



**The Thales UK Pension Scheme**

**ANNUAL NEWSLETTER - FUTURE FOCUS**

**Looking towards your future.....**

**Issue 5 - December 2013**

## **WELCOME TO YOUR ANNUAL NEWSLETTER**

### **Statement from the Chairman**

Dear members, welcome to FutureFocus 2013, the annual newsletter for members of the Thales UK Pension Scheme.

During 2013 we completed the important task of finalising the 2011 actuarial valuation. Despite the scheme investments continuing to perform ahead of their targets, there was a further deterioration of the funding position of both sections due to liabilities increasing significantly. This increase in liabilities is primarily driven by the continued low interest rate environment that we have experienced since the financial crisis. As a result the Trustees and Company have agreed a recovery plan with increased deficit contributions and large, long term, guarantees from both Thales UK Holdings PLC and Thales SA. All Trustees feel this is an important step in underpinning the long term recovery of the deficit.

2013 was also an important year for all Thales pension arrangements in the UK with the introduction of auto enrolment. The scheme played its part in these changes by becoming certified for auto enrolment for all active members.

During the year we also completed a large exercise to refresh and update the scheme member data, particularly relating to our deferred members. The results exceeded the Pension Regulator targets for scheme data and processes such as addresses tracing are now in place to maintain these standards.

As the year draws to a close the Trustees are monitoring the current consultations being conducted by Thales relating to both the proposed increase to active member contributions and the consolidation of legal entities (companies) in the UK (Project Unity). The Trustees are acutely aware of their duties in maintaining the security of your benefits and are receiving regular updates from the Company on the progress of the consultations.

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](http://thales.xpmemberservices.com)), where you will find further information which is updated throughout the year.

Yours Sincerely

Lord Freeman

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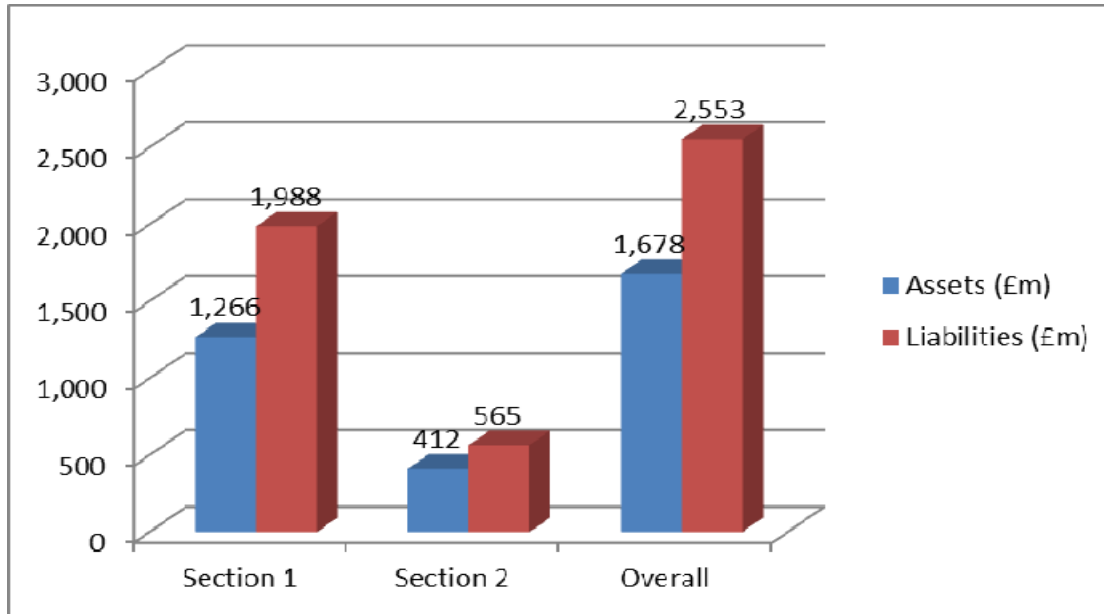
### Funding Update - The 31 December 2011 Actuarial Valuation and 31 December 2012 update

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 of the Scheme's) financial position we compare the value of its liabilities to its assets. If the Scheme/Section of the Scheme has fewer assets than liabilities, it is said to have a "deficit".

