HELICOPTERS PENSION SCHEME

Actuarial valuation as at 5 April 2017

Additional Questions and Answers as at 29 March 2018

Questions about RPI/CPI

1. *Which index is used to calculate future increases for other UK schemes?*

All public sector schemes and the State pension use CPI for pensions in payment. 73% of private sector schemes use RPI for pensions in payment, in most cases because of the 'drafting lottery' of how their rules were written (see Question 7 in the first set of Q&As).

2. *Do all UK schemes have caps on the level of increase for pensions in payment, including at the relatively low 2.5% level?*

It is understood that some 80% of UK schemes apply the statutory caps, including the 2.5% cap on benefits accrued from pensionable service since 2005.

3. *I am a younger member of the Scheme. Will I be affected proportionately more?*

The impact will be greater for those with more pensionable service due after 5 April 2019. However the fact that the change helps the cost of the Scheme to be sustainable for the next valuation cycle is clearly in the interests of younger members. The Company also offers its award winning DC scheme, Leonardo FuturePlanner, as an alternative.

4. *Isn't RPI a better measure of inflation because it includes housing costs?*

The majority of pensioners will have paid off their mortgages, which suggests housing is less relevant for pensions in payment. In any event RPI has other flaws, such that the Office of National Statistics does not recommend its use.

5. *If there are flaws in RPI why is it still published?*

RPI is still used for some UK economic purposes, particularly in setting the amount of interest on Government issued index-linked bonds. The Government is concerned about the impact on its ability to borrow if the terms of those bonds are changed by adjusting or ceasing RPI.

6. *Will my Career Salary blocks of pension continue to increase by CPI capped at 4.75% whilst I am an active member, as they currently do?*

Yes. The proposed change is only on the increases that apply to your pension once it is in payment, and only in respect of pension which is earned after 5 April 2019. Any pension earned prior to 6 April 2019 will continue to increase as it currently does (unless you chose to change your increases on your pension in payment via the Pension Increase Exchange voluntary option at retirement).

Questions about the valuation

7. Is there an impact on the Scheme as the number of members paying in falls?

The impact is broadly neutral. As the number of members paying in falls there is a helpful reduction in the level of risk but this is offset by the fact that the time horizon of the Scheme reduces.

8. Will there be enough money if I am one of the last members of the Scheme?

Yes, the task of the Actuary is to ensure that the future funding is secure and the Company is responsible for making good any shortfall.

9. *Is the progress in funding simply the result of a slow-down in the rate of improvement in life expectancy?*

The change in the rate of life expectancy improvement represents 26% of the funding progress. The balance is made up of investment risk (42%), inflation volatility (17%) and the PIE exercise (15%).

10. *When the funding has recovered will the Company sell the Scheme?*

No. For an insurance company to be interested in buying the Scheme the funding would have to be hugely stronger than it is now. Insurance companies work to a funding standard known as 'buy-out' and at 5 April 2017 the buy-out deficit was £1,021m.

11. *Would the Company want to close the Scheme to accrual once the Scheme reaches a surplus?*

The Company is less likely to close the Scheme to accrual if there is a surplus than if there is a deficit. This is because the level of risk associated with the Scheme would be lower with no need for additional deficit contributions, so the cost is more likely to be sustainable.

12. Following the 2014 valuation the Company said that 'if, at future actuarial valuations, the funding has recovered, the Company will review the accrual rate and level of member contributions with a view to improving them if appropriate for the circumstances at the time'. As the funding positon has improved why is this not being considered?

The funding has not yet recovered. The Company future service cost has doubled and, if there were no changes in the valuation assumptions, the deficit would be broadly unchanged.

13. *Why have the administration costs increased?*

The increase is due to a rise in the Scheme's levy to the Pension Protection Fund ('PPF'). The PPF is the 'rescue' fund that applies if a company collapses with an underfunded scheme.

14. *Why has the cost of buy up gone down?*

The cost of buy up is influenced significantly by how financial markets price future interest rates and these have broadly improved for the 2018/19 year.

15. *Are the Scheme's funding problems due to contribution holidays taken by the Company in the past?*

Historically, there was a contribution holiday in the predecessor scheme to the Leonardo Helicopters Pension Scheme. This was against a very different regulatory and economic background.

There has never been a contribution holiday for the Leonardo Helicopters Pension Scheme (which was set up in 2002) or under the ownership of the Company by Leonardo Spa.

16. *Given that investment markets can improve why is it necessary to make any changes?*

The valuation must result in a recovery plan based on financial conditions as at 5 April 2017. The Trustees and the Company have prospectively agreed a basis which provides for additional investment risk, but the proposed benefit change is also needed to keep the overall cost sustainable.

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 third 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.