intouch

Spring 2009

AgustaWestland

Westland Pension Scheme

Challenging times

5th April 2009 is an important date for the Pension Scheme.

Every three years the Trustees have to conduct an "actuarial valuation" to test how the funding of the Scheme is going and then determine the amount of contribution needed for the next three years.

The next one must be carried out as at 5th April 2009 and, as we approach the valuation date, this edition of intouch takes the opportunity to provide you with some insight into how the valuation process works.

The Autumn 2008 edition of intouch included an estimate of the valuation position as at 5th April 2008 – as part of the Trustees' annual report. The funding position had worsened to a deficit of £152m (from £80m in 2006) and it will come as no surprise that conditions have significantly worsened since then due to the global economic downturn.

It is important to recognise that the Scheme faces a significant challenge to improve the funding position and achieve greater funding stability.

insight – the actuarial valuation

The valuation is done by an Actuary, who is a specialist in making the complex calculations required and advising the Trustees as to appropriate assumptions about the future.

The valuation is quite a regulated process with lots of guidance on how it should be conducted and how much risk can be taken. In particular the valuation must be submitted to the Pensions Regulator who could intervene if he has serious concerns about the safety of the Scheme.

The amount of contribution needed is driven by two factors.

The FIRST factor is the cost of providing pensions into the future - i.e. how much money is needed each year to make advanced provision for the benefits that will be building up for members over that year (and paid when members ultimately retire).

The SECOND factor is how the Scheme has done in the past up to the valuation date. This is assessed

Our current Actuary is Chris Vaughan-Williams of Hewitt Associates.

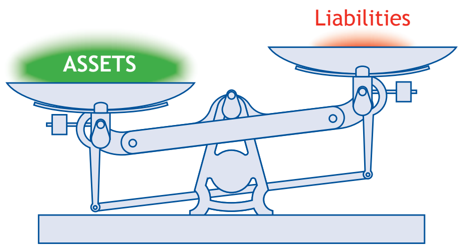
In this issue:

by determining the liability value and the asset value:

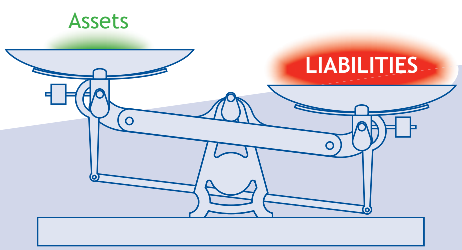
- the liability value is an estimate, based on several assumptions, of the total amount which the Scheme needs now in order to pay all of the benefits built up for the members as at the valuation date
- the asset value is the total of the Scheme's investments at the valuation date.

If the assets exceed the liabilities then we have a surplus and potentially contributions could be lower.

SURPLUS



DEFICIT



If the assets are less than the liabilities then there is a deficit and contributions will have to be higher to recover this shortfall.

These two factors - the cost of future service and the cost of recovering any deficit - are put together to produce the revised contribution rate for the Scheme.

5th April 2009 is only the start date of the valuation process. The Actuary will need to collect lots of data, discuss with the Trustees and the Company the assumptions about the future to be used and run some complex calculations. His preliminary results will be available in the autumn.

There will then be a series of discussions between the Company and the Trustees. The Company will also consult members and their representatives about what needs to be done.

If, as likely, the deficit is greater than expected, then solutions have to be found: making changes to the benefits, increasing the contributions, adjusting the amount of risk taken or increasing the time over which the deficit can be recovered.

The final plan must be with the Pensions Regulator by no later than 5th July 2010.

Investment plays its part

One of the ways the Trustees can help with the funding challenge is through their stewardship of the assets of the Scheme. Again it will come as no surprise to members that investment conditions have been extremely difficult. However the evidence we have is that our investment strategy has held up as well as could be expected.

We can demonstrate this by comparing the returns generated by the Scheme to the end of 2008 to a universe of the other large funds (with assets of £500m or more). This shows our return is better than the top 25% of those funds. One of the key reasons for this is the change in our investment strategy that was made in July 2007 when funding conditions were much more favourable. Our back testing of this change shows that if we had remained on the old strategy then we would have done worse in 2008 than the average fund. The table below shows the actual returns.

	One year	Three years
Westland Pension Scheme return	-4.3%	5.4%
Return for top 25% of large funds	-10.6%	1.0%
Average return for large funds	-13.4%	-0.2%
Estimated return for old Westland Scheme strategy	-16.0%	3.1%

Paying for the Pension Protection Fund

The Pension Protection Fund is the Government's rescue fund for pension plans whose sponsoring employers become insolvent. It is paid for by levies on all pension schemes in the UK as a form of insurance protection for the Scheme members.

These costs are significant - last year the levy payment made by the Westland Scheme was £752,743 and this current year the amount has increased to £917,294. Given the low probability of a claim to the Pension Protection Fund actually being made, the Trustees are reviewing if it is possible to reduce the levy - for example by ensuring that the Pension Protection Fund has a fuller understanding of the financial strength of our sponsoring employer.

Regulatory changes – coming soon

The Government is making several changes to State pensions and the regulatory regime governing private pensions. Intouch provides you with a summary of the key changes:

Increase in the State pension age

State pension age is the earliest age from when you can claim your State pension. It is currently 65 for men and 60 for women. However, the age is changing and will increase between the years 2010 and 2046.

