

Summer 2020



IN FOCUS



ELECTRONICS
Pension Scheme

UPDATE ON COVID-19

HOW WE ARE DEALING WITH COVID-19

The last few months have seen unprecedented times for us all in every aspect of life. We hope that you and your families have stayed safe and well during this difficult time.

We would like to reassure you that the Trustee board, Pensions Management and Scheme advisers have transitioned successfully to homeworking and online meetings. All services continue to be provided and we continue to support our membership with their pension requirements.

IS MY PENSION SAFE?

We understand that headlines during this pandemic can be alarming, but it is important to remember that saving for a pension is a long-term journey and it is normal for there to be periods of volatility along the way.

Whilst the value of the Scheme's underlying assets varies, your core defined benefit (DB) accrued value does not change with market movements, so the value of your pension is not impacted by the current volatility.

By contrast, the Scheme's defined contribution (DC) investments – Additional Voluntary Contributions (AVCs) and the 100+ Retirement Account – do move up and down with market movements.



IN THIS ISSUE

The majority of our membership with DC funds are invested in the LEPS 'blend' funds, either through our Lifestyle strategy or by choice from our 'pick & mix' range. These funds, and the funds used within the Scheme's core DB investment portfolio, are designed so that our investment manager, River and Mercantile (R&M), can move between a diversified range of assets and take account of market conditions with a view to making the journey as smooth as possible. The Trustees have been meeting with R&M on a more regular basis during these volatile times.

If you want to check how your DC fund is doing, or make any changes to your investments, you can sign into your account at www.MyPension.com/LEPS.

Update on COVID-19	2
Electronic communications	4
MyPension.com/LEPS	5
Actuarial valuation	6
Improving the security of pension benefits	7
Investment update	8
Your pension and tax	10
Retirement living standards	15
Watch out for pension scammers	16
Keep in touch	20

ELECTRONIC COMMUNICATIONS

THE WAY WE COMMUNICATE WITH YOU IS CHANGING

We have decided to switch to issuing communications electronically instead of printing and posting them to you. This is so we can:

- contact you quickly and effectively
- reduce the risk of losing important information
- cut down on paper and postage costs
- reduce our environmental impact.

GOING PAPERLESS

If you receive an annual benefit statement, your 2020 benefit statement will be the last time that this document is automatically printed and posted to you.

From 2021, it will be uploaded to your personal account at **www.MyPension.com/LEPS** and we will email you when a new statement is available to view. You will still have the right to tell the Trustee to send you a printed copy in the post.

The delivery of this newsletter is also changing. From 2021, InFocus will be published on the Scheme website, **www.lepensions.co.uk** and if you have logged onto **www.MyPension.com/LEPS** you will receive an email when there is a new edition available to read.

You will recently have received a letter from XPS regarding electronic communications. This details how to log onto **www.MyPension.com/LEPS** and what to do if you wish to continue to receive printed communications.

CHANGING YOUR EMAIL ADDRESS

Please remember to inform us (via **www.MyPension.com/LEPS**) if you change your email address.

WHAT ELSE IS AVAILABLE ON WWW.MYPENSION.COM/LEPS?

The Trustee and XPS Administration have developed online tools so that you can manage your pension online. Feedback received from members has been overwhelmingly positive, with many finding the tools useful in planning for retirement and keeping Scheme records up to date.

If you are an active member, you can use the online pension modeller to run pension illustrations using a variety of retirement dates. In addition to the pension modeller, you can also:

- view your personal details, and provide us with any updates to your contact information (e.g. address, email address, phone number)
- view your salary and service history
- view your recent active benefit statements
- view any AVC and any 100+ Retirement Account fund holdings you have with Mobius Life, access fund factsheets and change how your DC funds are invested
- view your SBS fund (if any)
- update your Expression of Wish form to assist the Trustee with who you would like any benefits to be paid to in the event of your death.

If you are a pensioner, you are able to access copies of your monthly payslips, and P60 statements.

NEW!

If you are a deferred member (i.e. you have left the Company but have not drawn your pension yet), you can now view details of your annual pension at your date of leaving.

WHAT TO DO IF YOU HAVE LOST YOUR LOGIN DETAILS

If you need a reminder of your **www.MyPension.com/LEPS** login details, please contact XPS Administration using the contact details on the back cover.

