

Westland Pension Scheme

Welcome

This short edition of InTouch has been produced to introduce you to a new Trustee who has recently joined us in looking after the Scheme on your behalf.

We are also now very close to "A-Day" when the most major change to the tax treatment of pensions for over 25 years will take place. This edition of InTouch provides you with some more background to the changes that are possible and an update on what has been happening over the Scheme's funding position.

New Face

The Trustees of the Pension Scheme are responsible for the assets of the Scheme and making sure that there is enough money available to pay you the pension you have earned when it falls due.

The Rules of our Scheme provide for there to be nine Trustees. There is then a nomination process that provides for the Company to select five Trustees and members to select the remaining four. The duties of Company and Member appointees are identical.

The Company has recently changed one of its nominees and welcomes Wayne Speake as a new Trustee.

Wayne joined Westland Group plc in April 1991 and is Legal Counsel. He has been married to Claire for 19 years and has three children.



He keeps very fit, taking part in athletics, tennis, triathlon and helps to coach at a local swimming club and athletics club. He is also British veteran 1500m champion. He has prior experience of the Pension Scheme through serving on the Pensions Council as a representative of non-procedurally covered staff.

No change

A-day coincides with a period of unprecedented change in the world of pensions. In our case we implemented last year some major changes to the Scheme, including both employees and the Company paying higher contributions and the introduction of **smart**. At that time we knew that more work was needed to support our Scheme and keep it sustainable for the future.

In the October 2005 edition of InTouch we updated you on how the valuation position had changed over the Scheme year to 5th April 2005. You will recall that the position had deteriorated. The Actuary will be conducting a full valuation analysis as at 5th April 2006 but the indications we have are that there has been no improvement over the year so far. The key problem continues to be historically low interest rates - good news for mortgages, but not helpful in funding your pension because interest rates set the value of the liabilities we have to meet.

We are in discussion with the Company over both the A-day changes described in this newsletter and the design of a set of measures to safeguard the Scheme. The intention is to make a comprehensive set of changes that will address the funding shortfall and take advantage of the greater flexibility allowed by the new regime. Any changes will, of course, be subject to detailed consultation with the Pensions Council. We will let you know more about this in due course and once consultation with the Pensions Council is complete. In the meantime **the Scheme and all of its provisions will continue, unchanged.**

Getting in Touch

If you have any comments or queries you can call the Pensions Team on 01935 705353, or write to

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Box 205
Westland
Lysander Road Yeovil Somerset
BA20 2YB

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

From A-day the Revenue will no longer restrict the maximum amount of pension anyone can have.



Currently the Revenue restrict how much money you can put into your pension and the benefits you can receive at retirement. On 6th April 2006 (known as "A-Day") these restrictions will be lifted and schemes can, if they wish, apply a new, simpler, set of limits. Schemes have five years to decide exactly how they want to change their Rules.

You may well have heard a lot about these changes from friends or in the press so we felt it might be helpful to give you an insight into the changes that are allowed.

Lifetime Limit

From A-day the Revenue will no longer restrict the maximum amount of pension anyone can have. Instead, everyone will be able to build up a fund of £1.5 million and receive tax advantages. This amount is known as the Lifetime Limit and it will increase broadly in line with inflation. If a person's fund builds up beyond £1.5 million any excess benefits will have an additional tax applied which is equivalent to an extra 15% - i.e. it increases the higher rate of tax from 40% to 55%.

Your lifetime value

To work out how much your pension is worth, you need to gather the latest pension statements from all of the pension providers you have and then:-

- find the "accrued" value of your "defined benefits" pensions (like the Westland Scheme) at the date of the Statement and multiply this by 20.
- find the latest fund value of any "money purchase" pensions you have (like AVCs).
- if you have a pension that is already in payment, multiply the current annual amount by 25.

Add the figures from these three sources together and then add a margin for how your pension has grown between the statement dates and A-Day. For the vast majority of people the fund will be well below the £1.5m. Using the 20 multiplier noted above you can see that the maximum pension amount in the new regime is £75,000 a year. It follows that the new tax regime means that the scope for and flexibility of pension saving is much greater.

Protecting a lifetime value

For the few people who already have funds of £1.5m, it is possible to apply for protection so that the 15% additional tax charge only applies to benefits built up after A-Day.

There are two types of protection. Primary protection allows you to have a personal allowance above £1.5m, which is then revalued broadly in line with inflation. The additional tax charge is then applied only to the benefits above this personal limit.

Enhanced protection is more complex. It can be applied for even if your pension is below £1.5m but you think it will grow faster than the rate of inflation. However opportunities for additional pension saving after A-Day are severely restricted.

If you would like more information about protection, a briefing document is available from the Pensions Department. If you are uncertain of what action to take, it is also recommended that you take professional financial advice.

Contributions limit

After A Day the 15% limit on pension contributions in an occupational scheme can be removed. Instead pension contributions are virtually unlimited - the maximum allowed is £215,000 per annum, or total earnings, if less! Clearly this is far more than most people will want to pay into a pension each year.

Cash lump sum at retirement

The new maximum tax-free lump sum is 25% of the fund value. In the vast majority of cases this is more than the current regime and more than the Rules of the Pension Scheme provide for. We are reviewing whether it is appropriate for us to adopt this change.

Voluntary contributions

The 25% cash rule also means that voluntary saving for retirement

becomes more tax efficient. Previously if you took out what was known as a Free-standing AVC with a pension provider of your choice, you had to convert the fund into a taxable pension at retirement. After A-Day you can take 25% of the fund as tax free cash and then convert the balance into taxable pension.

Given that pension saving is expected to become easier after A Day, occupational pension schemes like ours do not have to provide members with a voluntary saving option (AVCs). Against this, the 25% cash limit applies to all benefits from an occupational scheme like ours, so potentially all of the AVC fund could be taken as tax free cash, provided that this remains within the total 25% limit on Westland benefits. Accordingly we are currently reviewing what changes we should make to our AVC option with Prudential, including whether the investment choices we have in place are appropriate.

Death in service

The tax treatment of death in service benefits is also changing. Currently a lump sum of four times salary can be paid tax free. In the new regime, all lump sums to your family following your death are tax free up to the £1.5m allowance. Pensions to a spouse or dependant continue to be subject to income tax. We are considering whether any changes should be made to the way death in service benefits are paid to reduce the amount of tax your family would have to pay following your death.

Implementing A-day

As noted overleaf, the Trustees are currently in discussion with the Company about A-day and wider changes needed to keep our Scheme sustainable for the future. Consultations will also take place in the Pensions Council. Please be assured that in the meantime the Pension Scheme and all its provisions remain unchanged.

