The Thales UK Pension Scheme – ANNUAL NEWSLETTER

FUTURE FOCUS

Looking towards your future…….

Issue 6 - December 2014

WELCOME TO YOUR ANNUAL NEWSLETTER

Statement from the Chairman

Dear members, welcome to FutureFocus 2014, the annual newsletter for members of the Thales UK Pension Scheme.

2014 was a year of consolidation for the scheme. With the employer covenant strengthened by the considerable Thales SA guarantees granted as part of the 2011 valuation, the Trustees have put in place a long term de-risking plan for the scheme. This plan sets specific funding level and market driven triggers for the scheme to de-risk, both it's investments and liabilities. Following the employee consultation exercise by Thales and after considering both legal and actuarial advice the rules relating to the level of member contributions were amended in February.

The Trustees remain acutely aware of the need to keep reducing the running costs of the scheme. There is an ongoing programme of benchmarking and reviewing of all service suppliers. This year the Trustees have conducted a detailed review of the covenant advisor appointment which will result in definite further savings.

We were very pleased during the year to be able to resolve the long running issue of compensation for the small number of members who held historic AVC policies with Equitable Life. The Government funded compensation scheme having now completed the payments due.

Looking forward to 2015 we have already started preliminary work for the triennial actuarial valuation due on the 31 December 2014. More generally the pension landscape is changing with the introduction of further reforms and flexibilities from April 2015. We have provided updates in this newsletter and will keep you informed during 2015 of any further developments.

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 conclude by thanking both our excellent pension scheme staff and my fellow Trustees for their continued dedication to the efficient delivery and ongoing security of your pension benefits.

Yours Sincerely

Lord Freeman

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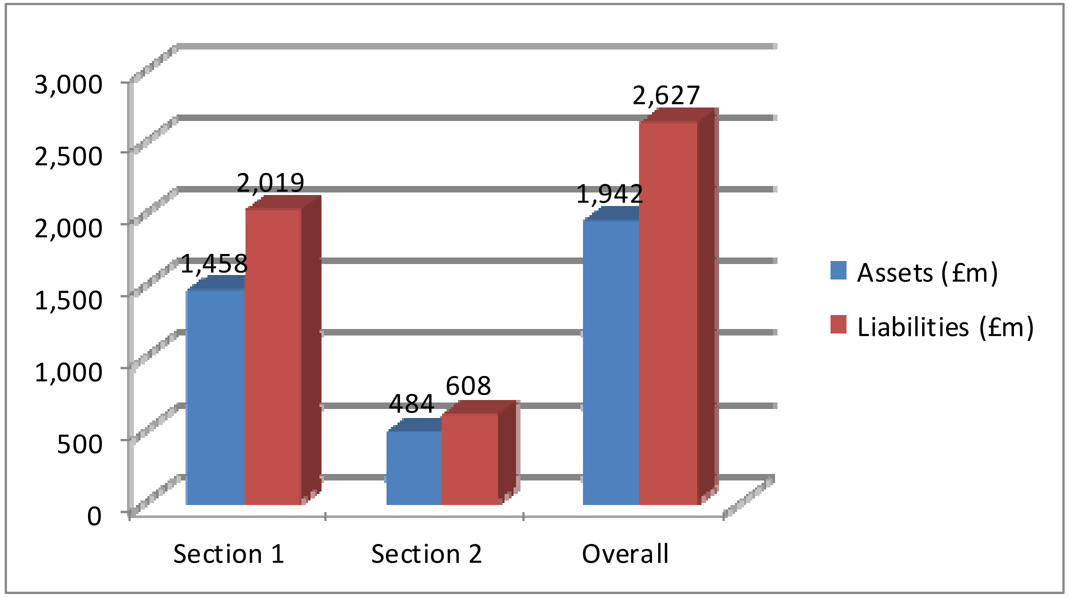
Funding Update - The 31 December 2013 update

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 2011 and details of the outcome were set out in Future Focus 2013. The next actuarial valuation will be carried out with an effective date of 31 December 2014.

The Scheme Actuary has provided the Trustees with an update of the position as at 31 December 2013:



	Section 1	Section 2	Overall
Assets (£m)	1,458	484	1,942
Liabilities (£m)	2,019	608	2,627
Deficit (£m)	561	124	685
Funding Level (%)	72	80	74

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

The 2014 Budget

It may sound dramatic, but new rules announced by the Chancellor, George Osborne, in the 2014 Budget represent a major shake-up for the world of pensions and savings. Although the impact on defined benefit (DB) pension schemes, such as the Thales UK Pension Scheme, is expected to be minimal, there are significant changes that could impact you if you have defined contribution (DC) benefits, such as additional voluntary contributions (AVCs) in the Scheme or benefits in another DC pension scheme such as the Thales UK Pension Savings Plan. Therefore, it's important that we all understand how the recent changes affect our retirement planning.

