

Westland Pension Scheme

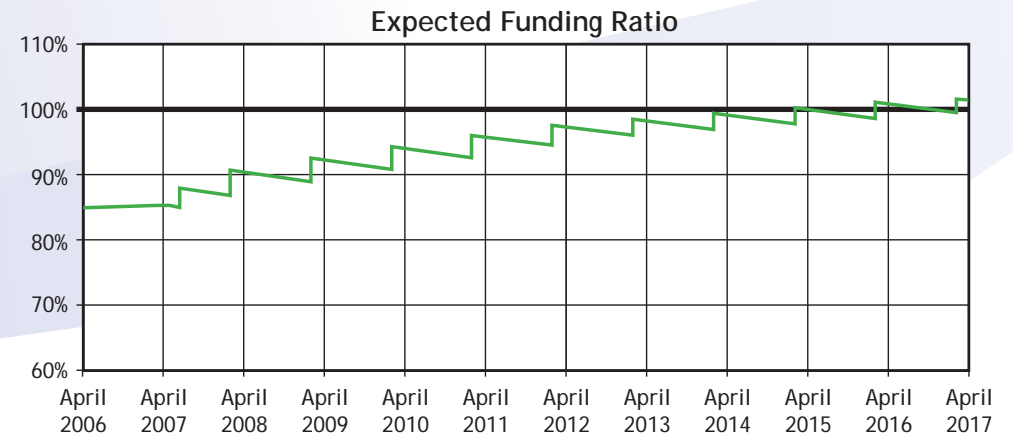
A plan for recovery

In the middle of March the Company brought its consultation with employees over the Pension Scheme to a close and announced a number of changes to benefits and contributions.

You will be aware that a significant deficit of £94m was found by the Actuary in his assessment of the valuation position as at 5th April 2006. From this date a regulatory clock started ticking for the Trustees as we had to ensure that a recovery plan is submitted to the Pensions Regulator within at most 15 months. This has not been an easy task for anyone involved because some difficult issues and decisions needed to be faced up to.

Our main responsibilities through this have been to:

- Ensure that the Company is paying as much as it can reasonably afford without affecting its business plans unsustainably. We had a number of detailed discussions with the Company and eventually reached an agreement that £30m will be paid into the Scheme - in £5m lump sums over the next six years. There is also an increase in the Company's regular contributions.
- Ensure that past service rights of employees are protected as required by law. It is important to make it clear that the role of the Trustees is to try to ensure that all of the benefits promised to members so far can be delivered rather than to become involved in discussions about what pensions for the future should be.
- Ensure that the deficit is recovered within a timescale that will be acceptable to the Regulator and based on assumptions that are realistic and prudent. Included within the recovery plan are changes in contributions and benefits which have been the subject of discussions between the Company and workforce representatives in the Pensions Council. The Company decided to proceed with its proposals although it had not reached full agreement with the representatives. After extensive actuarial and independent legal advice the Trustees declared that the proposals form an acceptable Recovery Plan and that past service rights were protected as required by law. The Rules of the Scheme were changed with effect



from 1 May 2007 and the recovery plan was submitted to the Regulator on 8 June 2007 under which the deficit is expected to be recovered in less than ten years. We are waiting to hear the comments of the Regulator on our plan.

The next step is to concentrate on monitoring the plan and taking action through our investment strategy to make sure we capture any progress we make ahead of the plan. We have regular updates on how the position is developing to help us to do this. We will give you a detailed update every year as part of our annual Trustees report. Look out for the next report this autumn. The next formal valuation of the Scheme is due as at 5 April 2009.

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Member Nominated Trustees

The Trustees of the Westland Pension Scheme (the “Scheme”) perform a vital role in looking after the money in our fund and making sure the right pensions are paid in accordance with the rules.

Every four years or so, the Scheme offers the members the opportunity to nominate some of the trustees from among the membership. This time is upon us again and so this article provides an announcement about how the nomination process will work.

The announcement is issued by the current trustees of the Scheme following the coming into force of section 241 of the Pensions Act 2004 (the “Act”). The Scheme has always had at least one third of the trustees of the Scheme (the “Trustees”) nominated by the members but the Act requires the current trustees to review these arrangements. Guidance has been provided by the Pensions Regulator in a Code of Practice, including that arrangements are proportionate, fair and transparent.