The formal actuarial valuation of the Scheme as at 31 December 2011 was completed in April 2013.

The financial position of the Scheme was as follows:

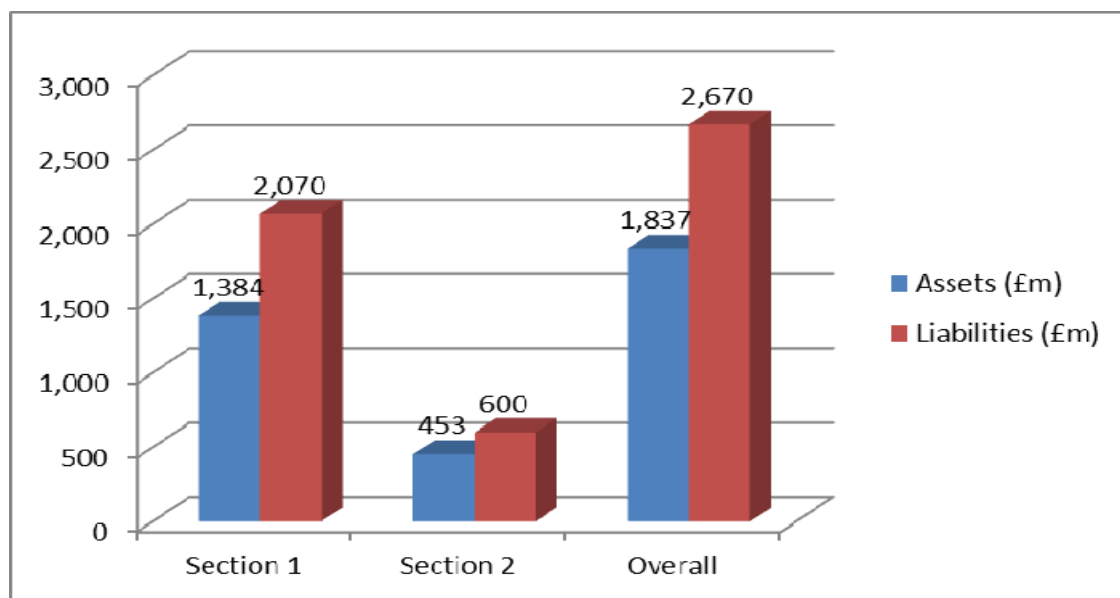


	Section 1	Section 2	Overall
Assets (£m)	1,266	412	1,678
Liabilities (£m)	1,988	565	2,553
Deficit (£m)	722	153	875
Funding Level (%)	64	73	66

The Company agreed to make “recovery plan” payments of £52.6 million each year until the end of 2028 (split £44 million for Section 1 and £8.6 million for Section 2) in addition to their regular contributions for benefits in respect of future service and expenses of running the Scheme.

The Company has given a firm commitment to increase recovery plan payments if necessary and if certain conditions are met as at 31 December 2014 and 31 December 2017. The recovery plan payments will be guaranteed by the UK parent company, Thales Holdings UK plc, up to an initial amount of £875 million (split £722 million for Section 1 and £153 million for Section 2), reducing over time. There is also a separate guarantee in relation to each Section of the Scheme from the parent company, Thales SA, at an initial level of £750 million (split £619 million for Section 1 and £131 million for Section 2), also reducing over time.

The Scheme Actuary has also provided the Trustee with an update of the Scheme’s funding position as at 31 December 2012:



	Section 1	Section 2	Overall
Assets (£m)	1,384	453	1,837
Liabilities (£m)	2,070	600	2,670
Deficit (£m)	686	147	833
Funding Level (%)	67	75	69

The above information forms part of your “Summary Funding Statement” which you should have received separately.

