash before converting any Scheme pension.

Please remember that taking a tax free cash lump sum will reduce the amount of pension payable. The larger the cash sum taken, the lower your annual pension will be.

Members who were previously employed by BAE Systems will have their BAE Systems benefits treated in accordance with the rules of the appropriate BAE Systems scheme. You should consult the rules of the appropriate BAE Systems scheme for information about the amount of your BAE Systems benefits that you can take as cash.

AVCs continue and increased flexibility when using your AVC funds

From April 2006, the Government removed the requirement on pension schemes to provide a facility to allow voluntary contributions. However, the Company and the Trustee believe that the availability of an AVC facility is an important feature that allows members to build up additional benefits. Therefore, AVC facilities will continue to be provided for the benefit of members.

At retirement, members will normally have the choice of taking their AVCs as a tax free cash lump sum, pension from the Scheme or pension from an insurance company. The limits imposed by legislation and the Scheme rules may affect the choices available to you.



Limits stay...

Limits on benefits

The rules of the Scheme have always contained limits on the amount of pension you may take from the Scheme. These limits continue to exist in the Scheme rules and will continue to apply to your pension.

Broadly, these limits allow you to take a pension of up to two-thirds of your final salary.

Benefits payable to you by the Scheme and by BAE Systems, including benefits bought with voluntary contributions (AVCs, SBS and ABCs) to the Scheme and to BAE Systems will be included within the two-thirds limits. The Trustee will not look at benefits payable from other pension schemes, such as pensions from previous employers, personal pension arrangements and stakeholder pension arrangements.

If you believe that your pension from the Scheme will be greater than two-thirds of your final salary, you may wish to save towards additional pension in a different pension arrangement, such as a personal pension arrangement or stakeholder pension arrangement (see over the page for more details). The Government will allow you to take pensions from registered pension schemes in a tax efficient way up to the Lifetime Allowance. (Currently the Lifetime Allowance broadly equates to a pension of £75,000 per year.)

Earnings Cap

Members who joined the predecessor BAE Systems pension scheme after May 1989 are subject to an upper limit on earnings that can be used for pension purposes, which is known as the Earnings Cap. The Earnings Cap is £108,600 for 2006/7 and will increase each year broadly in line with inflation.

You can obtain details of the revised Earnings Cap each year from the Pensions Service Centre.

Limits on contributions

The rules of the SELEX Pension Scheme state that you may not pay more than 15% of your earnings to the Scheme at this time.

The Company is aware that some members wish to place additional sums into pension arrangements and therefore is looking into whether it would be possible to pay more voluntary contributions into the SELEX Pension Scheme. This is something that will be considered further in the new year.

Please note that this rule does not prevent you from paying sums in excess of 15% of your earnings into other pension arrangements, such as a personal pension arrangement or stakeholder pension arrangement – more detail about this is set out over the page.





Other changes introduced by the pensions legislation...

Pay more money into pensions...

Since 6 April 2006, the Government has allowed you to contribute up to 100% of your earnings (subject to an upper limit called the Annual Allowance, defined opposite) to tax approved pension arrangements. You may do this by contributing to one or more registered pension schemes, including a company pension scheme (such as the SELEX Pension Scheme), a personal pension arrangement and a stakeholder pension arrangement.

The rules of the SELEX Pension Scheme currently state that you may not pay more than 15% of your earnings to the Scheme.

You may however, if you wish, contribute amounts in excess of this to a personal pension arrangement or stakeholder pension arrangement.

If you wish to contribute to a personal pension arrangement or stakeholder pension arrangement, you will need to make your own arrangements to set this up and pay contributions to it (contributions cannot be paid directly through payroll). If you are considering doing this, we would recommend that you speak to an independent financial adviser who could advise on a suitable pension arrangement for you.

Any pension payable from a personal pension arrangement or a stakeholder pension arrangement will not be subject to the benefit limits imposed on Scheme benefits.

What contributions can I make to the SELEX Pension Scheme?

Basic contributions

All members must pay basic contributions to the Scheme. These are paid in respect of your main scheme benefits.

Voluntary contributions

All members are entitled to pay voluntary contributions to the Scheme. These will top up your main benefits and allow you to save more for your retirement.

