The Thales UK Pension Scheme – ANNUAL NEWSLETTER

FUTURE FOCUS

Looking towards your future…….

Issue 9 - December 2017

WELCOME TO YOUR ANNUAL NEWSLETTER

1 Statement from the Chairman

Dear members, I am honoured to have been selected by my fellow Trustees to serve as the new Chair of the Trustee of the Thales UK Pension Scheme. I have been serving as a Trustee for the past four years. The role has been challenging but working in a close knit team of trustees and advisers to address the issues facing the scheme has been very satisfying. I now look forward to leading the Board in the ongoing task of securing your pension benefits.

I want to acknowledge the contribution of our outgoing Chair, Lord Freeman, who has dedicated a considerable amount of time and energy to the pension scheme over the years. He has served as Chair of the Trustee since its formation in 2008 and was previously a trustee of the Racal schemes. His gravitas and calm manner has earned him the respect of all his fellow Trustees and the Company and we all wish to thank him for his work and wish him well for the future.

During the year we completed the selection process for the three Section 2 Member Nominated Director (MND) posts. I am pleased that Paul Corris and Joelle Dumetz were returned to serve a further term. With Robert Scallon stepping down as a MND, after 5 years of dedicated service, we are pleased to welcome Niall Mitchell as a new MND, following his successful nomination.

The major project for the scheme during the year was to conclude the review to consider whether the continued use of the Retail Price Index (RPI) is appropriate for revaluation and benefit indexation by the scheme. This was a complicated task given the fragmented nature of the schemes historic benefit structure, requiring detailed analysis of the rules and in some areas the matter was determined by a ruling of the courts. The matter was finally concluded in April and all, in scope, members have been communicated on how the outcome impacts upon their benefits.

Looking forward to 2018 we now have the formal triennial actuarial valuation of the scheme to be undertaken and the outcome and recovery plan to be agreed with the Company. Since the last valuation the economic factors that impact on the scheme have not improved. Despite continued good performance from the schemes assets there is still a substantial deficit in the Scheme and we will therefore face a difficult valuation process. However I am confident that, through discussion with the Company and the Pensions Regulator, we will be able to put arrangements in place that secure your future benefits.

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.

I thank our excellent pension scheme staff, advisors and my fellow Trustees for their continued dedication to the efficient delivery and continued security of your pension benefits and wish all of our members a healthy and prosperous 2018.

Yours Sincerely

Peter Rowley

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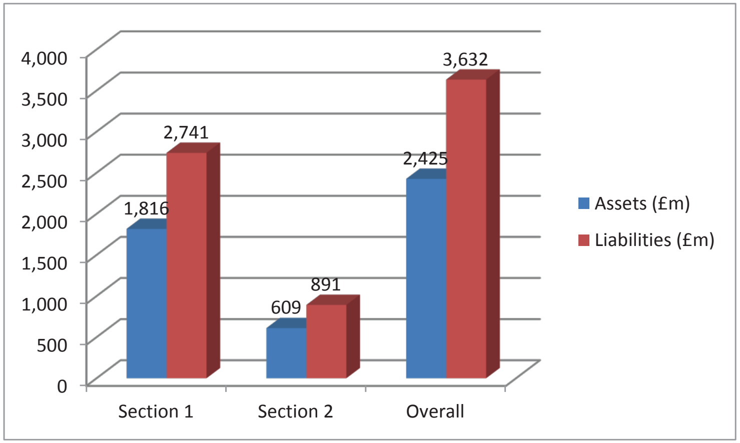
2 Funding Update - The 31 December 2016 update

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".

The last actuarial valuation was carried out with an effective date of 31 December 2014 and details of the outcome were set out in Future Focus 2016. The next actuarial valuation will be carried out with an effective date of 31 December 2017.

The financial position of the Scheme as at 31 December 2016 was as follows:



	Section 1	Section 2	Overall
Assets (£m)	1,816	609	2,425
Liabilities (£m)	2,741	891	3,632
Deficit (£m)	925	282	1,207
Funding Level (%)	66	68	67

The above information formed part of your "Summary Funding Statement" which you should have received separately.

<u>3 Benefits Indexation</u>

As members will be aware from previous communications from the Trustee, there was a lot of activity in the last Scheme Year in relation to the indexation of pensions. Broadly speaking, the Company made a request to the Trustee that, where legally possible (and not already the case), the uprating of pension benefits for the purpose of protecting against the effect of increases in the cost of living be linked to the consumer prices index (CPI) rather than the retail prices index (RPI).