Before the Budget, when someone retired from a DC pension scheme, legislation meant that they could take up to 25% of their savings as a tax-free cash sum and use the balance to buy a pension for life (an annuity) from an insurance company. This applied to the majority of people but there were some limited exceptions applied for very small pension pots and those with substantial pension savings, which could use "drawdown". The Government has recognised that these restrictions may not suit everyone's circumstances – hence the changes announced in the Budget.

For many Scheme members, their DC benefits in the Scheme will largely comprise of any AVCs and the position is quite different from stand-alone DC benefits (such as personal pensions and free-standing AVCs) and will depend on the Rules that applied to the Thales pension scheme that you were a member of before the Scheme was formed. These will determine the extent to which DC benefits can be taken as tax-free cash sum. To the extent to which this is possible the 2014 Budget changes may be more or less significant than is the case in general for people with DC benefits. All members have the option to transfer their DC benefits out of the Scheme whilst leaving their DB pension in the Scheme.

The changes are being introduced in two stages.

Stage 1 – effective from 27 March 2014

The first two changes set out below apply to DB schemes like the Scheme as well as DC schemes. The last two changes apply to DC schemes only.

- If you are aged 60 and above, with pension savings from all sources worth less than £30,000, you may be able to take the whole lot as a lump sum. Previously, the limit was £18,000. 25% of this amount is paid tax-free, and tax is likely to be payable on the remainder under normal income tax rules.
- If you are aged 60 and above, with pension savings from one pension scheme worth less than £10,000, you may be able to take the whole lot as a lump sum. Previously, the limit was £2,000. 25% of this amount is paid tax-free, and tax is likely to be payable on the remainder under normal income tax rules. This may be possible for a maximum of three pension savings funds. The Rules of the Scheme are currently being updated to provide this flexibility to Scheme members.

- If you have pension income in payment, including State pensions, of more than £12,000 per annum (previously £20,000) you will no longer need to use your pension pot to buy an annuity; instead you can choose to withdraw money from your pension pot over time using “flexible drawdown”. Generally up to 25% of this will be tax-free and anything after that will be taxed under normal income tax rules.
- If you have pension income, including State pensions, of less than £12,000 per annum you can still choose to withdraw money from your pension pot over time but the amount you can take out each year is limited (this is known as “capped drawdown”). As for now, 25% can be taken as a tax-free lump sum and anything after that will be taxed under normal income tax rules.

Stage 2 – effective from 6 April 2015

The second set of changes is due to come into force from 6 April 2015. The changes will include:

- Complete freedom to manage your DC pension pot. You will still be able to purchase an annuity, but you will also have the option to draw it all at once or leave it invested and draw as much or as little as you wish over time. Part of your withdrawals will continue to remain tax free to the extent that this currently applies, with the balance subject to income tax.
- The age restriction on taking pension savings as cash will be reduced to the minimum retirement age (currently 55).
- Free guidance, provided by independent organisations, will be available for all individuals with defined contribution pension savings. This will be funded by levies on the financial services industry.
- Anyone with a defined benefit pension, such as that provided by the Scheme, will be able to take advantage of the new rules and make unlimited withdrawals, but, as things currently stand, 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.
- After April 2015 it will be possible for individuals to take some of the DC funds flexibly while continuing to make DC pension savings of up to £10,000 a year.
- The Minimum Pension Age will increase to 57 from 2028 and then be pegged at 10 years below the State Pension Age.

There may be other consequential changes from the Budget. More information will be available on this over the coming months as the Trustees and the Company work through how the changes will affect the Scheme.

These changes may have a significant impact on your options for any DC benefits you have and you may want to reconsider your pension investments strategy to ensure it is still appropriate for your personal plans. The above simply sets out a high level summary of the key features of the proposed changes for general information purposes only. It does not contain all the underlying details and should not be relied upon. The Trustees cannot provide you with any advice and we strongly suggest you consult an independent financial adviser (IFA) if you are unsure about what to do. If you do not have an IFA, visit www.unbiased.co.uk to find one in your area. You should always check the charges and specialist areas of an adviser before appointing them.

Update on State Pensions

On 14 May 2014, the Pensions Bill received Royal Assent and became law. We look at what this means for your State pension.

