intouch

Spring 2008

AgustaWestland

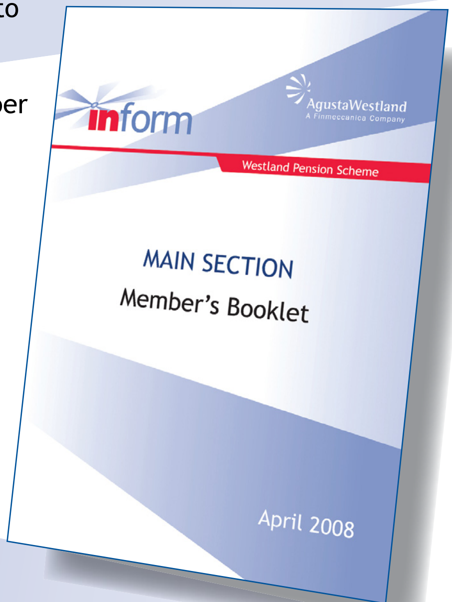
Westland Pension Scheme

New booklets

2007 was a year of change for the Westland Pension Scheme. The Trustees have been working on a number of initiatives to help members of the Scheme understand how they have been affected by the various benefit and option changes that took place.

One of the main tasks has been an extensive re-write of all the booklets for members and you will find, with this edition of intouch, a copy of the booklet that describes your benefits.

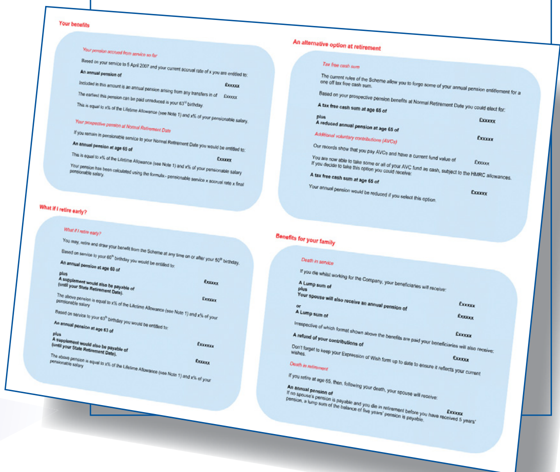
The enclosed booklet is intended to help you understand what you are entitled to under the Rules of the Scheme - although please remember that **the Rules take precedence.** Please keep the booklet safe for your records.



Your pension forecast

The 2007 Statement was distributed late in the year because of the need to adjust the calculations to reflect the new benefits and how options have changed - such as the higher tax free cash.

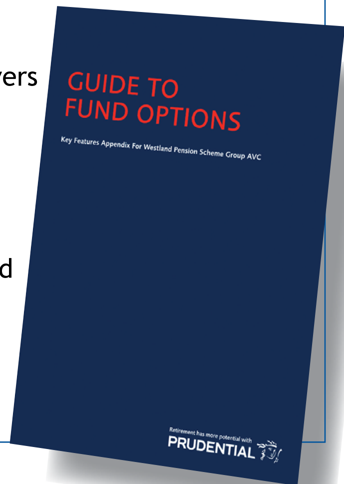
The feedback we received on the revised Statement was positive and so we are planning the 2008 exercise, using the same format and with the objective of issuing the Statement in September.



Voluntary contributions

The Scheme booklet is the second recent mailing to all members from the Trustees. You should also have received a new AVC guide and a booklet from the Prudential about new investment options. These new funds are intended to help members to take advantage of the increased flexibility of AVCs.

We are using this edition of intouch to give you more information about our voluntary saving options - which covers both AVCs and the "buy up" option that was introduced for the main section last year.



AVCs

Until recently there have been some concerns over whether AVCs were a good idea

A bad investment?

Firstly this was because AVCs had to be taken in the form of a pension (or "annuity") under the tax rules. Many financial advisors felt that, for example, ISAs were a better home for voluntary saving.

Secondly there was the Equitable Life affair which caused many people to ask questions about AVCs. It is important to remember that Equitable Life was a crisis associated with them as a provider – and not with AVCs as a product.

Finally there have been new pension products introduced – for example stakeholder pensions – which some people felt offered more choice.

