

**PENSIONS CONSULTATIVE COMMITTEE
REPORT TO MEMBERS FOLLOWING THE MEETING ON 11 MAY 2015**

A meeting of the Pensions Consultative Committee (PCC) took place in London on 11 May 2015.

The PCC has been set up to discuss, co-ordinate, advise and represent the views of the members of the Selex Pension Scheme. There are currently twelve representatives on the Committee and their contact details are attached to this Report.

The meeting was attended by:-

Tony Kingsbury	Capability Green	Chairman
Jim Cull	Edinburgh	
James Fordyce	Edinburgh	
Martin Johnson	Basildon	
Stephen Park	Edinburgh	
Phil Slade	Capability Green	
Ken Thompson	Pensioner Representative	
Jim Thomson	Edinburgh	
Scott Wallace	Edinburgh	
Colin Wyllie	Edinburgh	
Martin Flavell	HR - Finmeccanica	
Andrew Letton	HR – Selex ES	
Mike Nixon	Head of Pensions	
Rachael Skuse	Pensions Manager	
Helen Pass	Pensions Management Team	

The meeting was held to receive feedback from the Trustee meeting on 24 March 2015 and to discuss the preliminary results of the actuarial valuation and options for addressing the increasing cost of future service benefits.

Quarterly Funding Update to 31 December 2014

As previously reported, the quarterly funding update showed that the Scheme had an estimated surplus of £48 million. The surplus had decreased over the quarter by £29m due to a net loss from changes to interest and inflation expectations. Falls in interest rates and inflation rates had resulted in a net increase in the value of the Scheme's liabilities, not all of which was reflected by the increase in the liability hedge.

The cost of future accrual had increased over the quarter, and is 13.7% ahead of the rate at the last valuation (which means that the cost of providing pensions is higher than the cost assumed at the last valuation).

Confirmation of annual rates 2015

The Trustee set the following annual rates:

- Credited Interest rate of 9%.
- IPA Revaluation Factor of 12.3%.

- Shadow Earnings Cap of £150,000.

Valuation

The Trustee has had discussion on the assumptions for leavers and numbers of early retirements used within the actuarial valuation. The Actuary and Trustee discussed some revisions to the assumptions to more accurately reflect the Scheme's experience to date. There are a number of assumptions still to be considered and all assumptions will need to be agreed between the Trustee and Company.

Budget flexibilities

Retirement options

Legislative changes came into force on 6 April 2015 – 'Flexiday'. These changes provide additional retirement options for individuals with defined contribution pension benefits, including greater flexibility to take cash lump sums (part of which will be taxed) and reduced restrictions around income drawdown products. Overall, the changes will result in individuals having options beyond purchasing an annuity.

With regard to how this impacts the Selex Pension Scheme, the existing options at retirement continue to be available to members, and the Trustee and Company are considering with their advisers whether any additional options could be offered to members of the Selex Pension Scheme.

Pensionwise

The Government has set up a new advice service called 'Pensionwise'. This is a free and impartial service to help individuals understand their new pension options. Pensionwise is offering phone and face-to-face guidance appointments. The website is www.pensionwise.gov.uk.

Transferring benefits

New protection has been introduced in relation to individuals looking to transfer their defined benefit pension out of the Scheme into a scheme which enables the new flexibilities (which would effectively convert their 'defined benefits' to 'defined contribution'). Due to the significant impact and irrevocable nature of such a transfer, a new independent financial advice requirement has been introduced requiring trustees to check that members have taken appropriate independent financial advice. This will apply unless the cash equivalent value of the pension in question is less than £30,000. The member/financial adviser must provide the trustees with written confirmation that the member has taken independent advice (although not the advice itself), together with the advisers registration number to enable credentials to be checked. The cost of the advice is to be met by the member.

Investment Performance

- The market value of the total assets of the Scheme at 31 December 2014 was £637 million.
- Performance of the return-seeking assets over the quarter was 1.11%, which was 0.23% ahead of the objective. In the longer term the assets were outperforming by 1.03% over twelve months and 3.32% per annum over three years.

- The total investment strategy (both the return-seeking and the matching assets) returned 23.37% over 12 months which was 5.77% behind of the benchmark (which looks at the change in the Scheme's liabilities). Over three years performance is 1.38% per annum ahead of the change in liabilities.

Allocation of Assets

At 31 December 2014 the Trustee held 65.19% of the Scheme's assets "on-risk" and 34.81% "off-risk". On-risk assets are those seeking to generate an investment return (e.g. equities, commodities, high yield bonds). Off-risk assets are those seeking to manage risk and match Scheme liabilities (e.g.: Government gilts, cash).

Liability hedge review

P-Solve have reviewed the current liability hedge structure with the Trustee. The discussion focused on the interest rate hedging, and the fact that increasing the hedge would help protect the past service surplus, although may give up potential investment gain. Over time, it was felt appropriate to increase the level of hedging although no action would be taken at the current time.

Administration

Work levels at Aon Hewitt had remained at a significantly high level over the quarter and there remains a large backlog of work which they are working through as quickly as possible.

The Pensionline Modeller for the Selex Pension Scheme has been re-launched and is available to members.

Active and deferred member benefit statements for 2014 were issued in March 2015.

DWP State Pension Forecasts

The Trustee is planning to add individual members' State pension forecasts to the online retirement tool, Pensionline. Work is progressing with this project and it is hoped the forecasts will be available soon.

Joint DC investment committee meeting

The second joint DC investment committee meeting of the Finmeccanica UK pension schemes was held on 11 March 2015. This committee was established to enable the Trustees of Finmeccanica FuturePlanner, the Selex Pension Scheme and the AgustaWestland UK Pension Scheme to jointly review investment matters for their defined contribution benefits. The Selex benefits which are invested in the common DC strategy are the Additional Voluntary Contributions and the 100+ Retirement Accounts.

The P-Solve 'blend funds' which make up the default fund in the DC investment strategy had out-performed their targets over the quarter, and remained ahead of their long term targets since the inception of the funds.

Retirement options

The Trustee is working with Fidelity to set up an 'at retirement' tool which will be available to members, following the Government announcement (as part of the 2014 Budget) to abolish the requirement for members with DC benefits to purchase an annuity.

Charges

The Government has introduced a cap of 0.75% on the total member charges within default investment funds. The P-Solve funds used within the Finmeccanica UK schemes are already within the cap, and P-Solve have reduced them further.

Proposed changes

There were detailed discussions around the proposed benefit changes. The formal consultation period had concluded on 1 May 2015 and the Company and PCC were working to reach a position which the PCC were able to fully support.

The PCC indicated that they were supportive in principle of the need for change and the move to Career Salary, however they wished to obtain the best possible outcome for Selex Pension Scheme members. They therefore put forward some further proposed changes to the Company proposals. The Company is now reviewing the suggested changes to the proposals.

Date of the Next Meeting

The next meeting of the PCC is scheduled for 14 July 2015. Additional meetings to finalise the benefit change consultation are also expected to be held in the interim.

Contact Details

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