THE SCHEME'S ACTUARIAL VALUATION IS DUE

The next actuarial valuation of the Scheme is due as at 5 April 2020. The valuation process is normally carried out every three years and is like a financial health check to ensure there is enough money in the Scheme to pay members' pension benefits when they retire.

The Trustee is working with the Company to explore the flexibilities available to help address the current challenging market conditions due to COVID-19 and ensure longer-term market expectations are reflected within the valuation assessment. The initial results of the valuation are expected towards the end of the year, with the final position needing to be concluded by July 2021.



IMPROVING THE SECURITY OF PENSION BENEFITS

The Trustee is constantly exploring ways to safeguard the financial stability of the Scheme. In March 2020, the Trustee purchased an insurance policy with Just Retirement Limited, known as a bulk annuity.

A bulk annuity is an insurance policy whereby the Trustee pays a single premium to an insurance provider and in return, that insurer will pay the Trustee monthly amounts to cover the pension payments for a large proportion of the Scheme's current pensioners and dependants. The bulk annuity is an investment of the Scheme and does not change the way members receive their benefits. Pensioners will not notice any change day to day and should continue to contact XPS Administration as normal in the event of any pension queries.

Although the bulk annuity covers risk in respect of some of the Scheme's pensioners, this does not mean some members' benefits are more secure than others. The bulk annuity is an asset belonging to the whole Scheme and all members benefit from the improved security it provides.



INVESTMENT UPDATE

REVIEW OF THE SCHEME'S INVESTMENT MANAGER

A review of the Scheme's investment manager, R&M, has been carried out by the Trustee. It was concluded that R&M continue to provide an excellent service to the Leonardo Schemes, with high quality advice and successful investment performance results. As part of this review process, the Trustee has also negotiated a reduction in both core and DC investment fees.

REDUCTION IN DC FUND CHARGES

The Trustee is pleased to have negotiated improvements in the DC fund charges. The new terms have generated significant savings as detailed below. Please note these vary over time.

Funds	Investment charges on DC fund	
	Q1 2020	Q4 2019
Long Term Growth	0.494%	0.588%
Stable Growth	0.514%	0.636%
Cautious Growth	0.472%	0.552%
Retirement Focus (Default)	0.393%	0.441%
Retirement Focus (Drawdown)	0.440%	0.502%
Retirement Focus (Annuity)	0.307%	0.313%
Retirement Focus (Cash)	0.350%	0.350%
Global Equity	0.153%	0.173%
Corporate Bond	0.116%	0.136%
Fixed Annuity Focus	0.120%	0.120%
Inflation-Linked Annuity Focus	0.120%	0.120%
Cash	0.123%	0.123%
ESG	0.273%	N/A

LAUNCH OF AN ENVIRONMENTAL, SOCIAL AND GOVERNANCE GLOBAL EQUITY FUND

Environmental, Social and Governance (ESG) refers to the three central factors in measuring the sustainability and societal impact of an investment in a company or business.

The Trustee has launched a new ESG fund within the DC 'pick & mix' options. This new fund aims to invest in a globally diversified portfolio of equities and is designed to favour investment in companies which exhibit ESG characteristics that are expected to add value over the long term. This can be achieved by investing in companies with strong, improving ESG metrics, or equally by excluding less ESG-friendly companies.

This fund is intended for those who are comfortable managing their own investment strategy. Those who don't want to be actively involved in day-to-day investment decisions can continue to use the 'default' lifestyle strategy.

LEPS GLOBAL EQUITY FUND - NEW UNDERLYING STRUCTURE

The LEPS Global Equity fund, which is one of the existing DC 'pick & mix' options, has been modified slightly. The fund has had a bias towards the UK equity market that is being reduced gradually over time to be more in line with global market weights.



YOUR PENSION AND TAX

Did you know that HMRC impose two controls on the amount of pension savings you can make without having to pay extra tax? These controls are known as the Annual Allowance and the Lifetime Allowance. If you exceed either of these limits, you will have to pay extra tax.

