

The Thales UK Pension Scheme – Annual Newsletter

Futurefocus



Issue 2 – December 2010

Looking towards your future...

Welcome to your annual newsletter

Statement from the Chairman

Welcome to FutureFocus 2010, the annual newsletter for members of the Thales UK Pension Scheme.

By way of introduction to members who are not aware of me through Thales, I am Victor Chavez, the Deputy CEO of Thales UK and a member of the board of Trustees. My fellow Trustees appointed me as Chairman of the Thales UK Pension Scheme after Lord Freeman stood down from the role on November 2009. I was honoured to accept the appointment and have enjoyed leading the board and working on your behalf.

Indeed the main task completed by the Trustees since the last issue of FutureFocus was the conclusion of the funding negotiations between the Scheme and Company. Although the recent financial crisis has clearly impacted on Scheme funding, the Company and Trustees have agreed a Recovery Plan in order to eliminate the deficit over 14 years. Further details about the Actuarial Valuation and Recovery Plan can be found in the main body of this report.

During the year, **Les James**, one of our longest serving Trustees, retired as a Trustee of the Scheme.

Les was formally a Trustee of the Thomson Retirement Benefits Scheme. On behalf of the all his fellow Trustees, I would like to

express my thanks to Les for his long service as a Trustee, and for his contribution over the years. We welcome Alistair Inverarity as Trustee for Section 2, in his place.

The Scheme continues to embrace new technology. Most visible to the membership will be the introduction of a new Member Website later in 2010. Behind the scenes the scheme administration is now largely automated which speeds up the production of retirement quotations and transfer values, and scheme governance is now managed through a new web based platform called eShare. The Trustee of the Thales UK Pension Scheme, look forward to updating you more regularly in future using the new Member Website.

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

Yours sincerely,

Victor Chavez
Chairman -
Thales UK Pension Scheme



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Scheme details

Pensions Department

Philip Cameron – Scheme Secretary

Nav Donovan – Pension & Benefits Assistant

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

Lawrence Hammond (OSC – Section 1 Trustee)

Paul Durrant (OSC – Section 2 Trustee)

Jim Bell (OSC – Section 2 Trustee)

Joelle Dumetz (OSC – Section 2 Trustee)

Phil Naybour (GSC – Section 1 Trustee)

Colin Milbourn (GSC – Section 1 Trustee)

Victor Chavez (ISC – Section 2 Trustee)

Robert Carr (ISC – Section 1 Trustee)

Robert Preston (ISC – Section 1 Trustee)

Mark Busby (ISC – Section 2 Trustee)

ISC – Investment Sub Committee, OSC – Operations Sub Committee, GSC – Governance Sub Committee

List of Trustees

Introduction of new Trustees

Alistair Inverarity



I have been a Member Appointed Trustees for section 2, since March 2010, representing the GSC.

I Graduated from University of Strathclyde with BA (Honours) in 1969. Commissioned in RAF as aircrew and served in the UK, Germany and Italy. Retired from the service in 1994 and became a Higher Instructional Officer (Flight Simulator Instructor) within the Civil Service. I continued this work with Thales – retiring in November 2009. I have since continued this work as a contractor. I am married with 3 adult children.

I see my role as a Trustee to ensure that the interests of our pensioners are safeguarded and maximised.

Service 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 – based in London

TOWERS WATSON

Investment Advisers – based in London

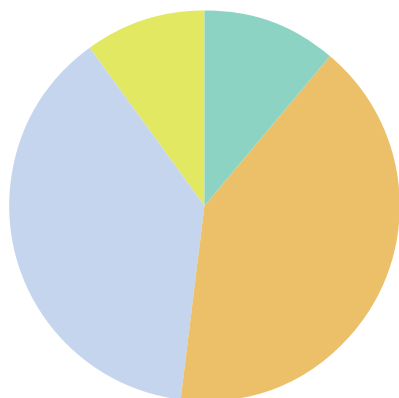
DELOITTE LLP

Scheme Auditor – based in Crawley

Membership details

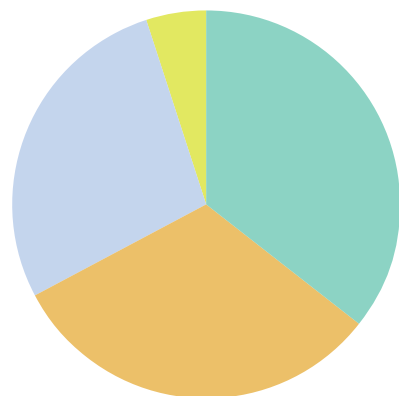
Section 1: Membership at 31/12/2009

Total: 15,555



Section 2: Membership at 31/12/2009

Total: 6,161



- Actives
- Deferreds
- Pensioners
- Dependant Pensioners

Fund account

	(£'000)	(£'000)	(£'000)
	Section 1	Section 2	Total
Net assets at 31 December 2008	960,312	320,028	1,280,340
Contributions & Other Income	59,507	14,264	73,771
Benefits and expenses	57,970	13,781	71,751
Net additions from dealing with members	1,537	483	2,020
Net returns on investments	124,549	40,900	165,449
Net increase in the fund during the period	126,086	41,383	167,469
Net assets at 31 December 2009	1,086,398	361,411	1,447,809

Member website launch

As part of the Trustees commitment to improving pensions administration and the way we communicate with members, we have developed a website in conjunction with our Scheme administrators, Xafinity Paymaster, which gives members access to up to date scheme information, documentation and contact information for enquiries.

