



THALES UK PENSION SCHEME

THALES UK PENSION SCHEME – Annual Newsletter

FUTURE FOCUS: Looking towards your future

Issue 4 - December 2012

STATEMENT FROM THE CHAIRMAN

Dear members, welcome to FutureFocus 2012, the annual newsletter for members of the Thales UK Pension Scheme.

2012 has been a busy year for the Scheme. Alongside the normal annual business the actuarial valuation is underway, and we have undertaken a Member Nominated Director election process and made improvements to the Scheme's Additional Voluntary Contribution (AVC) system.

The board that governs the Scheme is made up of 12 trustee directors, 6 nominated by the employer and 6 nominated by the membership. During 2012 all 6 of the member nominated positions were up for renewal. I would like to thank all the candidates who put themselves forward for selection and also praise the membership on the high response rate in the ballot. The changes in the board composition throughout the year are detailed later in this newsletter. I would like to thank all the trustees, both company nominated and member nominated, who stepped down from the board during 2012 for their excellent service and dedication as trustees.

As I reported in last year's newsletter the second formal actuarial valuation of the Scheme is currently underway with an effective date of 31/12/2011. Although final figures are not available it is clear that along with the rest of the UK pension industry our liabilities have been driven up significantly in the last three years by market reductions in long term interest rates. So despite a good performance from the Scheme assets I anticipate that the deficit will have unfortunately increased.

Many of you have Additional Voluntary Contributions (AVC) with the Scheme. These funds would have been built up by paying extra contributions to the former final salary schemes which merged to form Thales UK Pension Scheme. The Trustees reviewed these arrangements during the year and decided to introduce a new streamlined platform with improved governance and online manager information. To date all the Section 2 AVC arrangements have been transferred to the new Zurich platform and it will be made available to Section 1 AVC funds early in 2013.

I hope you find this edition of FutureFocus informative. I would welcome any comments or ideas you may have for upcoming editions.

Yours sincerely,

Lord Freeman

LIST OF TRUSTEES

Lord Freeman (Chairman)
Lawrence Hammond (OSC – Section 1 Trustee)
Paul Durrant (OSC – Section 2 Trustee)
Jim Bell (OSC – Section 2 Trustee)
Joelle Dumetz (GSC – Section 2 Trustee)
Phil Naybour (GSC – Section 1 Trustee)
Colin Milbourn (GSC - Section 1 Trustee)
Alistair Inverarity (GSC – Section 2 Trustee) – Resigned 3/10/2012
Victor Chavez (ISC – Section 2 Trustee) – Resigned 29/03/2012
Robert Carr (ISC – Section 1 Trustee) – Resigned 2/11/2012
Robert Preston (ISC – Section 1 Trustee) – Resigned 3/10/2012
Mark Busby (ISC – Section 2 Trustee) – Resigned 31/12/2011
Ken McSweeney (ISC – Section 2 Trustee) - Appointed 29/3/2012
Dean Mason (ISC – Section 2 Trustee) - Appointed 29/3/2012
Paul Corris (ISC – Section 1 Trustee) – Appointed 3/10/2012
Robert Scallon (ISC – Section 2 Trustee) – Appointed 3/10/2012
Geoff Fowle (OSC – Section 2 Trustee) – Appointed 2/11/2012

OSC – Operations Sub Committee

GSC – Governance Sub Committee

ISC – Investment Sub Committee

LIST OF PROVIDERS

Xafinity Paymaster – Scheme Administrator – based in Crawley

Wragge & 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

Deloitte LLP – Scheme Auditor – based in Crawley

PENSIONS DEPARTMENT

Philip Cameron – Scheme Secretary

Nav Donovan – Pensions Officer

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

MEMBERSHIP DETAILS

	Actives	Deferreds	Pensioners	Dependant Pensioners	Total
Section 1 Membership at 31/12/2011	1,459	6,043	5,979	1,518	14,999
Section 2 Membership at 31/12/2011	2,155	1,871	1,854	312	6,192

SCHEME FUND ACCOUNT AS AT 31 DECEMBER 2011

	(£'000)	(£'000)	(£'000)
	Section 1	Section 2	Total
Net assets at 31 December 2010	1,209,882	407,899	1,617,781
Contributions & Other Income	58,430	20,482	78,912
Benefits and expenses	66,153	17,954	84,107
LESS			
Net additions (reductions) from dealing with members	(7,723)	2,528	(5,195)
Net returns on investments	67,372	18,303	85,675
Net increase in the fund during the period	59,649	20,831	80,480
Net assets at 31 December 2011	1,269,531	428,730	1,698,261

FUNDING UPDATE - The 31 December 2011 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 2011. 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 mid-2013.