• Additional Voluntary Contributions (AVCs) (all Sections)

AVCs allow you to pay voluntary contributions to secure extra retirement benefits on a money purchase basis. Your voluntary contributions are invested with Standard Life in investment funds of your choosing and your entitlement to additional benefits will be calculated using the value of your account with Standard Life and the factors used to convert this amount to pension at the date of your retirement.

• Selected Benefits Scheme (SBS) (2000 Section only)

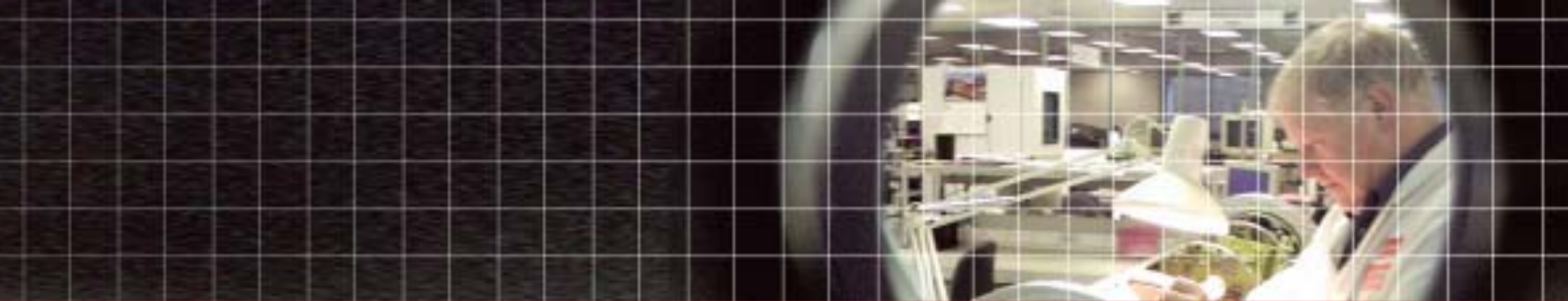
SBS allows you to pay voluntary contributions to secure extra retirement benefits or additional death in service benefits. If you choose to secure extra retirement benefits, your voluntary contributions are invested with the assets of the Scheme and your entitlement to additional benefits will be calculated by looking at the amount of contributions you made, the rate of Credited Interest and the factors used to convert this amount to pension at the date of your retirement.

• Additional Basic Contributions (ABCs) (100+ Section only)

ABCs allow you to pay voluntary contributions to your Retirement Account to secure extra retirement benefits on a money purchase basis. Your voluntary contributions are invested with your Retirement Account which is held with Standard Life in investment funds of your choosing. Your entitlement to additional benefits will be calculated using the value of your Retirement Account with Standard Life and the factors used to convert this amount to pension at the date of your retirement.

In any tax year, your basic contributions and voluntary contributions (AVCs, SBS or ABCs) to the Scheme cannot exceed 15% of your gross taxable earnings (or if the Earnings Cap applies to you, 15% of the Earnings Cap if lower).

If you would like to know more about paying voluntary contributions, please contact the Pensions Service Centre or visit the Scheme website to download the appropriate booklets and forms.



Early retirement

The minimum age from which people can start drawing their pension benefits (other than in the case of ill health) must rise from 50 to 55 by 6 April 2010. Pension schemes can decide how and when they introduce the new minimum retirement age.

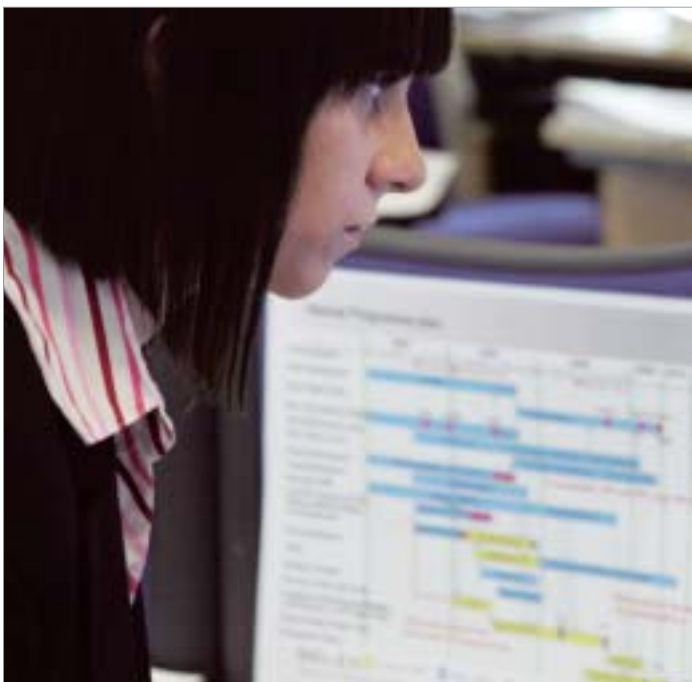
In order to allow our members the greatest flexibility to plan their retirement, the Company is currently planning to introduce the new minimum retirement age on 6 April 2010.