The website address is:
<http://thales.xpmemberservices.com>

If you're an **Active or Deferred member**, you will soon be able to access your personal information and perform pension calculations. Xafinity Paymaster will be writing to you by the end of the year with your username and password which will enable you to access 'My Pension Login' from the home page.

The website is the first step in making your pension account more accessible. The Trustees and Xafinity Paymaster are committed to developing the pension website over time.

We would like to know what you think about the website. Please feedback any comments or suggestions via the 'Contact Us' page on the website.

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Legislative changes

Statutory increases – government announcement on move from RPI to CPI

Pensions often increase in line with inflation, normally with a maximum increase or cap applying. Increases usually apply to pensions in payment and on the revaluation of deferred pensions.

Under current law, the Government has said it will now use the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) (which it has used before) when it determines the level of statutory revaluation of deferred pensions and statutory increases of pensions in payment, in the future.

How the Government change to using CPI will affect the benefits actually payable under a pension scheme will depend on the precise rules of each individual pension scheme.

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The Trustee has taken legal advice on the likely effect of the Government's changes. The Scheme rules tend to follow those of many UK pension schemes so that we expect the way pensions in payment increase and the way in which CARE benefits accrue will generally continue to be calculated as they are now, using RPI (subject to certain caps). However, the way in which deferred pension benefits are revalued to normal retirement age after leaving employment with the Thales group is expected to change automatically due to the Government's new approach. In this case, revaluation is generally expected to follow CPI (subject to certain caps) going forward. *Note: There will be some specific exceptions to these general expectations for certain legacy schemes.*

The Government has said that it will shortly consult on further proposals relating to the application of CPI and may introduce certain overriding provisions. If these provisions become effective and relevant to your benefits, we will write to you again to update you.

Default retirement age

The Government has committed itself to phasing out the default retirement age of 65 years as soon as practicable.

The Government is currently consulting on plans to start phasing out the default retirement age from 6 April 2011, with full removal by 1 October 2011.

Under these plans compulsory retirement under the default retirement age will cease completely on 1 October 2011. Transitional arrangements will be put in place permitting compulsory retirement if notified to the employee before 6 April 2011, but only if the date of dismissal is before 1 October 2011.

The impact of this change is more an employment law matter than a pension scheme matter and the TUPS normal retirement age is expected to remain unchanged at age 65. However, the Trustee will need to consider the detailed legislation when it is available and the company is likely to want to consider the options available in due course.

Annuity purchase

The Government is also committed to abolish current rules that require individuals to purchase an annuity by age 75. The Government is currently consulting on the best way to achieve this, with a target date for implementing the change of April 2011.

As part of the change the Government has committed to create a new and more flexible 'tax framework' for retirement, giving individuals greater freedom in how best to turn their pension savings into a retirement income. This flexibility will be subject to new rules designed to ensure the state does not have to make extra social security payments if individual's savings are exhausted prematurely.

This flexibility is most applicable to individuals who have personal pension arrangements and defined contribution savings out of which annuities are purchased. Under the Scheme's rules pensions are paid by the Scheme and benefits must be taken by age 75.

Options on annuitisation may be applicable if you choose to transfer your benefits out of the Scheme. If you are interested in the greater flexibility these changes may bring you should seek further confirmation of your individual circumstances, including taking independent financial advice.

Minimum pension age

The normal minimum pension age is the youngest age at which a member of a registered pension scheme can ordinarily take his benefits. Before 6 April 2010 this was defined in legislation as age 50. From 6 April 2010 the normal minimum pension age was changed to age 55.

This means that the earliest age from which pension benefits can be taken under the Scheme from 6 April 2010 is age 55 unless:

- (a) a member has a protected right to draw an early retirement pension from an age younger than 55; or
- (b) a member is eligible for a serious ill-health pension, which can be paid at any age provided that the member meets the relevant definition of serious ill-health, the eligibility criteria are met and any necessary consents are given as required under the Scheme rules.

The Trustee is not aware of any TUPS members with such a protected right as mentioned in (a). Therefore, unless you are able to take a serious ill-health pension under the Scheme, you will not be able to draw your benefits before age 55.

The financial position of the Scheme

We carry out an in-depth look at the Scheme's finances at least every three years. This is called an actuarial valuation. We ask a qualified, independent professional, known as an actuary, to help us do this.

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 Trustee has now completed the first formal valuation of the merged Scheme as at 31 December 2008 and agreed the outcome with the Company. The Actuarial Valuation has been signed off by the Regulator on the 26th October 2010.

The second half of 2008 was a difficult period for financial markets and this resulted in deficits which were significantly greater than anticipated and a negotiation which was challenging for both the Trustee and the Company.

