LEONARDO

HELICOPTERS PENSION SCHEME

Actuarial valuation as at 5 April 2017

Additional Questions and Answers as at 28 February 2018

Questions about RPI/CPI

1. *I understand RPI has always been a contentious way of measuring inflation. Is it the case that RPI looks at what is being sold in particular goods and CPI looks at what people are buying?*

It is understood that the principal concern about RPI is 'bad maths' ('arithmetic' rather than 'geometric' averaging). RPI was developed in the 1940s and is no longer classified as a National Statistic. CPI was introduced in the 1990's to an international standard.

2. *Why is there a cap of 2.5% per annum on the guaranteed level of increase for pensions in payment, as this could be unfair to pensioners if inflation is high?*

The Scheme rules provide for discretionary increases to be considered in addition in a high inflation scenario. However the fact that these increases are not guaranteed is an important safety valve for the funding of the Scheme given the additional level of reserving / prudence that would be required to back a higher guarantee.

3. *Can you advise how I can determine the financial impact of the proposed change?*

The financial impact depends on assumptions about the future. For the avoidance of doubt, there is no impact on the pension while you are working as this will grow in the same way as now. There is also no impact on pension already earned up to the date of change.

Once you retire the rate of future increase could be lower, however that depends on what the level of future inflation is. If inflation is consistently high there would be no impact because of the effect of the caps on the guaranteed level of increase. If inflation is consistently low then the increase on blocks earned from post 2019 service would be lower. However, in this circumstance you would have enjoyed an index linked pension plus the option of taking an enhanced income through the PIE at retirement option.

4. *Given that the Government has not yet decided how to address the 'drafting lottery', why not maintain our current position until they legislate for this issue?*

The change is linked to the successful PIE option which the Company has already introduced to pensioners. The savings this generated are a significant factor in making the Scheme sustainable as at the 5 April 2017 valuation.

The Company would welcome and would be likely to implement a statutory override to CPI if the Government makes one available. However if we waited for Government legislation it is not clear how sustainability as at 5 April 2017 would have been achieved. For the avoidance of doubt, the benefit reduction from a statutory override may be higher, affecting benefits from past pensionable service (other than any uplifted under the PIE option) rather than just those accrued after April 2019.

5. As CPI is less than RPI by on average 1% each year, isn't the change to CPI a significant cut in benefit?

The proposed change to CPI would only apply to benefits from future accrual – so the change is modest for members with significant periods of past pensionable service which will still be linked to RPI. The absolute level of inflation is also a factor since there is a 2.5% cap on the guaranteed level of increase – so if both RPI and CPI are above 2.5% there is no impact from the change.

There is also the opportunity through the PIE option at retirement to reshape the pension which provides 'time value' in allowing benefits to be received earlier in retirement.

6. Does the change apply only to those already retired or to the accrued and future pension 'blocks' of employees?

It applies only to pension increases on future blocks earned after April 2019. All of the blocks accrued up to that date remain linked to RPI under the provisions of the Scheme Rules, although there will be the new 'PIE' option at retirement to switch to a higher pension with the lower statutory increases.

Existing pensioners are not affected, other than if they have taken up the PIE option offered to them already. The revaluation of Career Salary blocks prior to retirement and of deferred pensions are already linked to CPI.

Question about PIE

7. Can the Company provide an indication of the PIE uplift based on my retirement at 60 years of age?

Unfortunately a personal illustration for the Pension Increase Exchange option isn't possible because the actual uplift will depend on the financial conditions and the prevailing regulations at the time of your retirement.

We have given an illustration of the potential PIE uplift in the answer to question 17 of the first Q&As which you can find here: https://www.lhpensions.co.uk/232/2018-pension-consultation

Questions about the valuation

8. With the level of funding improving why do we need the CPI change?

The funding level is a measure of the cover for the benefits already earned from past service, rather than those to be earned from future service. The change is needed because the employer cost of future benefits has doubled.

In any event, while the funding level improvement is welcome, it is important that we continue to move towards a position of 100% cover or above. This would increase the level of certainty that we can deliver the pensions promised and reduce the burden on resources of making good past shortfalls.

9. *What alternatives are there to reduce the future service cost instead of the CPI change?*

It would be possible to increase employee contributions, increase employer contributions by more than planned or reduce the benefit (for example a lower accrual rate). However the Company considers the CPI change to be the best way forward because of the shortcomings of RPI as a measure of inflation as well as the success of the PIE exercise and the proposed PIE at retirement option.

10. *Is the cost of future benefits so high because the investment assumption is too conservative?*

The investment return assumption is prudent as required by legislation but no more so than necessary. The return is based on the advice of our investment consultants on what is achievable with a reasonable degree of confidence. In addition the Trustee has decided to hold 75% of the assets 'on risk' for ten years which is helpful in controlling the future service cost.

11. *How long is the Recovery Plan period?*

It runs to 2024 – so six more years.

12. *Are there deficit contributions at this valuation in addition to those that the Company is already committed to?*

Yes. The old Recovery Plan provided for deficit contributions from the Company of £48.3m and this has increased to £60m.

13. *Can you confirm the Company contribution percentage including and excluding the deficit repayment?*

The 'headline' cost of future benefits is 9.3% p.a. If the Company deficit and administration expense are also factored in this rises to 23% p.a.

14. *What is the service cost at which point the continuation of the pension is deemed untenable?*

It would depend on the overall circumstances of the Scheme at the time, taking into account the funding position as well as the service cost.

15. *I was concerned when reading that the Company has 'decided' to support the Scheme for a further period. Is this the beginning of reasoning for the Company to withdraw its support?*

The accrued benefits are secure and there is no question of the Company considering (or indeed being allowed to consider) withdrawing support for these. In the unlikely event that the Company was ever unable to fulfil this commitment, the Scheme would then be eligible for the support of the Pension Protection Fund.

If the Company does decide in future to cease allowing new benefits to be accrued after that future date it would be the subject of another consultation at the time.

16. *When is it forecast that the Scheme will close to future accrual?*

There is no forecast of when the Scheme would close.

17. I am concerned about the Company's future support. What are the regulations regarding my withdrawal from the Scheme?

If you wanted to withdraw then you would become a deferred member of the Scheme which means you have pension based on your pensionable service to the date of withdrawal. You could, instead, join our DC scheme, FuturePlanner for benefits from future service and it is possible to transfer out of the Helicopters Scheme as a lump sum to another pension arrangement. However these actions are irreversible and unlikely to be in your financial best interests and we would strongly recommend independent financial advice before doing so.

How to contribute to the consultation:

The consultation started on 12 February 2018 and will conclude on 13 April 2018. It is proposed that the change to pension increases would take effect for benefits accrued from no later than 6 April 2019.

Please note that the Company is making proposals only which will be discussed with the Pensions Council. Please note that we cannot answer individual questions that relate specifically to your situation. Instead this is the second summary of Questions and Answers which is available on the Scheme website. If you would like more information about PIE please see the first Questions and Answers.

You can submit your feedback and questions:

- by email to pensions@leonardocompany.com
- in writing to Pensions Department, Leonardo MW Ltd, Box 205, Yeovil, BA20 2YB.

After the Company has considered the feedback, a formal announcement will be made of any changes to the Scheme. Please go to www.lhpensions.co.uk for more information and updates through the consultation period.