All active and pensioner members are able to put forward individual nominations. The Trustees have decided that deferred members of the Scheme will not be able to participate on this occasion.

Number of member nominated trustees

The Scheme Rules provide for there to be nine Trustees of the Scheme, five of whom are nominated by the Principal Employer (“Company Trustees”) and four of whom are nominated by members (“Member Trustees”).

Currently the Trustees are:

Company Trustees:	Member Trustees:
Alan Ladd	Brian Edwards
Martin Flavell	Malcolm Gillam
Richard Smith	Jim Hawke
Wayne Speake	Steve Pym
One Vacancy	

The four Member Trustees will consist of three active or pensioner members of the main section of the Scheme and one active or pensioner member of the senior sections. The Trustees are making amendments to the process for nominating and selecting the Member Trustees to comply with the Act.



Steve Pym
Member Nominee



Brian Edwards
Member Nominee



Jim Hawke
Member Nominee



Malcolm Gillam
Member Nominee

Vacancies

The current Member Trustees were appointed with effect from 1 July 2004 for a four year term but the Act requires the Trustees to have completed their review within a reasonable period after 31 October 2007. The Trustees aim to complete the review by 31 October 2007.

There are, therefore, four vacancies for Member Trustees.

All active and pensioner members have the right to nominate any other person who is also an active or pensioner member. This includes the current Member Trustees who have all offered to serve for another four year term.

How the Trustees operate

The Chairman of the Trustees is appointed by the Company from among the Company Trustees. Currently the Chairman is Alan Ladd. Under the Rules of the Scheme, four Trustees present at a meeting of Trustees (two of whom must be Company Trustees and two must be Member Trustees) is sufficient to form a quorum. In the case of an equality of votes at a meeting of the Trustees, the Chairman has a casting vote.

The Trustees may from time to time delegate any of their powers, duties and discretions to any two or more of their number, or to a committee composed of such persons as they decide.

Eligibility

Any active or pensioner member of the Scheme may become a Member Trustee. The Trustees have determined that three Member Trustees will be active or pensioner members of the main section and one Member Trustee will be an active or pensioner member of the senior sections.

The Pensions Act 1995 does however provide that the following may not become, or may not continue to act as a trustee:

- a person convicted of any offence involving dishonesty or deception;
- a person subject to bankruptcy or sequestration, in both cases undischarged;
- a person who has made an arrangement with creditors but has not been discharged;
- a person who is disqualified from being a company director.

A person who purports to act as a trustee whilst disqualified will be guilty of a criminal offence.

Term of office

A Member Trustee normally serves for a period of four years. At the end of the four year period he/she may stand for a further term of office.

A Member Trustee retiring from service with an immediate pension may continue as a Member Trustee for the remaining duration of office if he/she so desires.

A Member Trustee may resign his/her appointment at any time. The appointment of a Member Trustee will be automatically terminated in the event of leaving service before retirement without receiving an immediate pension, leaving the Scheme, failing to attend three consecutive Trustees' regular business meetings without good reason or being removed by unanimous agreement of the other Trustees.

Nomination process

Member Trustees will be nominated by the active and pensioner members of the Scheme. Each active and pensioner member will have one vote. A Member Trustee must be nominated by ten active/pensioner members to be eligible for consideration by the selection committee. If, however, you wish to nominate a pensioner

then only three nominations are required for the pensioner to be eligible for consideration.

If you wish to make a nomination please contact the Pensions Department to request an Application Form. These must be completed and returned to the trustees at the address set out on the form by 30 September 2007.

Selection process - Pensions Council

Two committees of the Pensions Council will be formed for the purpose of selecting the four Member Trustees from the nominees. The committees will consist of the employee representatives on the Pensions Council and pensioner representatives. Management representatives on the Pensions Council will not participate.

- The committee to select the three main section Member Trustees will be the 13 employee representatives of the main section and at least one pensioner selected by the employee representatives. By invitation, the Chairman or any other Company Trustee may participate in the selection committee.

- The senior sections Member Trustee will be selected by the employee representative of the senior sections, one pensioner member of the senior sections (appointed by the Trustees), the Secretary to the Trustees and the Chairman of Trustees.