It is expected that the next formal actuarial valuation of the Scheme will be carried out with an effective date of 31 December 2014.

### **Member Contributions**

The factors which caused the deficit to increase as at 31 December 2011 (compared to a total deficit of £600 million as at 31 December 2008) also resulted in a significant increase in the contributions needed to fund future benefit accrual. As you are aware, the Company has now commenced a consultation concerning increases to member contributions with effect from 1 January 2014 and the Trustees are reviewing the details of the proposal.

### **Automatic Enrolment**

As you may be aware through the media, legislation requires employers to automatically enrol employees into a pension scheme which meets certain quality requirements.

For a scheme to qualify it must satisfy a minimum quality standard. The Scheme Actuary has certified that the Thales UK Pension Scheme meets this "test scheme standard".

Active members of the Scheme are therefore not currently affected by auto-enrolment and do not need to be automatically enrolled into any other scheme.

## **Changes to the Annual Allowance and Lifetime Allowance**

As mentioned in the last newsletter, the annual allowance (AA) and the lifetime allowance (LTA) will both reduce, from £50,000 to £40,000 and from £1.5 million to £1.25 million respectively, with effect from 6 April 2014.

The planned reduction in the LTA has prompted the introduction of fixed protection 2014. The Government is also currently consulting on the possibility of a further form of protection against the financial impact of the change to the LTA. If you believe that you may be affected by these changes, you should consider seeking independent financial advice as soon as possible and before 6 April 2014.

As a reminder, the 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 by more than the AA in any year (allowing for any unused AA from the previous three years) you will pay a tax charge. You may, subject to certain legislative requirements, be able to elect to have this tax charge paid by the Scheme on your behalf resulting in a corresponding reduction in Scheme benefits.

The 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.

## **Pensions Liberation**

*What is pensions liberation?*

Pensions liberation can come in two different guises:

- (a) where a member transfers their pension savings to another arrangement so that they can access their lump sum before age 55; and
- (b) where, although aged over 55, the member transfers their pension savings to another arrangement so that they can access more than 25% of their pension as a lump sum.

While accessing a lump sum early or seeking to take more than 25% of pension savings as a lump sum is not illegal, it does have severe tax consequences (the whole of any lump sum taken before age 55 and any amount taken after age 55 that exceeds the permitted 25% of pension savings would be taxed at 55%).

*When does pensions liberation become fraud?*

Often, people being targeted are not told of the hefty tax penalties or how the remainder of their pension will be invested, nor of the charges that the new provider will impose.

Commissions or arrangement fees are typically between 10% and 30% of the amount transferred. There have been cases of members not receiving the lump sum they originally wanted to access.

*What can you do?*

Always follow the Pensions Regulator's five steps to avoid becoming a victim:

1. Never give out financial or personal information to a cold caller.
2. Find out about the company's background through information online. Any financial advisers should be registered with the Financial Conduct Authority (FCA).
3. Ask for a statement showing how your pension will be paid at your normal retirement date, whether there are any tax charges, and question who will look after your money until you retire and draw your pension.
4. Speak to an adviser that is not associated with the deal you've been offered, for unbiased advice.
5. Never be rushed into agreeing to a pension transfer.

Please see the Regulator's website for further guidance in relation to pensions liberation fraud. If you have concerns that you may be the target of such fraud, contact the scheme administrators (contact details are provided on the last page of this newsletter).

## Scheme Details

### List of Trustees

Lord Freeman (Chairman – Section 1 Trustee)

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)

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 1 Trustee)

