# The Thales UK Pension Scheme (Section 2)

**2022 SUMMARY FUNDING STATEMENT**

It is part of the Trustee's responsibility to ensure that a full actuarial valuation of Section 2 of the Thales UK Pension Scheme ("the Section") is carried out every 3 years. The Trustee will provide you with an annual statement of how the Section is funded (except for years where a full valuation occurs) and remind you of the results of the last valuation. The previous statement for the Section was provided in 2020 in relation to the position as at 31 December 2019.

This statement sets out the results of the latest full actuarial valuation as at 31 December 2020 as well as the more recent actuarial update as at 31 December 2021.

**How is my pension funded?**

Thales UK Limited and the other participating employers in the Section ("the Employers"), pay contributions so that the Section can pay pensions and other benefits to members. You may also make contributions to help pay for your benefits if you are an active member.

The latest formal valuation of the Section was carried out at an effective date of 31 December 2020.

**Results of the Formal Valuation as at 31 December 2020**

The formal valuation of the Section showed that on 31 December 2020 the funding position was as follows:

| | |
|---|---|
| Assets | £735m |
| Amount assessed as needed to provide benefits ("Liabilities") | £1,140m |
| Surplus / (Deficit) | (£405m) |
| Funding level | 64% |

As a result of the formal valuation, the Employers' contributions to the Section were amended. The Employers will pay the following contributions from 1 July 2022:

- 38.1% of Pensionable Salaries (inclusive of members' contributions), which are expected to meet the cost of future service benefits;
- £1 million per annum in respect of ongoing expenses of running the Section;
- £17.2 million per annum to 31 December 2034, in order to eliminate the deficit by 31 December 2034; and
- the Trustee have agreed with the Company that any contributions required by the Section will be guaranteed by, Thales SA, up to an amount of broadly £315 million.

Employer contributions will be reviewed as part of the next formal actuarial valuation due as at 31 December 2023.

The Trustee also obtains regular funding updates from the Scheme Actuary, which provide an estimate of the assets needed today to meet the payment of benefits allowing for future investment returns.

The previous summary funding statement showed the results of a funding update as at 31 December 2019 being a deficit of £197m and a funding level of 78%.

**Change in funding basis following the 31 December 2020 Valuation**

Since the last time we reported the funding position to you as at 31 December 2019, the funding level decreased from 78% to 64% and there are a number of factors that have contributed to this change:

- As part of the 31 December 2020 valuation the Trustee and Company agreed to amend the assumptions used to calculate the liabilities to reflect a long-term low risk investment strategy. This is fundamentally different to that adopted for the 31 December 2017 valuation and resulted in a material worsening in the deficit. The increase in the deficit as a result of this change does not mean your benefits are less secure as a result of the larger deficit, quite the opposite; as it allows the Trustee and Company to focus on the long-term cost of providing your benefits and ensure adequate security is in place for the long-term.

- In addition to the change in approach, between 31 December 2019 and 31 December 2020 the market environment changed significantly resulting in a higher value being placed on the liabilities at a time when investment markets were depressed due to the early effects of COVID-19.

Since 31 December 2020 the funding position has improved and the latest formal update received by the Trustee was as at 31 December 2021.

**Results of the Funding Update**

A funding update of the Section showed that on 31 December 2021 the funding position was as follows:

| | |
|---|---|
| Assets | £778m |
| Amount assessed as needed to provide benefits ("Liabilities") | £1,123m |
| Surplus / (Deficit) | (£345m) |
| Funding level | 69% |

**Change in funding position *between 31 December 2020 and 31 December 2021***

The increase in the funding level over the year to 31 December 2021 arose because of changes to investment market factors, which increased the assets throughout 2021 by more than the increase in the value placed on the Section's liabilities. These factors, in addition to contributions paid by the Employers, helped reduce the deficit.

You should be aware that the factors affecting the funding level are very changeable, particularly stock market performance, interest rates and life expectancy. This means that the funding level can go up or down in the future.

Under the scheme funding regime, the method and assumptions used to value the liabilities have been chosen prudently and allowance has been made where appropriate for a suitable margin against adverse deviation from the assumptions. This does not represent the cost, though, of fully buying insurance policies to meet the liabilities (known as "full solvency"). This amount has been estimated as part of the actuarial valuation as at 31 December 2020 and commented on overleaf.

**The importance of the Employers' support**

The Trustee's objective is to have enough money in the Section to pay pensions now and in the future. However, this relies on the Employers continuing in business and supporting the Section because:

- Assets can go down as well as up, and when there is a shortfall, the Employers will usually need to put in more money; and

- The cost of benefits may increase so that the Employers will need to put in more money.

Only if the Section had more than enough money to buy-out the benefits in full could a refund be paid to the Employers. To date, the Section has not been in this position and no refunds have been paid.

We are required to tell you whether the Pensions Regulator has used its legal powers to make directions as to any of:

- The level of benefits available from the Section going forward

- The method or assumptions used to calculate the liabilities or the length and structure of the recovery plan

- The contributions that should be paid under the Schedule of Contributions.

The Regulator has not used its powers in relation to the Section and therefore the Section is not subject to any directions

**What would happen if the Section started to wind up?**

We are obliged by law to provide you with information regarding what would happen in the event that the Section were to wind up.

If the Section were to wind up, the Employers would be required to pay enough into the Section to enable your benefits to be completely secured with an insurance company. As at 31 December 2020, we estimate that the Section would have been 56% funded on an insurance company buy-out basis and the Employers would therefore have been required to pay an additional £582 million into the Section to fully secure the benefits with an insurance company. Please note that this is provided for information purposes - it does not imply that the Employer is thinking of winding-up the Section.

In the event of a wind up, it may be the case that the Employers are unable to pay the full amount required by the insurance company. The Pension Protection Fund (PPF) has been set up by the government to help protect members' pensions where a company becomes insolvent, although it does not guarantee to pay full benefits. If the Employers became insolvent and the Section entered the PPF, the PPF would take over the Section and pay compensation to members. Further information and guidance is available on the PPF's website at www.pensionprotectionfund.org.uk. Or you can write to the Pension Protection Fund at Renaissance, 12 Dingwall Road, Croydon, Surrey, CR0 2NA.

**What is the Section invested in?**

The Trustee's policy is to invest in a broad range of assets to get the best return possible while taking account of the liabilities of the Section, and the risks of having too much money in any one type of investment. As at 31 December 2021 the Section assets were invested in the following broad proportions:

| | |
|---|---|
| Shares in UK and overseas companies (equities) | 28% |
| Bonds and cash | 38% |
| Alternative investments | 34% |

**Where can I get further information?**

If you have any other questions, or would like any more information about the Scheme or the Section, please contact us at the address below.

Please note that if you are considering leaving the Section, we suggest that you consult an appropriate financial adviser before taking any action.

Yours sincerely,

Thales Pension Trustees (Section 2) Limited

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