The consideration of the issues was a lengthy and complex process. The key outcomes were:

Relevant to those members with career average revalued earnings (CARE) benefits earned in the Scheme since 2008, and those with legacy Thales Optronics Pension Scheme (TOPS) benefits who left pensionable service in that scheme before 1st April 1997, there was a case heard in the High Court (*Thales UK Ltd v Thales Pension Trustees Ltd & Others*) to see whether it was possible to move from RPI to CPI in relation to indexation of benefits already accrued.

The outcome of the case was that there could be no change from RPI at the present time for pension increases or the indexation of relevant benefits while still employed by Thales and either in Pensionable CARE Service or active membership of the separate Thales defined contribution scheme.

For those members with legacy final salary benefits in the Scheme in relation to whose benefits the legal advice was that there was discretion to switch from RPI to CPI (broadly those with legacy Thomson Pension Plan or Thomson Retirement Benefit Scheme benefits), the Trustee chose not to move away from RPI at the present time.

In the case of legacy Racal benefits, the legal advice was that there was no such discretion for the Trustee to consider and so, where it applied, RPI could not be changed.

For the members with legacy TOPS benefits who were in pensionable service in that scheme on or after 1st April 1997, legal advice received from a leading pensions barrister was that the relevant rules meant that RPI had switched to CPI automatically from 2010. Detailed communications have been issued to this group to explain the implications of this.

A deed of amendment was entered into by the Trustee and the Principal Employer to provide that <u>future service</u> CARE benefits earned on and from 1st April 2017 would be indexed using CPI rather than RPI. This change does not affect any benefits already accrued by members before 1st April 2017.

The result is that CARE members now have two parts to their CARE benefits: Part 1 - a CARE benefit for pre-1st April 2017 Pensionable CARE Service which attracts RPI-based indexation; and Part 2 - a CARE benefit for Pensionable CARE Service earned on and from 1st April 2017 which attracts CPI-based indexation.

It is important to note that the indexation provisions in the Scheme also contain certain caps or maximum increases and further intricacies relating to contracted-out benefits. The trust deed and rules for the Scheme contain the full details of how benefits are calculated.

4 Change of Investment Consultant

During the year the Trustees conducted a thorough market review of the scheme's investment consultant appointment. This is in line with the schemes policy of regularly reviewing all service provider appointments. As a result of the review the Trustees decided to change advisor and appointed Momentum Investment Solutions & Consulting as their new investment consultant. The Trustees believe that the new appointment will not only provide improved investment advice but also a significant cost saving due to the fixed fee model agreed.

5 Common Misconceptions about Defined Benefit Pension Schemes

You may have heard some incorrect or misleading statements about pensions in the media that could cause you to unnecessarily lose confidence in your pension arrangements, be it the Scheme or another arrangement. This article aims to set the record straight for you on five common misconceptions about defined benefit pension schemes like the Scheme.

1. **If a Defined Benefit (DB) pension scheme has a 'surplus', its benefits are secure**
   The valuation of a DB scheme assumes that the employer will remain in business. This means that even when the valuation shows that there is a "surplus" of assets relative to the liabilities of a scheme (i.e. there's more money in a scheme than the value of the benefits it has to pay over time), there is a risk that if the employer goes out of business and if no other employers are supporting the scheme, assets may be insufficient to meet members' benefits in full. In most cases, if this happens, compensation from the Pension Protection Fund (PPF) would underpin the scheme's benefits but members would be unlikely to get the same benefits they would have if the employer had remained in business.

2. **If a DB pension scheme has a 'deficit' or 'shortfall', its benefits are not secure**
   DB pension schemes rely on the continued existence of the employer to be certain that all benefits can be paid in full. This means that even if a scheme's assets are less than its liabilities (i.e. it has a shortfall in its funding), members should receive their benefits provided the employer stays in business.

3. **Trustees can demand (and get) what they want from the scheme's sponsor (i.e. the employer)**
   A scheme's trustees must negotiate with the employer to reach agreement about the level at which to set the liabilities (the value of the benefits to paid for by the scheme), and about how they should be financed. It is rare for trustees to have the power to impose a funding agreement or anything else on the employer.

4. **The Pensions Regulator can tell trustees and companies how to run their pension schemes**
   The Pensions Regulator (TPR) has fairly wide powers to request information and provide guidance, but its ability to directly control how employers and trustees finance their pension schemes is limited. TPR's powers allow it to impose particular outcomes only if trustees or employers have failed to meet certain legal duties or if it can demonstrate that the employer has exercised such bad practice in relation to the scheme that it is reasonable for the employer or any connected party to compensate the scheme.