LIFETIME ALLOWANCE

The Lifetime Allowance is a limit on the tax-free pension savings you can make over your lifetime. The limit is currently £1,073,100 (increased from £1,055,000 on 6 April 2020). It applies to the total value of your private and workplace pensions (but not State pensions). Your pension is measured against the Lifetime Allowance limit when you retire, and if you exceed the limit, you will need to pay a tax charge. However, the limit is high (equating to an annual pension of approximately £53,000), so it is unlikely to affect most members.

HOW DO I KNOW IF THIS WILL AFFECT ME?

For Lifetime Allowance purposes, your pension is valued as follows:

- Defined benefit pensions (such as your Leonardo Career Salary pension) are valued using a 20:1 factor, i.e. multiply your annual pension amount by 20. However, if you drew pension benefits before 6 April 2006 (which could be Leonardo pension benefits or benefits from other pension arrangements), the factor becomes 25:1 and therefore could significantly affect the amount of your Lifetime Allowance used.
- Defined contribution pensions (i.e. AVCs, SBS or the 100+ Retirement Account) are valued as the amount of your accumulated fund.



You can find out what percentage of the Lifetime Allowance your Leonardo benefits have used by checking your annual benefit statement (this will include any DC funds you have within the Leonardo Electronics Scheme). Your benefit statement also includes an estimate of the percentage of Lifetime Allowance you could use if you continue to work until your Normal Retirement Date (NRD).

When you retire, each pension provider is required to inform you of the percentage of the Lifetime Allowance you have used. If you have more than one pension, each time you claim a pension, you must inform that pension provider of the percentage of the Lifetime Allowance you have already received from your other pension providers.

If the pensions you receive exceed the Lifetime Allowance, your pension provider will inform you and give you details of how you can pay the tax charge from your benefits.

ANNUAL ALLOWANCE

The Annual Allowance is a limit set by the Government on the amount of pension savings that you can make tax free into any registered pension schemes that you are a member of in each tax year.

There is also a reduced Annual Allowance for high earners and a 'money purchase' Annual Allowance (more details on page 12).

THE STANDARD ANNUAL ALLOWANCE

The standard Annual Allowance is currently £40,000. However, the Government could change this for future years.

The Annual Allowance is measured over a twelve-month period from 6 April to 5 April (a tax year).

The amount of pension savings you make is based on the value of the benefits built up in a defined benefit scheme (such as your Leonardo Scheme) and the amount of contributions paid into a defined contribution scheme (such as AVCs, SBS or the 100+ Retirement Account) during each tax year.

The amount of savings in each tax year is known as the 'pension input amount' and includes your savings in all the registered pension schemes you are in during that year.

YOUR PENSION AND TAX CONTINUED

HOW IS THE PENSION INPUT AMOUNT WORKED OUT?

For defined benefit arrangements, i.e. your Leonardo pension, the pension input amount is calculated as:

$$16 \times \left[\begin{array}{l} \text{Your benefits valued on} \\ \text{the last day of the tax year} \end{array} \right] \text{ less } \left[\begin{array}{l} \text{Your benefits valued on the first day of the tax year,} \\ \text{uplifted by the annual increase in the Consumer Prices} \\ \text{Index (CPI) in the previous September} \end{array} \right]$$

For defined contribution arrangements, i.e. your AVCs, SBS or 100+ Retirement Account, the calculation of the pension input amount is the total contributions paid into the arrangement during the tax year.

If you have both defined benefit and defined contribution benefits, the value of each is worked out and then added together. Similarly, if you are earning benefits in more than one scheme, the amounts for each scheme should be worked out and then added together.

If your pension savings in all schemes exceed the Annual Allowance in a tax year, you can look at the last three tax years to see if there is any unused

Annual Allowance that can be carried forward into the current tax year.

MONEY PURCHASE ANNUAL ALLOWANCE

You should be aware that if you 'flexibly access' any money purchase benefits (also known as defined contribution benefits, such as AVCs), you will be subject to a £4,000 Annual Allowance for future defined contribution savings (leaving £36,000 towards defined benefit savings if the £4,000 is used).

Flexible access is triggered in a number of scenarios, including taking your DC savings as a taxable cash lump sum known as an uncrystallised funds pension lump sum (UFPLS) (more details on this opposite).