The Pension Council committees will decide which nominees to interview, conduct the interviews and make the final decision on who is appointed. The selection criteria to be used will include the following:

- suitability for the position of Trustee;
- ability to understand and express that as a Trustee he/she has a responsibility to hold a balance between the interests of all those with a stake in the Scheme;
- need for Member Trustees as a whole to reflect the membership of the Scheme.

The Pensions Council committees may nominate one or more applicants as a "Reserve Trustee". The decisions of the Pensions Council committees shall be final.

Where, in the opinion of the Pensions Council committees there are insufficient suitable candidates, further candidates may be sought from the eligible membership or it

can be agreed with the Principal Employer to leave one Member Trustee place vacant, provided the total number of Member Trustees does not fall below three.

Vacancies

If a vacancy is not filled because insufficient nominations are received, or a vacancy arises in circumstances other than expiry of the normal term of office, the Pensions Council committees may decide within a period of three months to:

- Fill the vacancy with a Reserve Trustee
- Select a replacement Member Trustee from amongst the candidates from the last selection exercise; or
- Leave the vacancy until the next nomination exercise is due, provided that the number of Member Trustees does not fall below three.

Where a vacancy arises which is not dealt with by the process above within a period of three months, a further nomination exercise will be commenced. If a vacancy remains after this further nomination process, the nomination and selection process will be repeated at yearly intervals until the vacancy is filled.

Role of Trustees

Successful candidates will be appointed as Member Trustees by the Principal Employer in accordance with the Rules of the Scheme. Eligible members will be advised of the appointment.

A Member Trustee will have exactly the same functions and responsibilities as other Trustees which include:

- acting in accordance with the Rules of the Scheme and the law;
- acting prudently, conscientiously and honestly and with the utmost good faith;
- holding a balance between the interests of all those with a stake in the Scheme;
- taking advice on technical and other matters which are not understood;
- investing the funds of the Scheme.

Training is available for the Trustees to help them carry out their duties. Training is provided by the Pensions Regulator and takes the form of a number of free online training modules which are available at: www.trusteetoolkit.com.

In addition the pensions management department and external advisers provide training.

Review of the Member Trustee process

The Trustees will review the nomination and selection process for Member Trustees every 4 years.

How to apply

If you would like to apply or to nominate someone else to become a Trustee please request an application form from the Pensions Department:

- write to:
Mike Nixon,
Secretary to the Trustees,
Westland Pension Scheme,
Box 205,
Yeovil,
BA20 2YB
- email pensions@whl.co.uk
- telephone 01935 705353

New pension options

Some major changes were made to the Scheme rules with effect from 1 May 2007. As well as addressing future service costs as part of the recovery plan, these took advantage of the new "A Day" tax regime which allow schemes to introduce some attractive options for members. In this article we provide some examples of how these new options work. Some of the concepts are complex and hard to follow so we have highlighted the main points in boxes. Those who are interested in the detail may find it helpful to work through the examples to help gain some understanding of how the new rules work.

More tax free cash at retirement

The cash option at retirement has always been very popular because it allows benefits to be taken tax free.

Under the old tax rules the maximum lump sum allowed was quite complex, but all recent joiners have been allowed 2.25 times the initial pension. For example someone with a pension of £10,000 was allowed to give up some of that pension for a lump sum of £22,500.

The new rules are more generous, although still complex. You are allowed to take 25% of your benefits as cash. The value of your benefits for this purpose is set at 20 times the pension. Nominally the multiple has therefore increased from 2.25 to 5 times (25% of 20) - or an apparent increase in the example from £22,500 to £50,000. Unfortunately it isn't quite as simple as this - as we will explain shortly.

Cash factors

The Trustees have been reviewing the factors used by the Scheme - we conduct this review at least every three years after the formal valuation.

As you will be aware the cost of pensions is increasing. While this makes it more expensive to save for your retirement, it results in some good news for the cash option. If each £1 of annual pension is more expensive, it follows that you get more if you decide to exchange it for cash.

For example the old factor for the Scheme at age 63 was £12.75 for every £1 of pension given up. The new factor adopted by the trustees is £16.65 for every £1 of pension given up.