5. **Employers should have to finance their pension schemes so that members' benefits are always paid in full**
   Trustees and employers work together to fund benefits in full as they fall due. If employers were required to provide complete security for DB pension scheme members, although a small proportion of members might get increased security, the likelihood is that their employers would become less secure as the financial burden of increased liabilities would restrict the productivity and financial security of the employer.

So what can you believe? The security of DB pension schemes, rests upon a network of responsibilities governed by legislation.

- **Schemes have to be funded** (and the scheme's assets must be held separately from the employer), which ensures that there is some discipline over how the benefits are financed, rather than being paid for by the employer on an ad hoc basis.
- **Legislation requires trustees to review how their scheme is financed at least annually** and, if need be, renegotiate their approach (including the contributions paid) with the employer at least every three years.
- **Solvent companies cannot "walk away" from their pension liabilities**. If they no longer want to support the scheme, they need to pay for the benefits to be bought out with an insurance company or find another guarantor. If they want to restructure, they will need to consider the effects on the scheme and could be required to provide it with additional funding.
- **TPR's role** is to ensure that trustees carry out their statutory duties appropriately and that employers do not take actions intended to avoid their responsibilities towards the scheme.

You can find out more information on DB pension schemes from TPR's website (www.thepensionsregulator.gov.uk/) and The Pensions Advisory Service (www.pensionsadvisoryservice.org.uk/).

6 The Security of DB Pensions

You might have seen some high-profile pension schemes in the news, such as Tata Steel and BHS, where pension scheme members could see a reduction in the value of their pension savings as a result of the company being sold or going into administration.

Some of the coverage has been misleading, and sometimes worrying, however, although there cannot be a cast-iron guarantee that members' benefits will always be delivered in full, you should be reassured that DB pension schemes are subject to a network of protective measures and bodies to encourage proper governance:

- Trustees aim to get the best deal for members
- Employers have to keep the scheme's assets completely separate from the company's
- The Pensions Regulator's duty is to ensure that trustees carry out their duties and employers do not avoid their responsibilities to the scheme

We would like to reassure you that the Trustees continue to monitor the funding position closely with their advisers and the Company, particularly in light of 'Brexit' uncertainty.

7 Beware Pension Scams

In recent years there has been a rise in pension scams, also known as "pension liberation" fraud, where companies claim that they can help you cash in your pension early. In some limited cases it is possible to access pension scheme funds before age 55 (the current standard minimum retirement age) but, for most people, promises of early cash will be bogus and are likely to result in serious tax consequences. This remains the case even though there is now more flexibility in how you can access your pension savings when you reach retirement age.

These scams are often advertised as 'one off investment opportunities', 'free pension reviews' and 'legal loopholes'. However, if something sounds too good to be true, it usually is.

- **You may lose all your savings.** By entering into an agreement with companies offering a pension liberation scheme you risk losing most, if not all, of your savings.
- **You may be poorer in retirement.** You can only use your pension fund once. If you liberate your pension, there will be much less (or no) income from it when you retire.

- **You may be hit by unexpectedly high fees.** As part of the transaction, you are likely to have to pay the organisers a ‘commission’ or ‘arrangement fee’, which can typically range from 10% - 30% of the value of your pension.
- **You could face a huge tax bill and other penalties.** If you liberate your pension, you need to tell HMRC and will have to pay tax, which could add up to more than half your pension savings. If you don’t inform HMRC and HMRC contacts you first, you could be charged penalties and interest in addition to the tax.

Be alert to offers like this and if in any doubt, take advice from a registered adviser. If you think you are being targeted there are a few things you should do:

- Don’t be rushed into making any decisions or signing anything.
- Check that the person you are dealing with is authorised by the FCA at www.fca.org.uk/register
- Call the Pensions Advisory Service (TPAS) on 0300 123 1047 for guidance
- Check the details using the online pension scam identifier (further details below).

If you have already accepted an offer and believe you may be a victim, contact Action Fraud on 030012302040 or via www.actionfraud.police.uk

Online pension scam identifier

The Pensions Advisory Service (TPAS) has developed a guidance tool to help pension scheme members identify a potential pension scam. The tool, which is available on the TPAS website (https://www.pensionsadvisoryservice.org.uk/my-pension/online-tools?moreInfo=4) was developed with the support of Project Bloom, the Government-led task force that was set up to tackle pension fraud.

When you access the tool you will be asked a series of questions before being guided through the steps you should take if your answers correspond with some of the identifiers of a possible scam. Although the online tool does not give definitive answers or regulated financial advice, it does provide useful guidance.