Generally, if you have 'flexibly accessed' any benefits in a money purchase arrangement on or after 6 April 2015, any further contributions you make to a money purchase arrangement in subsequent tax years will be tested against the Money Purchase Annual Allowance.

If your contributions exceed the £4,000 Money Purchase Annual Allowance, you will pay a tax charge on the excess, while your Leonardo defined benefit savings will be tested against the lower alternative Annual Allowance of £36,000.

The Money Purchase Annual Allowance was higher prior to 2017, and special transitional rules applied for the tax year 2015/16. You can contact the Scheme Administrators, XPS, for more information, if applicable.

If you flexibly access pension benefits (or have flexibly accessed any pension benefits since 2015), you will be provided with a flexible access statement, and you should provide XPS with a copy of this statement.

WHAT IS FLEXIBLE ACCESS?

Flexible access means taking a cash amount over the 25% tax-free limit, for example, taking an uncrystallised funds pension lump sum (UFPLS) from your DC funds, taking an UFPLS from another pension arrangement (including through income drawdown), or purchasing a flexible annuity.

You can find more information about UFPLS in the AVC Guide, Retirement Account Guide or the Taking Cash from Voluntary Savings Guide on the Scheme website www.lepensions.co.uk



YOUR PENSION AND TAX CONTINUED

TAPERED ANNUAL ALLOWANCE FOR HIGH EARNERS

There is a tapered Annual Allowance for high earners.

From 6 April 2020, for every £2 of income over £240,000, the £40,000 Annual Allowance reduces by £1, down to a minimum of £4,000 (for incomes of £312,000 or more).

HOW DOES THE TAPERED ANNUAL ALLOWANCE WORK?

The Annual Allowance is tapered down for members who have a 'threshold income' in excess of £200,000 and 'adjusted income' in excess of £240,000.

Income	Definition	Limit
Threshold income	Broadly, your taxable income (from all sources) after the deduction of your pension contributions (including AVCs and SBS).	£200,000
Adjusted income	Broadly, your threshold income plus pension savings built up over the year.	£240,000

Pension tax allowances are complex, and you are advised to seek professional financial advice if you have queries about the limits or your tax position. For more information on the Lifetime Allowance and the Annual Allowance, please see the factsheets which are available on www.lepensions.co.uk



RETIREMENT LIVING STANDARDS

DO YOU KNOW HOW MUCH YOU WILL NEED TO LIVE ON IN RETIREMENT?

The Pensions and Lifetime Savings Association (PLSA) has produced a report which aims to help people understand how much they will need for a minimum, moderate or comfortable quality of life when they retire.

Living Standard	Single	Couple	
Minimum	£10,200 p.a.	£15,700 p.a.	A 'minimum' lifestyle covers all your needs with a little left over for fun and social occasions. You could holiday in the UK, eat out once a month and do some affordable leisure activities about twice a week.
Moderate	£20,200 p.a.	£29,100 p.a.	A 'moderate' lifestyle provides more financial security and more flexibility. You could have one foreign holiday a year and eat out a few times a month. You'd have the opportunity to do more of the things you want to do.
Comfortable	£33,000 p.a.	£47,500 p.a.	A lifestyle that allows you to be more spontaneous with your money. You could have a subscription to a streaming service, regular beauty treatments and two foreign holidays a year.

For many people, their private and State pensions (a full State pension is currently £9,110 per year) and other savings could go a long way towards these costs. You may need to add other costs depending on your circumstances, such as mortgage, rent, social care costs and any tax on pension income.

The report details the sorts of things you would be able to afford under each standard of living, and can be accessed at www.retirementlivingstandards.org.uk

WATCH OUT FOR PENSION SCAMMERS

Did you know that during the COVID-19 pandemic, pension fraud is the third most commonly observed financial scam?

In the last edition of InFocus, we detailed four steps you can take to protect yourself from pension scammers. However, since the COVID-19 outbreak, the Pensions Regulator has issued further guidance around pension scams.

If anyone approaches you and suggests that now is a good time to transfer due to the coronavirus crisis, please be mindful that there are a lot of unscrupulous individuals trying to take advantage of people at this uncertain time. For this reason, we urge you to exercise extreme caution and visit **www.fca.org.uk/scamsmart** which has specific guidance relating to COVID-19.

