

The Thales UK Pension Scheme – ANNUAL NEWSLETTER



FUTURE FOCUS

Looking towards your future.....

Issue 7 - December 2015

WELCOME TO YOUR ANNUAL NEWSLETTER

Statement from the Chairman

Dear members, welcome to FutureFocus 2015, the annual newsletter for members of the Thales UK Pension Scheme.

2015 saw major changes in the pension industry with the introduction of new pension flexibilities in April. The Trustees decided not to adopt all the pension flexibilities in the Government scheme. However the Trustees have worked with Thales to ensure that the scheme rules were amended to allow members more freedom to avail themselves of these flexibilities by introducing wider opportunities to transfer benefits. The rules have also been changed to allow certain small pensions to be taken as a lump sum.

During 2015 the Trustees and Thales also amended the scheme rules to provide that civil partners and same sex spouses will be provided the same benefits as opposite sex spouses (except in relation to certain contracted out benefits). This clear commitment to full equality ensured that the scheme surpassed the legislative requirements relating to these benefits.

As I reported in last year's newsletter a formal actuarial valuation of the scheme is currently underway with an effective date of 31/12/14. Trustee discussions with Thales and the scheme Actuary are continuing and the final figures are not expected until 2016. Whilst the scheme assets have again performed well during the inter-valuation period the continued low interest rate environment is undoubtedly going to lead to the liabilities increasing.

I'm pleased to report that the continued focus on achieving value for money across the administration of the scheme resulted in an 8% reduction in the scheme running costs in 2014 a saving that has been maintained during 2015.

I hope as ever, that you find the information in this newsletter informative. I would encourage all members to visit the scheme web site (thales.xpmemberservices.com), where you will find further information which is updated throughout the year.

May I again thank both our excellent pension scheme staff, advisors and my fellow Trustees for their continued dedication to the efficient delivery and ongoing security of your pension benefits and wish all of our members a healthy and prosperous 2016.

Yours Sincerely

Lord Freeman

CONTENTS

1 Statement from the Chairman

2 Scheme Funding

3 The 2015 Budget

4 Consultation on Pensions Tax Relief

5 Pensions Transfers and Pensions Liberation

6 Changes to Scheme Rules

7 Expression of Wish Form – a reminder

8 Scheme Details

9 Membership Details

10 Scheme Accounts

11 Who to contact

Scheme Funding - The 31 December 2014 Actuarial Valuation

The Trustees carry out an in-depth examination of the Scheme's finances at least every three years. This is called an actuarial valuation. The Trustees ask a qualified, independent professional, known as an actuary, to help to undertake this task.

The estimated cost of providing the benefits you and other members have earned to date is known as the Scheme's "liabilities". To check the Scheme's (and each Section's) financial position we compare the value of its liabilities to its assets. If the Scheme/Section has fewer assets than liabilities, it is said to have a "deficit".

As you are aware, the formal actuarial valuation of the Scheme commenced in December 2014. The Trustees and Scheme Actuary are working with the Sponsoring Employer to agree a recovery plan to eliminate the deficit. The results are not expected until the second quarter of 2016.

2015 Summer Budget – how are pensions affected?

The 2015 Summer Budget, held on 8 July 2015, included several announcements that may affect the tax relief on the pension you are either accruing in the Scheme or within another pension arrangement (such as a personal pension or the Thales UK Pensions Savings Plan).

The key pensions-related announcements were as follows:

Annual Allowance

The amount of your annual pension savings that can benefit from tax relief is limited to what is known as the 'Annual Allowance'. Broadly the most that you can save tax-free towards all your pension arrangements is the lower of 100% of your earnings and the Annual Allowance. In recent years the Annual Allowance has been £50,000 but it was reduced to £40,000 for the 2014/15 tax year onwards.

Over the 2015/16 tax year the period for assessing savings against the Annual Allowance will be aligned to the tax year for all pension arrangements. This means that Scheme savings for the 2015/16 tax year will be assessed by reference to the real increase over the period 7 April 2014 to 5 April 2016. To compensate for this, transitional rules will apply including an overall Annual Allowance of up to £80,000 (double the usual amount). As a result of this transition, it has not been possible to include any Annual Allowance information in your 2015 annual benefit statement. Details of your personal 2015/16 tax year including your Annual Allowance built up in the scheme will be included in your 2016 annual benefit statement.

Under the Scheme the amount of savings to be counted towards the Annual Allowance is assessed as 16 times the real increase in accrued pension over the 12 month period ending on 6 April at the beginning of the tax year. For example the savings to be included in the 2014/15 tax year were assessed by reference to the real increase over the 12 month period to 6 April 2014 and this information was therefore included in your 2014 annual benefit statement. Note that this contrasts with the Thales UK Pensions Savings Plan where actual contributions paid (by you and the Company) count towards the Annual Allowance.

From 6 April 2016, a Tapered Annual Allowance will be introduced for individuals with gross taxable income (including for this purpose individual and employer pension contributions and the value of defined benefit pension accrued over the course of the year) of over £150,000. For every £2 of gross income over £150,000 the Annual Allowance will be reduced by £1. In this way, the Annual Allowance will reduce from £40,000 to a minimum of £10,000.