It follows that if you wanted to take cash of £22,500 you used to have to give up £1,675 of pension. Under the new factors you only have to give up £1,351 of pension. In other words because of the factors change you can have the same amount of cash but £414 per annum more pension than used to be the case.

Maximum cash

This is the most complicated part. The actual maximum amount of cash you are allowed actually has to be adjusted by a ratio of the actual cash factor compared to 20. The formula for this is hard to follow, but, strictly for the pension enthusiast, it has been written out below:

$$\text{Lump sum} = 20 \times \text{Gross pension} \div (3 + (20 \div \text{Cash factor}))$$

In our example, at age 63 a member of the Scheme with a pension of £10,000 is allowed to take £47,605 in cash ($20 \times £10,000 \div (3 + (20 \div 16.65))$).

In summary, previously a member at 63 with a pension (before the cash option) of £10,000 used to be able to take cash of £22,500 in which case the pension reduced to £8,235 per year.

Now as a result of the new cash rules and the factors the member could:

Still take cash of £22,500 in which case the pension reduces to £8,649

or

Take cash of £47,605 in which case the pension reduces to £7,141

In other words more tax free cash is available at a cheaper price.

Voluntary contributions

As part of the pension changes there are some new options to make extra contributions to increase your pension.

AVCs

For many years the Scheme has had an option to pay AVCs - which stands for Additional Voluntary Contributions.

The new tax regime makes AVCs very tax efficient because the 25% cash rule described above can apply (if the Scheme rules allow) to the whole value of your benefits from the Westland Scheme - including the AVCs.

The Company has decided to allow members to take advantage of this change in the tax regime and up to £50,000 can be taken as a tax free lump sum from AVCs (provided that the total value of the benefits exceeds £200,000).

With AVCs therefore you will get tax relief when you pay them, some tax concessions while they are invested and then tax relief when you draw them out.



In our example, it is possible for the member, if enough AVCs have been paid, to:

Take AVCs as cash of £47,605 (or more) and have the full pension of £10,000.

“Buy up” option

Alongside AVCs, the Company has introduced a new option to “buy up” to a better “accrual rate” for the main section of the Scheme.

“Accrual rate” means the amount by which the pension grows for every year of pensionable service. So a member on a salary of £25,000 sees their pension grow by 1/70th of this each year or £357.

The “buy up” option allows you to increase this rate from 70ths to 65ths or 60ths if you wish.

We have set out below the current cost of each accrual rate and an example of how much pension it provides:

Accrual rate	Extra cost	Total contribution	Extra pension each year (salary of £25,000)
70th	nil	8%	£357
65th	1.3%	9.3%	£385
60th	2.9%	10.9%	£417

The Trustees are responsible for setting the extra cost of the higher accrual rates, trying to make sure this cost is fair from the perspective of all members of the Scheme. We will do this every year and you will be able to change what accrual rate you wish to have every year. The option began on 1 May 2007 and we will announce the new rates with option forms well before 1 May next year.

Lump sum death benefits

The new regime allows favourable tax treatment of death in service benefits. Widow's and widower's pension is taxable whereas lump sum is payable tax free.

For this reason the Company decided to allow the family to have an option to draw their benefits wholly as a lump sum if that suits their circumstances following the early death of a Scheme member. We will make sure financial advice is available to support the family with the decision if needed.

The rules in the main section provide for a death benefit of 4 times salary less half the cost of a pension to a spouse of 1/160th for every year of pensionable service.

For example the family of a member in the main section with a salary of £25,000 who has completed 25 years service who dies at age 50 would have a choice between:

Lump sum of £54,870 and a spouse's pension of £3,906 per year.

or

Lump sum of £145,130.

It is important to note that this new option has also been affected by the change in factors the Trustees have made following the 5 April 2006 valuation. As the costs of pension have increased this makes the lump sum option more attractive.

For example under the old factors, the lump sums would have been £60,117 with the spouse's pension of £3,906 or £139,883 without it.

Pension Input Period and tax returns

As part of the new regime the Trustees have set a "Pension Input Period" or "PIP" for the Scheme. This is because of the new Annual Allowance for the amount by which a pension can grow each year.

The PIP is the saving period over which the allowance is tested. The Trustees have decided to set the period to be the same as the Scheme year - 6 April to 5 April - so the first period ran from 6 April 2006 to 5 April 2007.