### Service Providers

**EQUINITI PAYMASTER** – Scheme Administrator – based in Crawley

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

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

**TOWERS WATSON** – Investment Advisers – based in London

### Pensions Department

Philip Cameron – Secretary to the Trustees

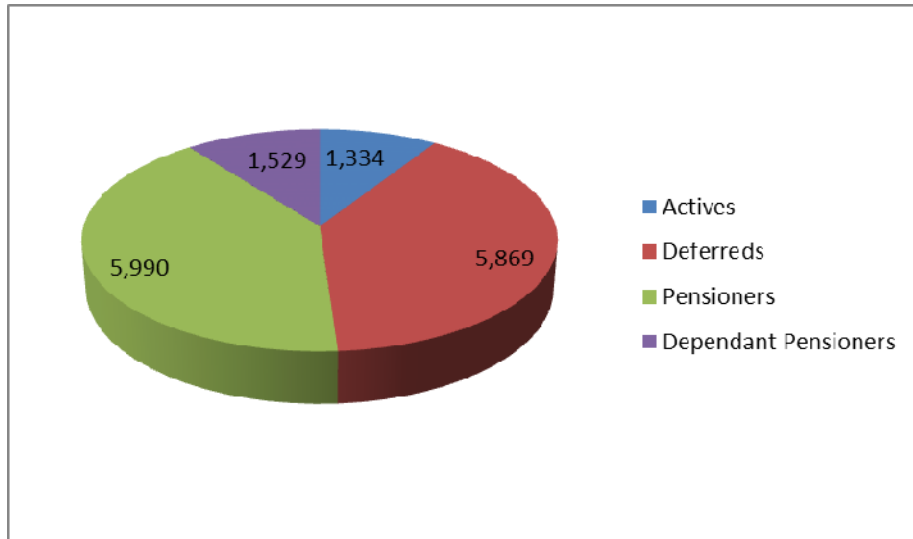
Nav Donovan – UK Pensions Manager

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

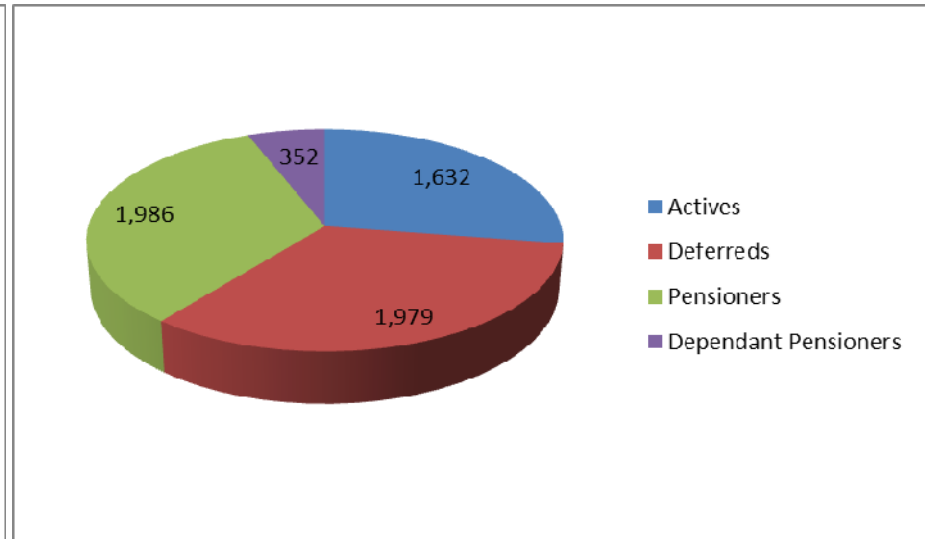


**Membership Details as at 31 December 2012**

**Section 1**



**Section 2**



**Scheme Accounts as at 31 December 2012**

	(£'000)	(£'000)	(£'000)
	<b>Section 1</b>	<b>Section 2</b>	<b>Total</b>
Net assets at 31 December 2011*	1,269,531	428,730	1,698,261
Contributions & Other Income	58,128	19,305	77,433
Benefits and expenses	68,966	20,104	89,070
LESS			
Net additions (reductions) from dealing with members	(10,838)	(799)	(11,637)
Net returns on investments	128,014	42,530	170,544
Net increase in the fund during the period	117,176	41,731	158,907
Net assets at 31 December 2012*	1,386,707	470,461	1,857,168

\*Note that the assets above differ from those shown in the funding update section because they include additional voluntary contribution 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 (the scheme administrator) 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](mailto: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