

**PENSIONS CONSULTATIVE COMMITTEE
REPORT TO MEMBERS FOLLOWING THE MEETING ON 30 APRIL 2013**

A meeting of the Pensions Consultative Committee (PCC) took place in London on 30 April 2013.

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 thirteen 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	
Stuart Rushworth	Capability Green	
Phil Slade	Capability Green	
Ken Thompson	Pensioner Representative	
Jim Thomson	Edinburgh	
Scott Wallace	Edinburgh	
Colin Wyllie	Edinburgh	
Andrew Letton	HR – Selex ES Ltd	
Mike Nixon	Head of Pensions	
Helen Pass	Pensions Management Team	

The meeting was held to receive feedback from the Trustee meeting on 10 April 2013 and to receive training.

Quarterly Funding Update to 31 December 2012

The quarterly funding update showed that the Scheme had a surplus of £44 million. This was an increase in the surplus of £2 million since 30 September 2012, and is the highest surplus to date. The employer's cost of future accrual had increased over the quarter and is now 3.9% ahead of the rate at the valuation.

Annual Rates

The Trustee has set the 2013 annual rates as follows:

- 2000 Section Credited Interest rate: 7%
- Main Section Revaluation for Individual Pension Account: 13.4%
- Main Section Revaluation factor for Protected Rights Account: 13.4%
- Shadow earnings cap for 2013/14: £141,600.

Pension Increases

The pension increases in the Scheme from 1 May 2013 for benefits which use the annual increase in the RPI figures to January 2013 are:

- For service before 6 April 2006, 3.28%
- For service on and after 6 April 2006, 2.5%.

Auto-enrolment certification

The Scheme complies as a 'qualifying scheme' for auto-enrolment purposes and has received the necessary certification.

Annual Allowance/Scheme Pays

The Trustee has decided to allow members to use the 'Scheme Pays' option if they receive an Annual Allowance tax charge.

Any members with voluntary savings will be able to elect to pay the charge from their voluntary savings funds. For members without voluntary savings or insufficient funds, a debit will be applied to their defined benefits (on a similar basis as applies for divorce settlements). The Trustee has finalised some of the finer detail around how these debits will be calculated.

Budget implications

The Trustee has received an update regarding the implications of the 2013 Budget Statement on pensions.

- New Pensions Regulator objective – the Budget Statement described an additional objective of the Pensions Regulator 'to support scheme funds arrangements that are compatible with sustainable growth for the sponsoring employer and fully consistent with the 2004 funding legislation'.
- Smoothing – the Chancellor has announced that the Government has abandoned the idea of permitting the smoothing of assets and liabilities in scheme funding valuations.
- Pensions taxation – there were no major developments announced on pensions taxation. The reductions to the annual and lifetime allowances to £40,000 and £1.25m respectively with effect from the 2014/15 tax year were confirmed.
- Single tier state pension – the Chancellor confirmed the surprise announcement that the introduction of the single tier state pension, and with it the abolition of defined benefit contracting out, will be brought forward to 2016.

Equity Call Options

The Trustee has decided to use equity call options within the investment portfolio.

The derivative contracts will allow the Scheme to participate in equity market growth associated with the current market 'bullishness' from loose monetary policy whilst also managing the downside risk.

The Investment Management Agreement has been amended to allow derivative investments such as equity call options.

Investment Performance

- The market value of the total assets of the Scheme at 31 December 2012 was £445 million.

- Performance of the return-seeking assets over the quarter was 1.98%, which was 1.09% ahead of the objective.
- The total investment strategy (both the return-seeking and the matching assets) returned 5.42% over 12 months which was 4.7% ahead of the increase in liabilities. Over three years performance is 4.2% per annum ahead of liabilities.

Allocation of Assets

At 31 December 2012 the Trustee held 70% of the Scheme's assets "on-risk" and 30% "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).

Pension Protection Fund (PPF) Levy

The method by which the PPF calculates the levy payable by pension schemes now includes investment risk information. The Trustee has submitted additional bespoke investment information and it is expected that the Scheme Levy will reduce by approximately £43,000 to £25,000 as a result of this.

AVC investment strategy and smart voluntary contributions

The Trustee intends to adopt P-Solve's delegated solution for AVCs (and the Retirement Account under the 100+ section) which is similar to the TIGS investment product used for the main scheme assets, but designed for "money purchase" investments.

Planning is advanced and more information will be provided in the near future.

Alongside the review the Company intends to allow voluntary contributions (both AVCs and SBS) to be paid by smart (salary sacrifice) to enable savings in National Insurance contributions. Smart involves a change to terms and conditions of employment and the opportunity will be taken to make smart more flexible in that it will no longer be necessary to sacrifice salary on a long term basis.

The Company currently offers a number of different salary sacrifice schemes for bikes, childcare etc. Members who participate in a number of these schemes should check their payslips to ensure that they are not sacrificing so much salary that they do not pay any National Insurance contributions.

Trustee training

The Trustee has received a training session on investments in Catastrophe Risk. These provide an insurance linked return in a risk controlled way which provides attractive diversification. Some 4% of TIGS assets are invested in these strategies.

Administration

Work levels at Aon Hewitt have remained high over the quarter and they continue to perform at or above agreed service levels.

Small voluntary savings funds

The Trustee has decided to move to unisex factors for converting very small voluntary savings funds into scheme pension.

Scheme Data Quality Review

Aon Hewitt have completed a Scheme Data Quality Review as required by the Pensions Regulator. The results show that the data held by Aon Hewitt meets the requirements laid down by the Regulator.

Trivial commutation factors

The Trustee has adopted a new set of trivial commutation factors following new legislation. Members with a pension of less than £100 per annum within the Scheme, or total pension benefits worth less than £18,000, can now commute their pension for a lump sum. Eligible pensioners have been contacted and currently six have elected to commute their pensions for a lump sum.

Expression of Wish forms

Following a suggestion from the PCC, the Trustee will be adding an indicator to the Scheme website to inform members of the date their last Expression of Wish form was received by Aon Hewitt.

Mid Life Planning Seminars

Mid life planning seminars have taken place in Luton and Basildon and feedback has been positive. Further seminars will be held later in the year at Edinburgh, Southampton and Christchurch.

Training

The PCC members received training sessions on the State pension reforms which are due to be introduced in 2016.

Member Nominated Trustee selection process

Member Nominated Trustee directors serve for a period of three years, and the current Term of Office for the four Member Nominated Trustee directors will come to an end on 31 October 2013.

The selection process for Member Nominated Trustee directors has been reviewed and to ensure the continuity of directors, the terms of office will be split and two directors will be appointed every three years. This will mean that two of the directors appointed in October 2013 will service for three years, and two for six years.

Auto enrolment

The PCC members have received a training session on auto enrolment. Employees who are not in a Finmeccanica pension scheme will receive a letter informing them that they will be auto enrolled on 1 September 2013. They will then have until approximately 5 September to opt out, if they so wish. All employees already participating in a pension scheme will receive a letter confirming that their scheme meets the auto-enrolment standards.

Date of the Next Meeting

The next meeting of the PCC will be held on 9 July 2013.

Contact Details

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