Those who have to complete a tax return may wish to verify that they have not exceeded the Allowance.

As you are in a defined benefits scheme this is done by multiplying the amount by which your pension has increased over the year by 10.

You then add on any AVCs you have paid or contributions to a personal policy. The Allowance is £215,000 (for 2006/07) so very few people will exceed it.

Benefits Statements for 2007

Our administrators are now working on the 2007 Benefits Statements which we are planning to issue to members in the autumn.

The exercise is more complex than usual because of the need to adjust all of the calculation routines for the 1 May 2007 rule changes.

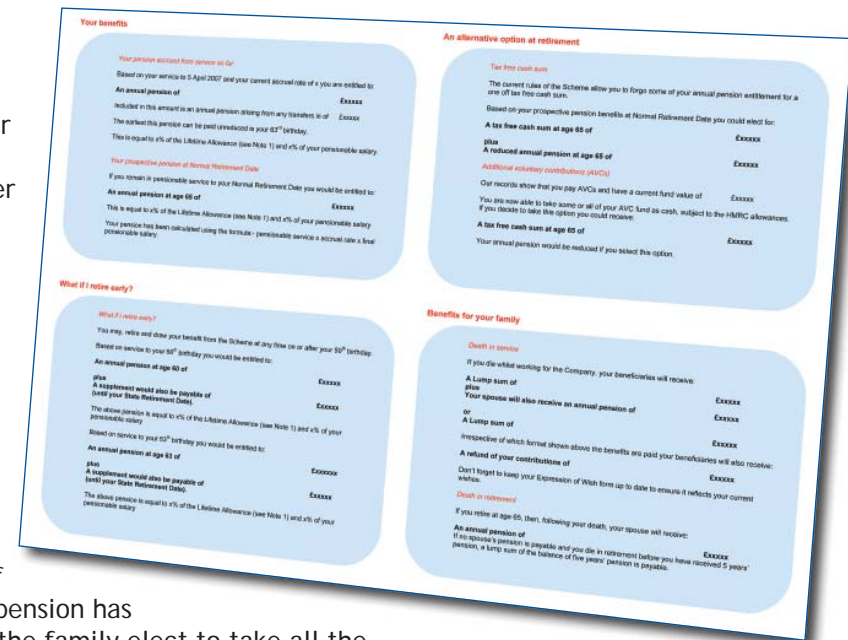
It follows that the statements will show your entitlement at 5th April 2007 but with the projected benefits showing the position after the rule changes.

Also, as has been described in Insight, the Trustees have made changes to Scheme factors following the valuation.

These will have an impact on the pension forecasts in the Benefits Statements.

In particular:

- the lump sum cash you can receive at retirement will improve.
- if you are married, your death in service lump sum will be lower because your half share of the cost of providing a spouse's pension has increased. Conversely more is payable if the family elect to take all the benefits in the form of tax free cash.





Coming soon... new AVC investment options

There has been quite a lot of interest in AVCs as a result of the changes made by the Company. The Trustees have been reviewing our AVC investment options and talking to our investment consultants to see whether they are suitable for this different environment and whether more choice needs to be offered.

Currently there are two investment options available:

With profits - your money is invested in a mixed fund and you receive a guaranteed value at retirement to which bonuses are added over time depending on how the fund performs.

Lifestyle - your money is invested in growth assets (mainly equities) but then is switched gradually into safer assets (mainly bonds) as you approach retirement.

It is likely that a small change will be made to the lifestyle option and two more options will be introduced:

Absolute return - your money is invested in a mixed fund as under the with profits option. However the fund performance is linked directly to the assets, rather than through a system of bonuses.

Pick & Mix - those who would like more flexibility in how their money is invested and would like to switch between asset classes at a time of their own choosing will be able to pick & mix between UK equities, international equities, property, bonds and cash.

We are now in discussion with our AVC provider, Prudential, about these changes. A new AVC booklet will be produced in the autumn to describe the arrangements in more detail.



Getting in touch

If you have any comments or queries you can contact the Pensions Department by telephone on: 01935 705353

or write to:
Westland Pension Scheme
Box 205,
Yeovil,
BA20 2YB

If you would like to visit us on site we are in building 212

Or if you prefer, you can contact us by email at:
pensions@agustawestland.com