Children's pensions

Due to changes to the law, the Trustee cannot pay children's pensions to a child after they reach age 23 unless the child is physically or mentally dependent on the Member. Under the previous rules, in some circumstances the children's pension could continue in payment until the child reached age 25.

This change does not affect any children's pension which was in payment before 6 April 2006.

Note: This change does not affect who lump sums can be paid to. You may continue to nominate your children on your Expression of Wish form, irrespective of age.



Ill health pensions

The law imposed additional requirements to be fulfilled to ensure that ill health pensions are only payable to members who are (and continue to be) incapable of carrying on their occupation. Therefore, the definitions of Incapacity and Chronic Ill-health have had to be revised.

After discussion with the Trustee, revised definitions have been agreed and updated definitions can be found in the appropriate Scheme booklet, which are on the Scheme website.

Note: Pensions currently in payment are not affected by this change.

Delaying taking the State pension

You may choose to delay taking your State pension for up to five years after reaching your State pension age in return for a lump sum payment from the State. If you are interested in this option you can visit The Pension Service website at www.thepensionsservice.gov.uk for more information or contact the Department for Work and Pensions on 0845 3000 168 to see how much you could receive.

If you opted to take a stepped pension, this will reduce at your normal State pension age, irrespective of if you decide to delay taking your State pension.

HM Revenue & Customs limits

The **Annual Allowance** is £215,000 in 2006 and will increase each year to £255,000 by 2010, when it will be reviewed.

The **Lifetime Allowance** is £1.5 million in 2006 (broadly a pension of £75,000 per annum) and will increase each year to £1.8 million by 2010, when it will be reviewed.





Other changes introduced by the pensions legislation... (continued)

Early leavers

Members who leave the Scheme with less than 2 years' service have always been entitled to a refund of member contributions. Going forward, members who leave the Scheme who have more than 3 months' service but less than 2 years' service have an additional right to take a transfer sum instead of a refund of their own contributions.

Member leaves service

Less than 3 months' service

- Refund of member contributions

More than 3 months' service but less than 2 years' service

- Refund of member contributions, or
- Transfer sum

More than 2 years' service

- Deferred pension, or
- Transfer sum

If you opt for a refund of contributions, a tax charge of 20% will be payable on sums up to £10,800 and 40% above that amount. The Trustee will deduct this tax before paying the benefit to you.

