

PENSIONS CONSULTATIVE COMMITTEE (PCC)
REPORT TO MEMBERS FOLLOWING THE MEETING ON 2 JULY 2019

A meeting of the PCC took place in London on 2 July 2019.

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

The meeting was attended by:-

Martin Johnson	Pensioner Representative (Deputy Chair)
Imran Bashir	Capability Green
Scott McMillan	Basildon
Stephen Park	Edinburgh
Stuart Rushworth	Capability Green
Tony Sheehan	Basildon
Scott Wallace	Edinburgh
Paul Wilton	Southampton
Andrew Letton	HR – Leonardo MW Ltd
Mike Nixon	Head of Pensions
Helen Thompson	Pensions Administration Manager
Sue Smith	Pensions Communications Officer

The meeting was held to receive feedback from the LEPS Trustee meeting on 18 June 2019.

Quarterly Funding Update to 31 March 2019

The quarterly funding update showed that the estimated surplus had increased from £138 million at 31 December 2018 to £153 million at 31 March 2019. The returns on the investment fund assets were higher than assumed, after a difficult prior quarter to 31 December 2018.

The cost of new benefit accrual had increased during the period from 31 December 2018 and 31 March 2019. The cost remains significantly higher than the contributions being paid to the Scheme, and the surplus is supporting this shortfall.

Annual Actuarial Funding Report

The Scheme Actuary reports on the funding position each 5 April. In the period between 5 April 2018 and 5 April 2019 the Scheme's surplus reduced by approximately £10 million.

Longevity trends

The Scheme Actuary has provided an update on longevity trends. The Scheme needs to set assumptions on how long members may live and therefore how long pensions will be paid for. The analysis showed that on average there have been fewer deaths among typical pension scheme members compared to the general population but that the rates of future improvement were not as high as previously assumed.

The appropriate longevity tables/models to use in the 2020 valuation will be discussed as part of the valuation process. However, due to the analysis above there is likely to be a reduction in liabilities (which would improve the Scheme funding position) although this is dependent on the final details of the assumptions adopted by the Trustee.

Liability Management

The Trustee has been exploring options to reduce risk and has engaged Aon's risk broking team to provide advice on investing in a 'buy-in' policy.

A 'buy-in' is an agreement with an insurance company under which a portion of the Scheme's assets are transferred to the insurer (equivalent to the value of the pensioner liabilities to be insured). There is then a cash flow from the insurer back to the Scheme for the monthly pension payments and the Scheme continues to pay the pensioners as normal. The 'buy-in' does not give priority to any class of member over another.

The Trustee has concluded that a 'buy-in' transaction may well be a suitable investment in view of the risk reduction effects and current attractive pricing. The Trustee is conducting further due diligence including a consultation with the Company.

The PCC has received a training session on 'buy-in' transactions.

Investment Performance

- The market value of the total assets of the Scheme at 31 March 2019 was £1.01 billion. This is the first time a £1 billion asset value had been reached by the Scheme.
- Q1 2019 had seen a recovery after the difficult previous quarter. Investment performance of the return-seeking assets over the quarter had been 5.4% which was 4.4% ahead of the objective. The returns over periods exceeding 3 years also remain ahead of the objective.
- The total performance measure (both the return-seeking and the matching assets) shows an 8.1% return which is 3.2% ahead of the benchmark (which looks at the change in the Scheme's liabilities). The total fund return is now ahead of the benchmark over 12 months. Over longer periods double digit returns per annum have been achieved although this has not always been sufficient to meet the objective – for example 12.2% per annum over five years relative to an objective of 13.5% per annum.

Allocation of Assets

At 31 March 2019 the Trustee held 59% of the Scheme's assets "on-risk" and 41% "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).

Best practice compliance review

The Trustee has updated its best practice compliance review relative to best practice investment principles and the Pensions Regulator's guidance.

Investment programme of work

The Trustee is conducting a programme of work to develop the actions identified during the external review of the Scheme's investment management. A document summarising the respective responsibilities of River and Mercantile and the Trustee has been produced.

Administration

Benefit statement assumptions

The Trustee has set the 2019 ‘statutory money purchase illustration (SMPI)’ benefit statement assumptions, as recommended by the Actuary.

Pension planning workshops

The Pensions Management Team have presented pension planning workshops at Luton, Lincoln and Whitehall. Further workshops will be held at various Leonardo sites throughout the summer. For more details and to book a place please see <https://www.lepensions.co.uk/news/article/pension-workshops-helping-you-understand-your-benefits/>.

Small lumps sums exercise

91 pensioners with very small pensions have been offered the ability to receive a lump sum in place of the small annual pension.

Data review

The Trustee is undertaking data review work in preparation for additional reporting to the Pensions Regulator.

Member Nominated Trustee directors

Two Member Nominated Trustee directors (MND’s) are nearing the end of their terms of office (Scott Wallace and Martin Johnson). The PCC will begin the selection process for two MNDs in early Autumn.

Joint DC investment committee meeting

A joint DC investment committee meeting of the Leonardo UK pension schemes was held on 22 May 2019. The Leonardo Electronics Pension Scheme benefits which are invested in the common DC strategy are the Additional Voluntary Contributions and the 100+ Retirement Accounts.

Investment performance

The majority of the River and Mercantile ‘blend funds’ (which make up the default fund in the DC investment strategy) had out-performed their long term targets both since the inception of the funds and over the quarter.

Trustee training

The Trustee directors have completed 197 hours of training over the year to 5 April 2019, with an average of 24.64 hours per Trustee director.

Member survey

Members with DC assets (FuturePlanner, AVCs or 100+ Retirement Account) will shortly receive a questionnaire to help the trustee understand what is important to them in relation to their DC assets and how the scheme is run.

Pension planning workshops

The PCC have received a training session detailing the information provided to members on the FuturePlanner pension planning workshops.

Date of the Next Meeting

The next meeting of the PCC is scheduled for 22 October 2019.

Contact Details

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