Useful information, particularly if you are approaching retirement or have had your pension affected by the current economic conditions, can also be found at **www.pensionsadvisoryservice.org.uk/about-pensions/when-things-change/coronavirus-how-will-this-affect-my-pension-or-investments**



WHAT DOES A PENSION SCAM INVOLVE?

Your benefits within the Leonardo Electronics Pension Scheme are very valuable. They are defined benefits which mean you receive a guaranteed pension when you retire, which increases in retirement and provides a benefit for your spouse after you die.

The Financial Conduct Authority (FCA) notes that most people are best advised to keep their defined benefits. However, you can convert your defined benefit pension into a capital sum and transfer it to a defined contribution scheme. So instead of an annual pension in retirement, you would have a 'pot' of money. This pot is then invested, and you can draw down on it as you need to (subject to tax).

If your defined benefit pension is worth more than £30,000, you will need to take financial advice from an FCA-registered pension transfer specialist. If you have not received advice from a registered pension transfer specialist, the Trustee will not transfer your pension benefits.

Pension scammers will try to attract people with promises of lucrative investments and increased flexibility, such as being able to access your pot before age 55 (which would result in a large tax charge for you of over half the pot's value). So, if it looks too good to be true, it probably is.



WATCH OUT FOR PENSION SCAMMERS CONTINUED

HOW CAN SOMEONE SCAM A PENSION SAVER OUT OF THEIR MONEY?

Most people think of a pension scam as someone stealing the whole of their pension fund and riding off into the sunset on a jet ski. However, sometimes the scam is getting people to transfer money into a pension arrangement with high fees. Both the new pension arrangement and the adviser take their 'cut', leaving the member's pot massively depleted.

Warning signs of potential pension scams that have been identified by XPS when dealing with transfers from the Leonardo Scheme include:

- **Cold calling** – members have been contacted by 'advisers' on LinkedIn or other social media and told that now is a great time to transfer their pension. Cold calling about pension transfers is now illegal in the UK.
 - **Free reviews** – if you get offered a free pension review, you should be very cautious. Any genuine pension transfer specialist will be upfront about the fees they charge.
 - **Unregistered introducers** – a number of our members have been contacted by an 'adviser' who pushes them to transfer their benefits.
- However, this is an introducer, often based overseas, who is not a registered pension transfer specialist. The introducer pays a registered pension transfer specialist to give advice. However, the member may never actually meet the registered pension transfer specialist to discuss the advice (which could be to not transfer the benefits).
- **Upfront fees** – a number of members have believed there would be no upfront fees to transfer their pension benefits. However, this is how the adviser makes money, so they will often take a percentage of the transferred amount. These charges can range from 2% to 5% of the value of the pension pot.

- **Ongoing fees** – any defined contribution pension scheme will charge fees to invest your money. There may also be fees each time you withdraw funds from your pot. However, these fees are often hidden in small print. You should ensure you are fully aware of any fees before proceeding with a transfer.
- **Pressure to make a quick decision** – some advisers will put pressure on people to make a quick decision, perhaps by sending a courier to collect the signed documents or claiming there is a deadline to invest in a particularly lucrative fund. You should take the time to read all the documentation before you make any decisions.
- **Overseas pensions** – we have experienced members who are unclear on whether they were transferring their funds into UK or overseas pension schemes. UK defined benefit pension schemes can only be transferred to a small number of authorised overseas pension schemes, known as Qualifying Recognised Overseas Pension Schemes or QROPS.

However, if the pension is transferred to a UK defined contribution scheme first, it can then be subsequently transferred overseas to an unauthorised scheme.

THE PENSION TRANSFER GOLD STANDARD

Pension
TRANSFER
Gold Standard

There are a number of financial advice firms who hold the Pension Transfer Gold Standard. This is a code of best practice voluntarily adopted by regulated financial firms and advisers offering specialist advice on pension transfers.

Financial firms and advisers who adopt the Gold Standard adhere to a set of principles over and above those they are required to follow by regulation.

If you are thinking of transferring your pension benefits, you should aim to use an adviser who has the Pension Transfer Gold Standard.

KEEP IN TOUCH

Please remember to let us know if any of your details change, such as your home or email address. If you have any queries about your pension, please contact the administrator.

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