Small pensions

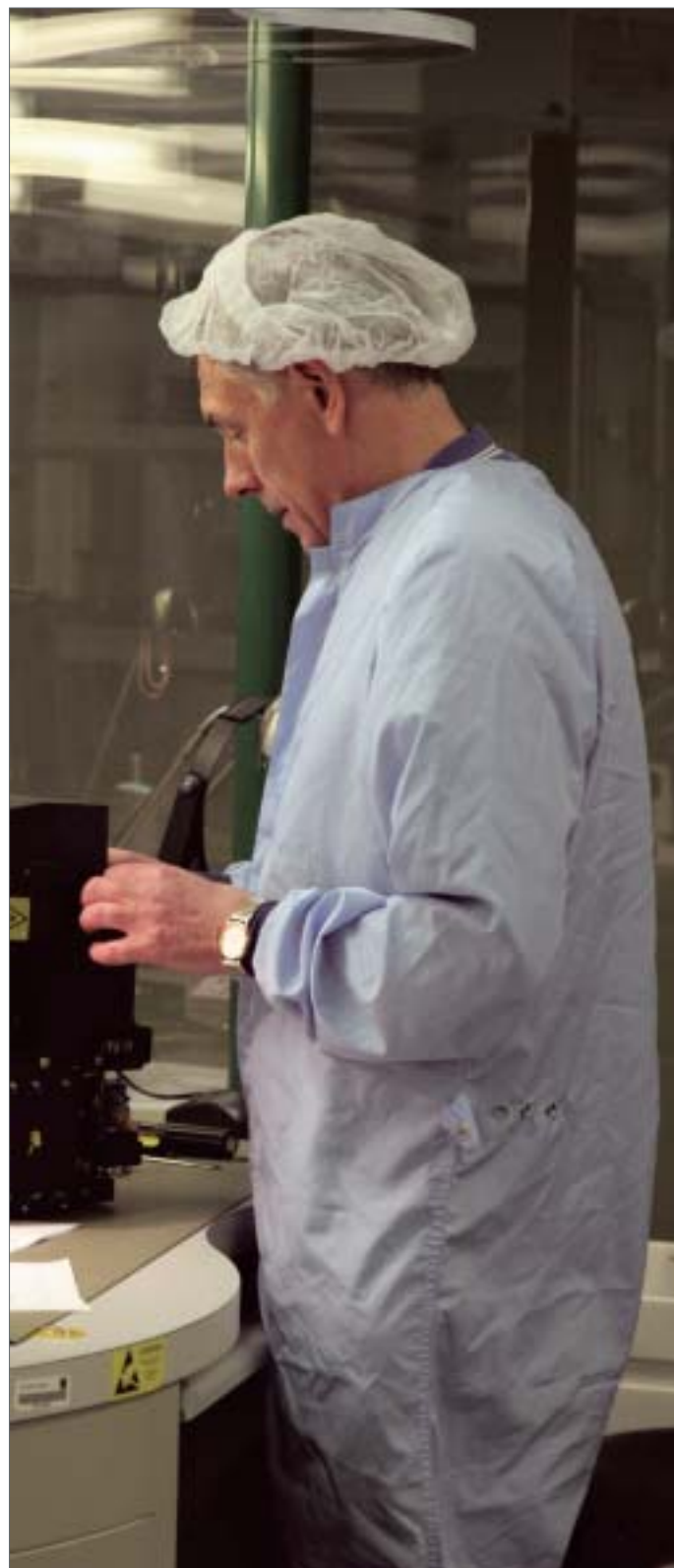
Those with pensions (from all sources) of less than one per cent of the Lifetime Allowance can now receive the whole amount as a lump sum. In the tax year 2006/7, the upper limit on the value of your pension (from all sources) will be £15,000 to qualify as a small pension, which broadly equates to a pension of £750 per year.

Flexible retirement

The new legislation allows members, in some cases, to draw pension benefits whilst continuing to work if the rules of the Scheme permit. The rules of our Scheme do not permit this so this option will not be available to our members.

Further details

The Scheme booklet, which is available on the website, incorporates the changes made to the rules.





Other legislation

Civil partnership

New legislation introduced in December 2005 allowed people in same sex relationships to enter into civil partnerships. Civil partners will have the same rights as spouses in relation to pension attributable to Pensionable Service after 5 December 2005.

Those entering into civil partnerships should note that their civil partner will only be treated in the same way as spouses for pension earned after 5 December 2005. Therefore, you may wish to ensure that your civil partner is nominated on your Expression of Wish form (and as your Specified Dependant if you are a member of the 2000 Section) to ensure that the Trustee considers him/her for a survivor's pension payable in relation to service before 5 December 2005. The appropriate forms can be downloaded from the website.

Message to all members: Please remember that partners (same sex and opposite sex) may not be entitled to the same benefits as spouses and civil partners. You should ensure that you keep your Expression of Wish form up to date. In addition, members of the 2000 Section may wish to nominate their partner to be their Specified Dependant. The appropriate forms can be downloaded from the website.



Age discrimination

From 1 October 2006 it is unlawful to unjustifiably discriminate against people at work because of their age and, from 1 December 2006, it is unlawful to unjustifiably discriminate in relation to pensions because of a member's age.