For these reasons, AVCs have not necessarily been popular – but with new tax rules many people may now find AVCs to be a good way to provide for their retirement.

AVC comeback

There are two tax rule changes.

First the 15% restriction on **contributions** was lifted. Previously the tax laws did not allow anyone to put more than 15% of their income into a scheme like ours – but the new tax regime allowed schemes to lift the restriction if they wish to.

The Trustees and the Company did decide to lift this restriction and so you can generally now pay as much as you can afford. This can be especially helpful as you approach retirement if you feel that your prospective pension will not be enough to support you. The main restriction now on AVCs is your pay packet each month.

Second the restriction on taking AVCs as **cash** has been lifted. Previously AVCs generally had to be taken as an annuity but now pension arrangements can allow 25% of the proceeds to be taken in the form of cash.

There is an extra advantage with AVCs, however, compared to any other form of pension saving. This arises because AVCs can be provided under a single arrangement alongside the main benefits – and the 25% concession applies to the whole – both the AVCs and the main benefit.

Therefore, if the Rules allow, potentially 100% of AVCs can be taken as cash rather than commuting your Scheme pension. This gives more flexibility than some other types of pension such as a stakeholder. Remember that more cash taken from an AVC means that less pension has to be commuted for cash from your main benefit.

This means that AVCs can be very tax efficient because you get tax relief when you pay it, some tax sheltering as it is invested and then if you take them as cash within the allowable limits, no tax to pay when you take them out again.

For example (and ignoring the investment return) 80p put into an AVC just before you retire will give you £1 back (using the post April 2008 basic rate of tax).

By contrast 80p put in an ISA will give you 80p back – although, of course, you don't have to wait until retirement to get at your money.

The Trustees and the Company have decided that Scheme members can take their AVCs as cash, up to a limit of £50,000.

Not all pension schemes have allowed 100% AVCs as cash because they want their members to take as much cash as possible from their main benefit to reduce the risk associated with people living longer than the forecast.

The reason for our cap is to allow some risk reduction in relation to those with bigger pensions who want cash beyond £50,000.

New investment options

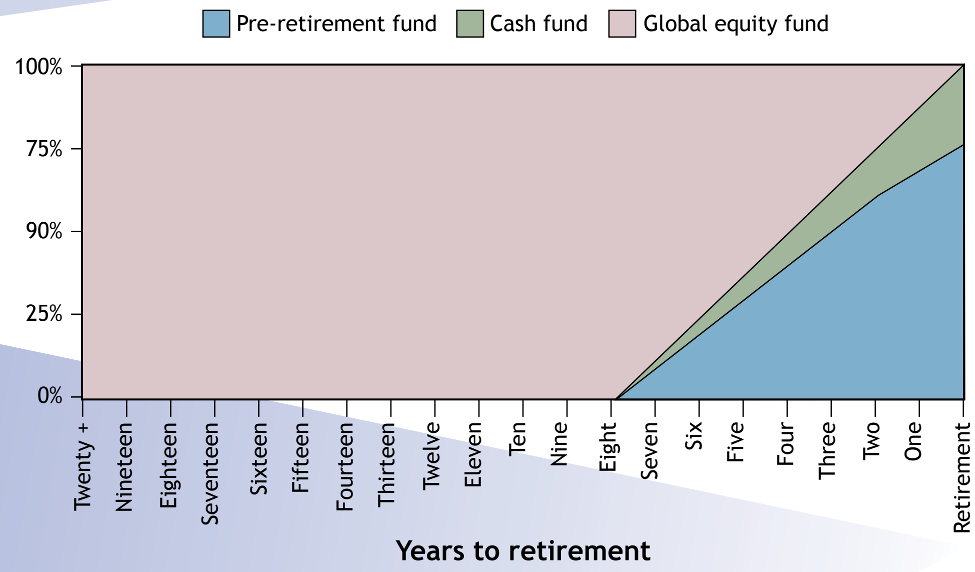
Existing options

As more people may be interested in AVCs the Trustees have conducted a review of the investment options - and in particular whether they are suitable for people who may want to draw their AVCs as cash.