LEGISLATION UPDATE

BUDGET 2012

Changes to the annual allowance and lifetime allowance have been announced from the 2014/15 tax year onwards.

In his Autumn 2012 Statement, the Chancellor gave notice of reductions in the annual allowance (from £50,000 to £40,000) and the lifetime allowance (from £1.5 million to £1.25 million).

As a reminder, the annual allowance (AA) is the maximum increase in the value of pension accrued (or contributions made to money purchase arrangements) each year that will benefit from tax relief. If your benefits (in all of the HMRC registered pension schemes that you are a member of) increase more than the AA in any year (plus any unused AA from the previous three years) you will pay a tax charge. You may elect to have this tax charge paid by the Scheme on your behalf subject to a corresponding reduction in Scheme benefits. As stated in our last newsletter, the Finance Act 2011

significantly reduced the AA from £255,000 to £50,000 with effect from 6 April 2011. It will now reduce to £40,000 with effect from 6 April 2014.

The lifetime allowance (LTA) is the total amount of pension saving in HMRC registered pension schemes that will receive favourable tax treatment. If you build up benefits (in all of the HMRC registered pension schemes that you are a member of) over the LTA you will pay a tax charge on those benefits in excess of the LTA when you retire. The Finance Act 2011 reduced the LTA from £1.8 million to £1.5 million with effect from 6 April 2012. It will now reduce to £1.25 million with effect from 6 April 2014. There will be some protections available for people who already have built up benefits in excess of this level.

State Pensions

The Government intends to reform the State Pension into a single tier pension for future pensioners by combining the basic state pension and the state second pension. It is intended that the new system will be introduced May 2015. Further details are awaited.

MEMBER WEB

The Trustees launched a dedicated web site "Member Web" in 2010. Over the last year the Trustees have continued to improve Scheme governance, by allowing members to access Scheme documentation and other articles through Member Web.

The Trustees' intention is to use Member Web as a tool to communicate with its members - you can access the site directly at <http://thales.xpmemberservices.com>

The website includes a range of Scheme documentation that you are able to view including the earlier additions of the newsletter and the Trustee Report and Accounts. Active and Deferred members of the Scheme are able to access their Pension Scheme information, view benefit statements and run calculations online.

Unfortunately due to the complex nature of some member's benefits, it has not been possible to provide automatic calculations for all categories of members. Those members will still be required to contact Xafinity Paymaster for benefit estimates. If you can not remember your user ID, or have any queries in relation to the online tool you can contact Xafinity Paymaster directly.

The website is maintained and developed by Xafinity Paymaster, the Scheme Administrator, who work closely with the Trustees to ensure the site evolves into a tool that meets the needs of all members. Over the next year, there are a number of key developments that Xafinity Paymaster in conjunction with the Trustees will be undertaking to further improve the level of engagement with all members, in particular the interaction with pensioner members.

Since the launch of Member Web approximately 26% of the active population have accessed Member Web and 18% of the deferred population but we are keen to ensure that all members use this useful tool.

You can also update your expression of wish form by simply downloading the form from the website and returning it to Xafinity Paymaster. We recommend that you complete an expression of wish form to aid the Trustees in identifying who you wish to be your elected beneficiary. The expression of wish form is not legally binding, the Trustees will take it into consideration when exercising their discretion. If you are unsure if we hold an expression of wish form on file please contact Xafinity Paymaster.

The Trustees also welcome any feedback on how we could further improve the site.

WHO TO CONTACT

In the event of a query regarding your benefits please contact Xafinity 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@xafinitypaymaster.com. If you would prefer to contact them by post then please write to:

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

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

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