The law prohibits discrimination on the grounds of age unless:

- the practice can be objectively justified by a legitimate aim; **or**
- the practice is stated to be exempt from the law in legislation.

Many rules in company pension schemes are age-based by their very nature. The Government has stated that the new laws aim to disrupt company pension schemes as little as possible. Therefore the new law exempts most rules in company pension schemes so that pension schemes can continue to operate unaffected.

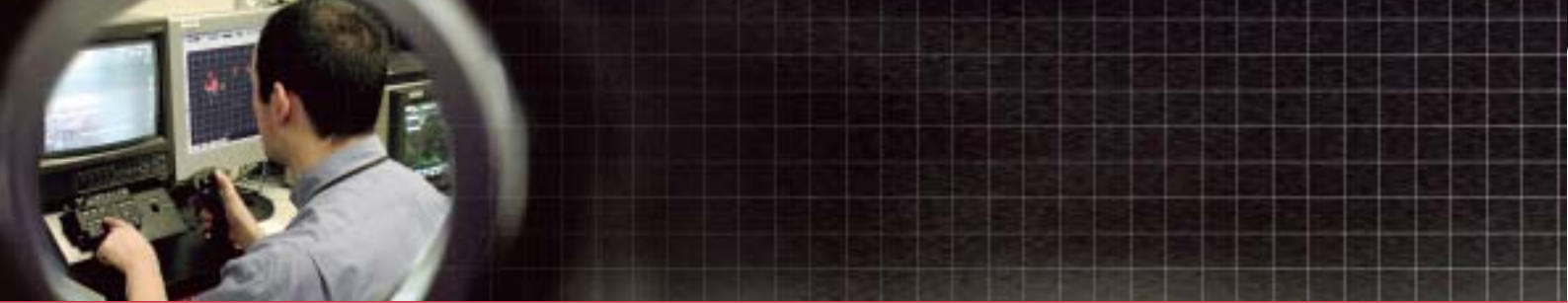
The key area where your pension will be affected is due to the new duty imposed on employers to consider an employee's request to continue working beyond his default retirement age (age 65).

If you continue to work past age 65, you will be given the opportunity to continue accruing pension whilst you remain in employment, even after your Normal Retirement Date (age 65). This results in a change in current practice for the members of the 2000 Section but no change for members of the other sections of the Scheme.

In summary, for members of all sections of the Scheme, if you continue to work past your Normal Retirement Date you will have the option to either:

- continue paying contributions and accruing Pensionable Service. You will remain an "active member" of the Scheme; **or**
- elect to cease to pay contributions. Your Pensionable Service will cease and you will become a "deferred member". Your pension will be increased to take account of the fact that it will be paid after your Normal Retirement Date.

You should note that you cannot draw your pension whilst you continue to work for the Company in either circumstance.



Expression of Wish reminder

We understand that nearly half of our members have completed and returned the Expression of Wish form which was sent out with our first newsletter. If you have not yet done this, please complete and return the form. It is important for you to indicate to the Trustee of the SELEX Pension Scheme how you would like any benefits payable on your death to be distributed.

Additional copies of the form can be downloaded from the website, at www.selexpensions.co.uk

In addition, you may wish to update your Expression of Wish form for the BAE Systems pension scheme which you participated in. The BAE Systems Expression of Wish form can be obtained from the BAE Systems website, at www.baesystemspensions.com

SBS renewal (2000 Section only)

We will be aligning the date on which SBS death in service premiums are calculated for each member. Premiums will be renewed in April every year for every member. This change has been made for administrative purposes to enable Xchanging to increase its efficiency in renewing your premiums.

In the past, if you paid SBS contributions to purchase increased death in service cover, your annual premiums were calculated in the month you commenced paying SBS contributions. For example, members who started paying SBS contributions in July had their death in service premiums renewed every July. You will have received a letter setting out the new premiums for the following year each July.

Going forward, your premiums will be renewed in April each year. Your current premium will continue to apply until April 2007. In February 2007 you will receive a letter from Xchanging that sets out the new premium which will apply to you from April 2007.



Contact details

Pensions Helpline: 01772 677300

Email: selex.pensions@hr.xchanging.com

Pensions Website: www.selexpensions.co.uk

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

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

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 Xchanging.