Up to now we have had two options:

- **with profits** - you invest in a multi-asset fund and there is a guaranteed value to which bonuses are added, depending upon the performance of the total fund. These bonuses are intended to smooth out most of the peaks and troughs of investment performance.
- **lifestyle** - you invest in a higher risk equity fund until eight years before your target retirement date and then gradually your investment is switched into lower risk funds.

The Trustees have decided to continue with these two funds but have made a slight adjustment to the lifestyle option so that 25% of the money is in cash at the time of retirement. Initially the money is invested in a medium to higher risk equity fund (BGI 50:50 Global Equity Index) until eight years before your target retirement date. Then it is gradually switched into lower risk funds (75% Prudential Pre-Retirement and 25% Prudential Cash). The chart below illustrates how this works:



Extra options

The Trustees have decided to introduce two new options as well:

The first new option is called **"Absolute Return"**. You invest in a multi asset fund which seeks to achieve a return equal to the rate of inflation plus 5% per annum on a rolling five year basis. In effect the fund aims to make your cash grow, rather than investing in a particular type of asset.

The final option is called **"Pick & Mix"**. This allows you to choose between five different funds and is intended for people who like to take more active interest in their investments and may want the flexibility to switch between asset classes. There is a choice of five funds as follows:

- UK equity
- International equity
- Property
- Bonds (pre-retirement fund)
- Cash

The cash fund may be especially helpful for those who make extra AVCs close to retirement and want to protect the absolute value of their money.

What is best for me?

This is, of course, an impossible question to answer. In general terms the Trustees have tried to set up suitable options for different types of investment need. One way of grouping the investment options by those needs is set out below:

Saving for extra pension: *"Buy up" or Lifestyle or With profits*
Long term saving for extra cash: *Absolute return*
Short term saving for extra cash: *Cash option from Pick & Mix*
Expert investor: *Pick & Mix*

Please note that there is no guarantee that these options will work best for the relevant investment need.

Please note that when you decide to pay AVCs you are exercising an option you have under the Rules of the Scheme. Because these AVCs are paid through the Scheme and there are no selling costs involved, the costs charged to you will generally be lower than other types of investment. However it also means that you are wholly responsible for the investment decisions you take.

If you are not sure what to do it is recommended that you take professional financial advice.

"Buy up" option

AVCs are not the only way of making extra provision for your retirement. We also introduced last year a "buy up" option that allows members of the main section 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 there is a renewal date each 1st May. For that renewal the Trustees have to consult the Actuary to make sure that the costs of the "buy up" option are fair to all members.

Until the actual take up could be analysed it was difficult to set the fair contributions.

You can see from the table below that a marginal adjustment is required to the 1/60th rate from 1 May 2008. Please remember that these costs are in addition to the core contribution rate of 8% which provides for the standard accrual rate of 1/70th.

Additional contribution:	Accrual rate increased from 1/70th of pensionable salary for each year of pensionable service to:
1.3%	1 / 65th
3.1%	1 / 60th

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.

Those currently accruing at 1/60th should note that their overall contribution will increase from 10.9% to 11.1%.

Any members who would like to now start paying "buy up" contributions should please contact the Pensions Department to ask for a form.

The forms need to be returned no later than the 25th April 2008 to our Pension Administrators, Aon, at 25 Marsh Street, Bristol BS1 4AQ.

AVCs v "Buy up"

We have a very good overall take up of our voluntary savings options. In total there are around 1,150 contributors paying AVCs and / or "buy up".

The choices currently used are as follows:

AVCs:	20%
"Buy up" to 1/65th:	33%
"Buy up" to 1/60th:	47%

PLEASE CHECK YOUR PAYSLIP

Your payslip is an important part of how we manage the Pension Scheme in reporting back to you on the costs we are charging for the membership options you choose.

Please remember that there are a number of different parties involved in administering the Scheme. In addition to our Pensions and Payroll departments, there is involvement from the external administrator, Aon, and AVC providers like the Prudential. While every effort is made to action your instructions correctly, please always check your payslip whenever you have made an AVCs or "buy up" change to make sure the right amount is being deducted.

Further information

If you wish to discuss a pensions matter please contact the Pensions department:

- Telephone extension 5353
- Email pensions@agustawestland.com
- Visit building 212 on the Yeovil site
- Write to:
  Westland Pension Scheme, Box 205, Lysander Road, Yeovil, BA20 2YB.