For women born on or after 6 April 1950 their State pension age will increase gradually to 65 between 2010 and 2020. From 6 April 2020 the State pension age will be 65 for both men and women.

Between 2024 and 2046 the State pension age will increase for both men and women. The increase will be gradual, happening over two years every decade. The changes will mean that for both men and women:

- State pension age will increase from 65 to 66 between April 2024 and April 2026
- State pension age will increase from 66 to 67 between April 2034 and April 2036
- State pension age will increase from 67 to 68 between April 2044 and April 2046

You can find out exactly when you will be able to claim your State pension by using the State pension age calculator on The Pensions Service website at www.thepensionservice.gov.uk/state-pension/age-calculator.asp

Change to the earliest age you can retire from the Scheme

At present the earliest you can draw your pension benefits from the Scheme is age 50. However, from 6 April 2010 new HM Revenue and Customs regulations mean that the youngest you can draw your pension benefits will be age 55.

The way this affects you depends on your date of birth:

- If you were born before 6 April 1955 this change has no effect on you (because you will already be age 55 on 6 April 2010).
- If you were born between 6 April 1955 and 5 April 1960 then this change has an unusual effect. There currently is an option to retire early (because you will have reached age 50 before 6 April 2010). However after 6 April 2010 that option will close again for a while until you then reach age 55.

  For example a member born on 1 April 1957 is already age 50 and can consider early retirement until 6 April 2010. After then, if he or she hasn't retired, the option closes for two years until 1 April 2012 which is the 55th birthday.
- If you were born after 5 April 1960 then the earliest you can consider retirement is when you reach age 55.

Please note that the Scheme applies early retirement adjustments to reflect that fact that the pension will be payable for longer. It follows that it is not necessarily in your financial interests to retire early and so it is recommended that you seek professional financial advice if you are considering this option and have any questions or concerns.

Please note that this minimum age of 55 does not apply if you suffer from a permanent breakdown in health and the Company and Trustees agree that you are eligible for an Incapacity pension.

Change in the way your pension benefits will increase if you leave the Scheme

The Pensions Act 2008 provides for a change which affects people who leave the Scheme with an entitlement to a deferred pension.

Deferred pensions increase at a rate that is set by regulation. The current minimum requirement is for an increase in-line with inflation (the retail prices index) up to a cap of 5% per annum over the period of deferment.

The Pensions Act 2008 provides for the cap on the rate of increase to reduce from 5% to 2.5%.

The change will only apply to benefits accrued from 6 April 2009. So for someone who leaves the Scheme in future, the deferred pension earned from service up to 6 April 2009 would increase in-line with inflation up to 5% per annum, and deferred pension earned from service after that date would increase in-line with inflation up to 2.5% per annum.

The change brings deferred members in-line with pensioners for whom the equivalent cap on pensions in payment reduced from 5% to 2.5% per annum for pension accrued from 6 April 2005.

“Buy up” option

Members of the main section have an option, known as “buy up”, that allows them to improve their accrual rate from the standard of 1/70th (of pensionable salary for each year of pensionable service) to 1/65th or 1/60th.

The decision to “buy up” has to be made once per year and the next renewal date is on the 1st May 2009.

The Trustees consult the Actuary each year to make sure that the costs of the “buy up” option are fair to all members. The current contribution rates and those that will apply for the next 12 months are set out in the table below.

The Trustees have written separately to everyone currently paying “buy up” contributions. If you are happy with your current accrual rate you don’t need to take any action - although those currently accruing at 1/60th should note that their overall contribution will decrease from 11.1% to 11%.

Any members who would like to now start paying “buy up” contributions should please contact the Pensions Department on Extension 5353 to ask for a form.

The forms need to be returned no later than 27 April 2009 to our Pension Administrators, Aon, at 25 Marsh Street, Bristol BS1 4AQ.

Basic contribution paid by all Main section members	Current “buy up” contribution	New “buy up” contribution from 1st May 2009:	Accrual rate increased from 1/70th of pensionable salary for each year of pensionable service to:
8%	1.3% (total of 9.3%)	1.3% (total of 9.3%)	1/65th
	3.1% (total of 11.1%)	3.0% (total of 11%)	1/60th

New computer system

You may be interested to learn that our Scheme administrators, Aon Consulting, have recently installed a new administration computer system - known as Aquila - for all of our member records. Over 200 organisations use Aquila with more than nine million individuals’ benefits administered on the system.

The reason for upgrading the software is to ensure the administration of member benefits is as efficient as possible. It is also a crucial first step in a project (which we first mentioned in the Autumn 2008 edition of intouch) to provide a better member website with online access to records and retirement benefit modelling. We will keep you informed as this project develops.

Getting in touch

There are a number of ways you can contact the Scheme.

If you have questions about your benefits you can speak to our third party administrators, Aon, direct on 0117 945 3517 or you can email them at westland@aonconsulting.co.uk.

Alternatively for questions to the Trustees or other matters you can contact the Pensions Department on 01935 705353, by email pensions@agustawestland.com or on the Yeovil site in building 212.

The Scheme address is:

Westland Pension Scheme, Box 205, Yeovil, BA20 2YB