The financial position of the Scheme was as follows:

	Section 1	Section 2	Overall
Assets (£m)	956	303	1,259
Liabilities (£m)	1,483	376	1,859
Deficit (£m)	527	73	600
Funding Level (%)	64	80	68

In order to address the deficits shown above, the Trustee and the Company have put in place a "recovery plan" under which, from April 2010, the Company pay £50 million each year until the end of 2022 (split £44 million for Section 1 and £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 Scheme Actuary has also provided the Trustee with an update of the position as at 31 December 2009.

	Section 1	Section 2	Overall
Assets (£m)	1,081	341	1,422
Liabilities (£m)	1,538	418	1,956
Deficit (£m)	457	77	534
Funding Level (%)	70	82	73

The above information forms part of the first funding statement for the new Scheme which you will receive separately. This statement contains more detail on the position of your Section including the change in the position over the year to 31 December 2009. It is known as a "Summary Funding Statement" and you will receive further annual updates in future years.

Following the merger of the pension schemes to form the Thales UK Pension Scheme, the Trustee formally appointed the professional advisers to the merged Scheme, including an actuary. The actuary chosen by the Trustee was Peter Bowers, who works for Mercer Limited. For many years, Peter had been actuary to four of the eight schemes that merged to form the Thales UK Pension Scheme.

Peter decided to take early retirement at the end of March this year and the Trustee has appointed **Mark Condron**, also of Mercer, as his replacement. Mark has worked for Mercer for 20 years, where he is a Senior Partner and the UK Leader of Mercer's Retirement, Risk and Finance Consulting Business. Mark had been working with the Trustee alongside Peter since Peter's appointment in 2008.

A new scheme actuary

Review of Investment Options for Additional Voluntary Contributions (and other “Defined Contribution”) Funds

The Trustee is responsible for agreeing and implementing the Scheme's investment strategy, the day to day management of which is delegated to a range of specialist investment managers. The performance of each manager is regularly reviewed by the Trustee (based on a range of agreed objectives and measures) and if necessary, the Trustee will consider making changes to the manager structure. These principles apply to all of the Scheme's assets including those built up by (or on behalf of) members, through the payment of Additional Voluntary Contributions (AVCs) or Defined Contributions (DC). This remains the case even though the AVC and DC arrangements are closed to new contributions.

Following the merger of the pension schemes to form the Thales UK Pension Scheme, the Trustee is now responsible for managing approximately thirty different AVC and DC contracts across eleven providers, offering access to a multitude of different investment managers and funds. The Trustee has therefore commenced a review of these arrangements, aimed at ensuring that the providers (including the support they provide to both the Trustees and members), the investment managers and the investment funds available to members, remain 'fit for purpose'.

Where this is not considered to be the case and where there are opportunities to do so, the Trustee will consider the consolidation and merger of these arrangements and where necessary, the introduction of new facilities.

Once the outcome of this review is known, we will let you know the extent to which changes, if any, will be made.

Members with AVC funds will now be given the option to transfer those funds out of TUPS at retirement to an alternative pension arrangement. This could benefit those who would like to make use of options like income withdrawal which are not available through TUPS. Members should consider taking independent financial advice before making a decision about transferring benefits out of TUPS.

New Option for those with AVC Funds

About Thales

Marie Curie Cancer Care is Thales UK's main corporate charity. The charity provides Marie Curie Nurses who care for terminally ill people in their own homes, surrounded by the people they love the most. After extending the partnership for an additional two years, the target is to raise £500,000 over five years, and this raffle has helped to ensure that we are on track to hit this impressive target.

“Marie Curie Cancer Care is an outstanding charity and we're proud to be supporting them. Their dedication and care of terminally ill cancer patients is second to none.”

*says Victor Chavez,
Deputy CEO of Thales UK and Chairman to
the Thales UK Pension Scheme.*

Every £20 raised will help Marie Curie Cancer Care fund one hour of nursing care in the home, allowing patients to be with their families during their last days.

So far this year Thales UK's site at Chessington put the kettle on and raised their cups on 6 August as part of Marie Curie Cancer Care's Blooming Great Tea Party. Scones with jam and clotted cream were provided for employees to accompany their refreshments. A total of £160 was raised during the morning's activities.

Chessington

Wells

Wells employee Sophie Blinman is to undertake one of the greatest challenges of her life by taking part in a nine-day trek over the enormous ramparts of the Great Wall of China. One of the worlds' great wonders, the Wall stretches for 6,300km from coast and coast and is one of the only man-made structure visible from the moon. The trek will take place in September 2011, and Sophie has committed to raising a minimum of £3000 for Marie Curie Cancer Care because the charity has personally helped her and her family in the last couple of years with the loss of her father. This opportunity enables her to give something back to this fantastic charity that provides so much support for those with terminal cancer and other illnesses.

Golf Day

Thales UK's 2010 Marie Curie Golf Day has raised almost £2,000 for the charity as 55 Thales golfers competed at the Sonning Golf Club near Maidenhead. The green fees were kindly donated by club owner, Stuart Crossley.

Who to contact

In the event of a query regarding your benefits please contact Xafinity Paymaster in the first case. Their helpline number is **01293 603060**, or they can be contacted 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