8 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.

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/Member-Info/Member-Forms. 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).

9 Changes of Address

Do our administrators hold your correct address?

If you have moved since you last notified us of your address, please contact our administrators, Equiniti, using the contact details at the end of this newsletter.

10 2017 Member Nominated Director (MND) Selection Process

Following the call for nominations for the role of Member Nominated Director (MND) of Thales UK Pension Scheme (Section 2), three valid nominations were received for the three available MND posts. In line with the selection process the following members were therefore selected to serve as a MND:

Niall Mitchell

Joelle Dumetz

John Twigg

10 Scheme Details

List of Trustees

Peter Rowley (Chairman)

Helen Depree (Operations Sub-committee (OSC) – Section 2 Trustee)

John Twigg (OSC – Section 2 Member-nominated Trustee)

Joelle Dumetz (Governance Sub-committee (GSC) – Section 2 Member-nominated Trustee)

Phil Naybour (GSC – Section 1 Trustee)

Colin Milbourn (GSC - Section 1 Member-nominated Trustee)

Ken McSweeney (Investment Sub-committee (ISC) – Section 2 Trustee)

Nigel Baldwin (ISC – Section 2 Trustee)

Paul Corris (ISC – Section 1 Member-nominated Trustee)

Niall Mitchell (ISC – Section 2 Member-nominated Trustee)

Robert Trotter (OSC – Section 1 Member-nominated Trustee)

Steve Murray (Section 1 Trustee)

Service Providers

EQUINITI PENSION SOLUTIONS – Scheme Administrator – based in Crawley

GOWLING WLG (UK) LLP – act as the legal adviser to the Scheme – based in London

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

MOMENTUM INVESTMENT SOLUTIONS & CONSULTING – Investment Advisers – based in Windsor

Pensions Department

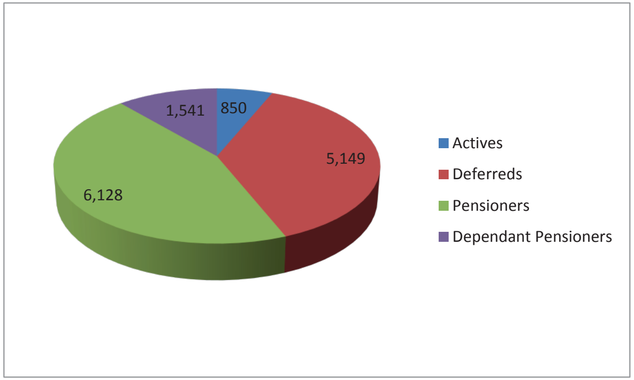
Philip Cameron – Secretary to the Trustees

James Carrell – UK Pensions Manager

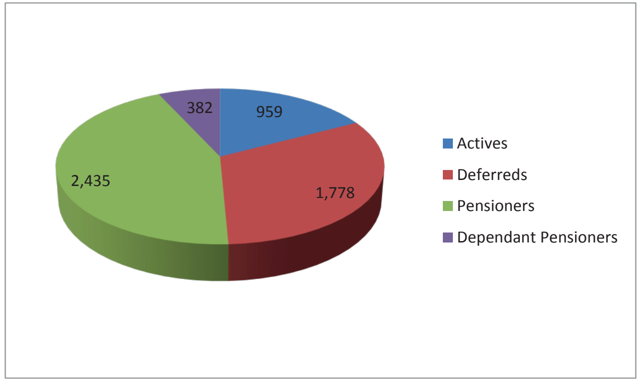
These two employees of Thales provide in-house support for the Trustees.

11 Membership Details as at 31 December 2016

Section 1



Section 2



12 Scheme Accounts as at 31 December 2016

	(£'000)	(£'000)	(£'000)
	Section 1	**Section 2**	**Total**
Net assets at 31 December 2015	1,566,169	544,645	2,110,814
Contributions & Other Income	66,425	24,874	91,299
Benefits and expenses	84,732	27,225	111,957
Net additions (reductions) from dealing with members	(18,307)	(2,351)	(20,658)
Net returns on investments	261,901	86,731	348,632
Net increase in the fund during the period	243,594	84,380	327,974
Net assets at 31 December 2016	1,809,763	629,025	2,438,788

These asset values differ slightly from those used for the funding update as they include AVC and defined contributions investments and exclude the value of certain insurance policies.

13 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
350 Longwater Avenue
Green Park
Reading
Berkshire
RG2 6GF