The Pensions Act 2014 introduced a number of changes to State pensions which will affect everyone reaching State Pension Age after 5 April 2016, the most significant being the introduction of a new single-tier pension from April 2016. The Act also brought forward the increase in State Pension Age to 67 and introduced a framework for future changes to the State Pension Age, so that it can continue to rise alongside life expectancy. There were a number of other changes, which may affect some members, and these are summarised below.

New single-tier pension

The current Basic State Pension and State Second Pension will be replaced by a single flat-rate pension. From 6 April 2016 the State Pension is expected to be around £148 per week (or £7,717 per year) for those who have paid at least 35 years of full National Insurance Contributions. A reduced pension will be payable to those who have paid lower National Insurance Contributions, although you will usually need 10 qualifying years.

What does this mean for you?

Active members are not currently 'contracted out' of the State Second Pension and will therefore see no change to their National Insurance contributions and will receive the single flat-rate pension at State Pension Age in respect of the period for which they were not contracted out. However, many Scheme members (generally all members with the exception of former members of the Thomson Retirement Benefits Scheme) were contracted out prior to 1 January 2008. Your State pension will be reduced for the period you were contracted out.

Increase in State Pension Age

The Pensions Act 2014 confirmed the increase in State Pension Age to 67 for everyone by 2028. It will increase gradually from 66 to 67 between 2026 and 2028, and is expected to rise to 68 by the mid-2030s.

What does it mean to you?

As the gap between the State Pension Age and the Normal Retirement Age in the Scheme widens, you will need to plan carefully for how you can "fill the gap" if you wish to stop working when you can take your full Scheme benefits.

To find out more about your State Pension Age, or to request a State Pension statement, go to the Government pension website at https://www.gov.uk/state-pension

The Lifetime Allowance and Individual Protection

As set out in Future Focus 2013, the Lifetime Allowance is the total amount of tax-favoured pension savings that can be made in a lifetime, and this has been reduced from £1.5 million to £1.25 million.

When the Lifetime Allowance reduced to £1.25 million from 6 April 2014 a new form of protection called Individual Protection 2014 was introduced. For those individuals with pension savings (using a factor of £20 for each £1 p.a. to value defined benefit pensions) above £1.25 million across all pension arrangements it provides protection of the value of those savings determined as at 5 April 2014 subject to a maximum value of £1.5 million. A person with Individual Protection 2014 can continue to build up unlimited further pension benefits or pay contributions without losing their protection although a tax charge may be payable depending on the ultimate value of their benefits. Any member considering taking out individual protection is advised to take appropriate advice as this is a complex area. All applications must be received by HMRC no later than 5 April 2017. You find the form at http://www.hmrc.gov.uk/pensionschemes/ip14online.htm

Pensions Liberation – a reminder

In recent years there has been a rise in 'pension liberation fraud', where companies claim that they can help you cash in your pension early. In rare cases – such as terminal illness – it is possible to access funds from pension schemes before age 55. But for most people, promises of early cash will be bogus and are likely to result in serious tax consequences.

Converting a pension into cash might sound very attractive to people who urgently need money. However, if something sounds too good to be true, it usually is. Cashing in your pension means that:

- **You may be poorer in retirement.** You can only use your pension fund once. If you cash in 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 on top of the tax.

Be alert to offers like this and if in any doubt, take advice from a registered adviser. You can find out more about these fraudulent schemes on http://www.thepensionsregulator.gov.uk/individuals/dangers-of-pension-scams.aspx

Note that, as set out earlier in this newsletter, the 2014 Budget changes mean that, from age 55, there will be greater flexibility to access your pension via legitimate means.

Changes to the Scheme Rules

The Trustees are currently in the process of updating the Scheme Rules to provide members with greater flexibility in two key areas:

1. Giving you the right to a transfer value up to Normal Retirement Age. Currently there is no such right when you are within one year of Normal Retirement Age.

2. Allowing you, if you are aged 60 or above, to take pension savings worth less than £10,000 as a lump sum (as described in the 2014 Budget item above).

