

**PENSIONS CONSULTATIVE COMMITTEE
REPORT TO MEMBERS FOLLOWING THE MEETING ON 21 APRIL 2015**

A meeting of the Pensions Consultative Committee (PCC) took place in London on 21 April 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	
Scott McMillan	Basildon	
Stephen Park	Edinburgh	
Stuart Rushworth	Capability Green	
Phil Slade	Capability Green	
Scott Wallace	Edinburgh	
Paul Wilton	Southampton	
Martin Flavell	HR - Finmeccanica	
Andrew Letton	HR – Selex ES	
Mike Nixon	Head of Pensions	
Rachael Skuse	Pensions Manager	
Helen Pass	Pensions Management Team	
Danny Vassiliades	Punter Southall (Scheme Actuary)	

The meeting was held to receive feedback from the Trustee meeting on 24 March 2015 and to discuss further the Company's proposals for change to the Selex Pension Scheme.

PCC Meeting with Scheme Actuary

It was noted that the PCC Representatives had held a pre-meeting at which Rachael Skuse (Pensions Management) and Danny Vassiliades (Scheme Actuary) had been present. The PCC had taken the opportunity to ask questions of Danny to assist with understanding in further detail various actuarial aspects of the Company's proposals for benefit changes. Danny had been present to answer factual queries only and was not in a position to provide advice to the PCC.

Quarterly Funding Update to 31 December 2014

The quarterly funding update showed that the Scheme had an estimated surplus of £48 million. This was a decrease in surplus over the quarter to 31 December 2014. The main reason for the change in funding position was due to changes to interest rate 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 benefit accrual had increased further over the quarter, and is 13.7% ahead of the rate at the 2011 valuation (which means that the cost of providing pensions is higher than the cost assumed at the last valuation). This resulted from a significant fall in long-term real interest rate expectations.

Update on proposals and PCC priorities

The Company summarised the discussions which had taken place and its current thinking on each of the proposed benefit changes. The PCC confirmed that there were some items which they wished to discuss further before confirming their view to the Company.

Consultation feedback and FAQs

The Company confirmed that following further feedback it had produced an FAQ version 2. The PCC were given the opportunity to provide comments before issue.

It is clear from the feedback received that members would like clarification on how the second offset for Basis 1 of the 2000 Section is calculated, with a number of members mistakenly believing the accrual rate improves after 20 years of service. In light of the complexity of this issue, the Company suggested producing a factsheet demonstrating how the offset is calculated. Following the meeting, the factsheet has been added to the Company's consultation intranet site.

100+ Section

The 100+ Section currently accrues benefits at an accrual rate of 1/100th, plus the Company contributes 2% of basic salary into a defined contribution fund (the Retirement Account) which is invested with Old Mutual Wealth.

One of the discussions which has taken place during the PCC meetings with the Company is to remove the 2% contribution to the Retirement Account going forwards and instead improve the 100+ accrual rate from 1/100ths to 1/90ths. It was recognised that whilst this would provide an additional level of 'defined benefit' which some members may welcome, it would also reduce flexibility for members who may wish to use their Retirement Account to provide an additional cash lump sum at retirement (part of which may be taxed).

This is not a formal proposal, and the PCC will be considering this discussion and providing feedback to the Company shortly. Should 100+ members wish to provide feedback directly, this is welcomed through the pensions@selex-es.com email address.

Flexiday

Legislative changes have come into force from 6 April 2015 – Flexiday. These changes provide additional retirement options for individuals with 'defined contribution' or 'cash balance' 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.

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

New protection has also 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 (i.e. converting their 'defined benefits' into 'defined contribution'). Due to the significant implications of converting a defined benefit, 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.

Whilst the flexibility changes were not designed for 'defined benefit' schemes like the Selex Pension Scheme, some of the flexibilities could apply to the Scheme's AVC, Retirement Account and SBS benefits. A news item has been added to the Scheme website (www.selexpensions.co.uk) and the voluntary savings booklets are in the process of being updated. In summary, members continue to have the retirement options which were available previously (tax-free cash through the pension commencement lump sum, and the ability to secure an annuity or drawdown policy outside of the Scheme). With regard to additional options, such as enabling members to take additional cash from their voluntary savings within the Scheme on a taxed basis, rather than having to purchase an annuity, this is being investigated with the Scheme's advisers to determine whether it will be possible to offer this in future.

Date of the Next Meeting

Discussions between the Company and the PCC will continue during the consultation. The next meeting of the PCC will be held on 11 May 2015.

Members can provide feedback to pensions@selex-es.com which will be discussed with the PCC.

Contact Details

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