However, there will be a threshold of £110,000 of taxable income (but here we exclude pension contributions) below which taxpayers will not be subject to the Tapered Annual Allowance and the standard Annual Allowance of £40,000 will be available in full.

A Money Purchase Annual Allowance also applies to members who have accessed any retirement savings "flexibly" through flexible drawdown or the new "pensions freedoms".

As a result of these changes, more individuals will now be caught by the Annual Allowance. If you think you will be affected, you should make sure you understand how the Tapered Annual Allowance will be determined and the implications of exceeding the Annual Allowance.

Scheme savings for the 2016/17 tax year will be assessed by reference to the real increase over the period 6 April 2016 to 5 April 2017 and details will be included in your 2017 annual benefit statement.

Lifetime Allowance

The 'Lifetime Allowance' is the limit on the pension savings you can build up over your entire working lifetime before a tax penalty applies.

The Lifetime Allowance will be reduced to £1 million from 6 April 2016 and will be increased in line with the increase in the Consumer Price Index from April 2018. New protection(s) will be introduced to support those who already have large accumulated pension savings (in excess of the new Lifetime Allowance). Details of these protections are still being finalised. It is your responsibility to apply for any new forms of protections that may be made available.

Lifetime Allowance - Registering for Individual Protection 2014

You may recall that the Lifetime Allowance was reduced from £1.5m to £1.25m from 6 April 2014. Individuals with pension savings in excess of £1.25m at 5 April 2014 are able to apply for Individual Protection 2014 which enables individuals to protect a higher LTA. Individuals have until 5 April 2017 to apply for Individual Protection 2014. If you are eligible for Individual Protection 2014, it is your responsibility to gather the necessary information required to apply for Individual Protection 2014 by the deadline of 5 April 2017.

Neither the Trustee nor its professional advisors take any responsibility for individuals who fail to register for Individual Protection 2014. Details of how to apply for Individual Protection 2014 and a link to the form are provided below.

<https://www.gov.uk/government/publications/pensions-individual-protection-2014>

<http://www.hmrc.gov.uk/pensionschemes/ip14online.htm>

Consultation Launched on Pensions Tax Relief

As well as the imminent changes to the Lifetime and Annual Allowances, the Government also launched a consultation on whether there is a case for reforming pensions tax relief or whether it would be best to keep the current system. Alternatives suggested include removing all tax relief on contributions, but instead individuals would receive tax relief on any investment returns and when receiving their benefits (i.e. a similar structure to current ISAs) as well as less radical changes including further adjustments to the Lifetime and Annual Allowances.

The Government has presented the consultation against a backdrop of increased longevity and the changing nature of pensions provision away from Defined Benefit schemes towards Defined Contribution schemes. It considers that any changes should result in a system that is simple and transparent, sustainable (for the public finances) and allows individuals to take personal responsibility for ensuring they have adequate savings for retirement. The consultation ran until 30 September 2015 and the outcome is awaited.

Pensions Transfers and Pensions Liberation

As highlighted in last year's newsletter, anyone with a defined benefit pension, such as that provided by the Scheme, may be able to take advantage of new legislation and make unlimited withdrawals but they will first have to transfer to a defined contribution pension arrangement. Any such member transferring from a defined benefit scheme with pension savings of more than £30,000 will be required to take and pay for financial advice before doing this. The Trustees are required to verify that advice has been taken.

In last year's newsletter we highlighted the rise in 'pension liberation fraud', where companies claim that they can help you cash in your pension early. You should remain alert to offers to convert pension into cash early and if in any doubt, take advice from a registered adviser. You can find out more about this issue at <http://www.thepensionsregulator.gov.uk/individuals/dangers-of-pension-scams.aspx>. Note that, as set out above, from age 55, there is now greater flexibility to access your pension via legitimate means.

Changes to the Scheme Rules

As planned and mentioned in last year's newsletter, the Scheme Rules have now been updated to provide greater flexibility in two key areas:

1. Giving the Trustees and Thales wider powers to allow members to take a transfer value up to, and past, Normal Retirement Age. Currently there is no such right when you are within one year of Normal Retirement Age.
2. The Trustees now have power to allow members to take pension savings worth less than £10,000 as a lump sum.

In addition to the above, the Scheme Rules have been updated to provide benefits for civil partners and same sex spouses on the same basis as opposite sex spouses (except in relation to certain contracted out benefits).

Expression of Wish Form – a reminder

A completed Expression of Wish form indicates to whom you wish any lump sum death benefit to be paid in the event of your death. You are therefore encouraged to keep your Expression of Wish form up-to-date as your circumstances change. The form is applicable to the life assurance benefit for active members, but also to any lump sum death benefit following the death of a deferred member (typically, a refund of your own contributions) and a pensioner member who dies within 5 years of pension commencing (where a balance of the 5-year pension guarantee is payable as a lump sum death benefit).