Scheme Details

List of Trustees

Lord Freeman (Chairman)

Peter Rowley (OSC – Section 1 Trustee)

Paul Durrant (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)

Dean Mason (ISC – Section 2 Trustee)

Paul Corris (ISC – Section 1 Trustee)

Robert Scallon (ISC – Section 2 Trustee)

Geoff Fowle (OSC – Section 2 Trustee)

Service Providers

EQUINITI PAYMASTER – Scheme Administrator – based in Crawley

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

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

TOWERS WATSON – Investment Advisers – based in London

Pensions Department

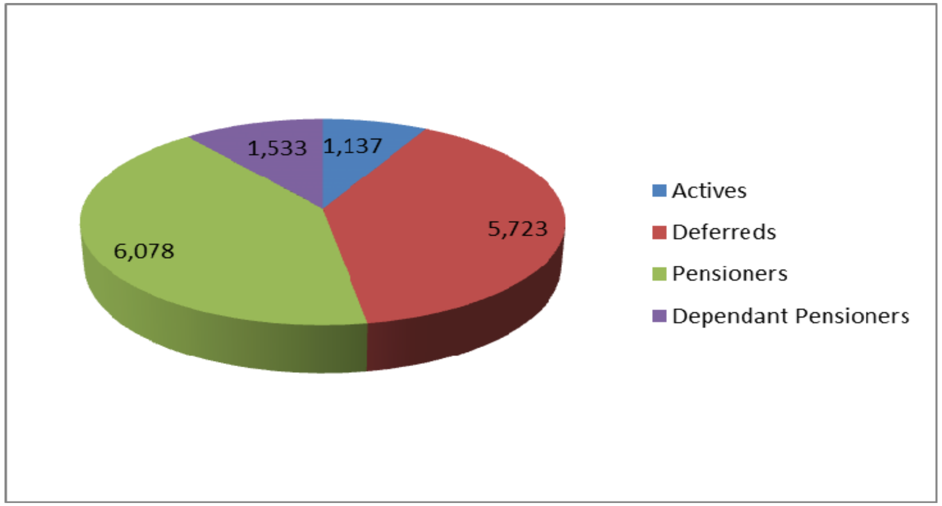
Philip Cameron – Secretary to the Trustees

James Carrell (maternity cover for Nav Donovan) – UK Pensions Manager

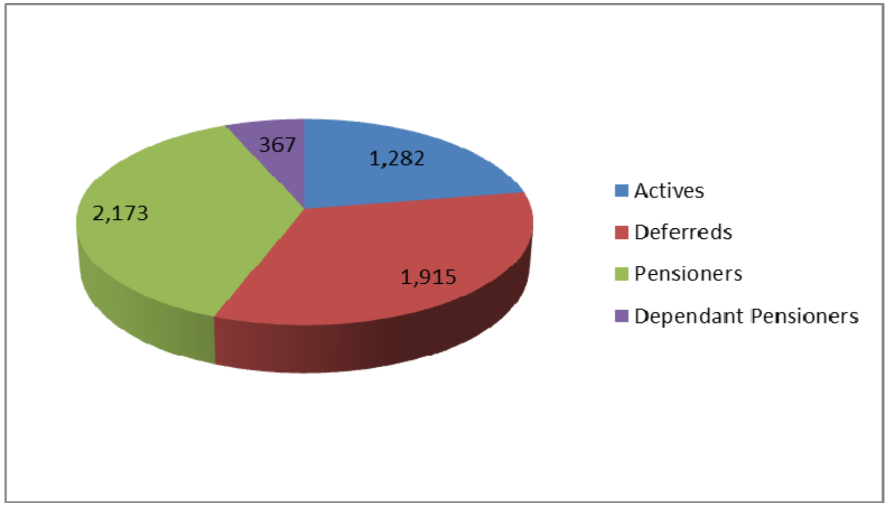
These two employees of Thales provide in-house support for the Trustees.

<u>**Membership Details as at 31 December 2013**</u>

Section 1



Section 2



Scheme Accounts as at 31 December 2013

	(£'000)	(£'000)	(£'000)
	Section 1	**Section 2**	**Total**
Net assets at 31 December 2012*	1,386,707	470,461	1,857,168
Contributions & Other Income	60,107	21,957	82,064
Benefits and expenses	77,693	21,496	101,189
Net additions (reductions) from dealing with members	(17,586)	(1,539)	(19,125)
Net returns on investments	90,107	32,095	122,202
Net increase in the fund during the period	72,521	30,556	103,077
Net assets at 31 December 2013*	1,459,228	501,017	1,960,245

*Note that the assets above differ from those shown in the funding update section because they include additional voluntary contributions and other money purchase funds which are excluded from the actuarial valuation.

WHO TO CONTACT

In the event of a query regarding your benefits please contact Equiniti Paymaster 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 Paymaster
Sutherland House
Russell Way
Crawley
West Sussex
RH10 1UH

If Equiniti Paymaster 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

Finally, please note that a copy of this Newsletter in large print (A4) is available on the Scheme website, or alternatively can be supplied by Equiniti Paymaster on request.