Whilst the Expression of Wish form is not binding on the Scheme Trustee, as for tax reasons death benefits are payable under discretionary trusts, the Trustee will have regard to your wishes in using its discretion. As a result, the benefit does not form part of your Estate and therefore is free of income and inheritance tax under current legislation.

If you are unsure if you have completed an Expression of Wish form in the past, or if you think a previously completed form may no longer reflect your current circumstances, you should complete and submit a current form which would supersede any previously completed form. A blank form for completion is available to print from the Scheme website (under "Member Info" then "Member Forms") at <http://thales.xpmemberservices.com/Home.aspx>. Alternatively a form can be supplied on request to Equiniti, the Scheme administrator, whose contact details are shown at the end of this newsletter. The original signed form should be submitted to Equiniti by post (e-mailed copies are not accepted).

Scheme Details

List of Trustees

Lord Freeman (Chairman)

Peter Rowley (OSC – Section 1 Trustee)

Helen Depree (OSC – Section 2 Trustee)

John Twigg (OSC – Section 2 Trustee)

Joelle Dumetz (GSC – Section 2 Trustee)

Phil Naybour (GSC – Section 1 Trustee)

Colin Milbourn (GSC - Section 1 Trustee)

Ken McSweeney (ISC – Section 2 Trustee)

Nigel Baldwin (ISC – Section 2 Trustee)

Paul Corris (ISC – Section 1 Trustee)

Robert Scallon (ISC – Section 2 Trustee)

Geoff Fowle (OSC – Section 1 Trustee)

Service Providers

EQUINITI – Scheme Administrator – based in Crawley

WRAGGE LAWRENCE GRAHAM & CO LLP – act as the legal adviser to the Trustees – based in London

MERCER LIMITED – Actuaries and Consultants (Mark Condron – Scheme Actuary) – based in London

TOWERS WATSON – Investment Advisers – based in London

Pensions Department

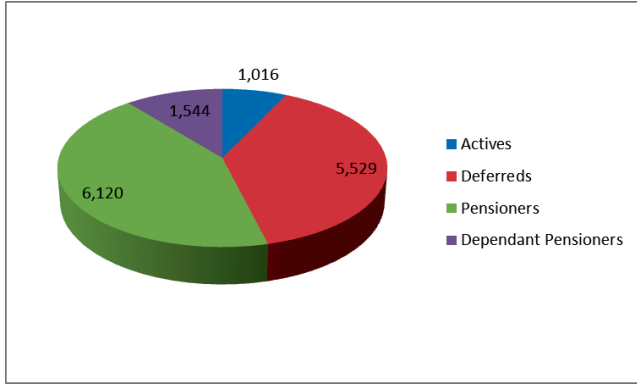
Philip Cameron – Secretary to the Trustees

James Carrell – UK Pensions Manager

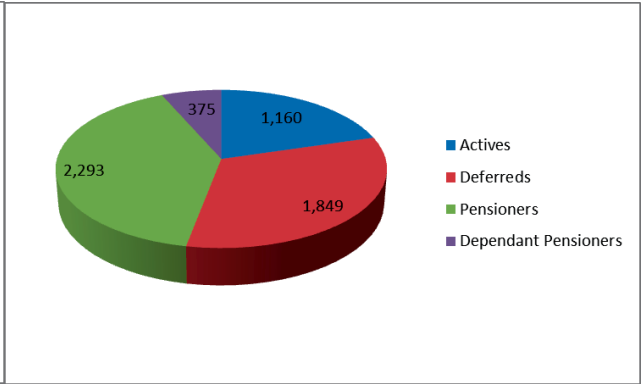
These two employees of Thales provide in-house support for the Trustees.

Membership Details as at 31 December 2014

Section 1



Section 2



Scheme Accounts as at 31 December 2014

	(£'000)	(£'000)	(£'000)
	Section 1	Section 2	Total
Net assets at 31 December 2013	1,459,228	501,017	1,960,245
Contributions & Other Income	58,813	21,941	80,754
Benefits and expenses	77,803	25,184	102,987
Net additions (reductions) from dealing with members	(18,990)	(3,243)	(22,233)
Net returns on investments	139,124	44,700	183,824
Net increase in the fund during the period	120,134	41,457	161,591
Net assets at 31 December 2014	1,579,362	542,474	2,121,836

WHO TO CONTACT

In the event of a query regarding your benefits please contact Equiniti in the first case. You can access Member Web directly via <http://thales.xpmemberservices.com>, or alternatively contact the helpline on 01293 603060, or by email at thales@equiniti.com. If you would prefer to contact them by post then please write to:

Thales UK Pension Scheme
C/o Equiniti
Sutherland House
Russell Way
Crawley
West Sussex
RH10 1UH

If Equiniti are unable to answer your query, or you are in any way dissatisfied with the service you have received, please contact the Secretary to the Trustees at:-

Thales UK Pension Scheme
C/o Philip Cameron
2 Dashwood Lang Road
The Bourne Business Park
Addlestone nr Weybridge
Surrey
KT15 2NX