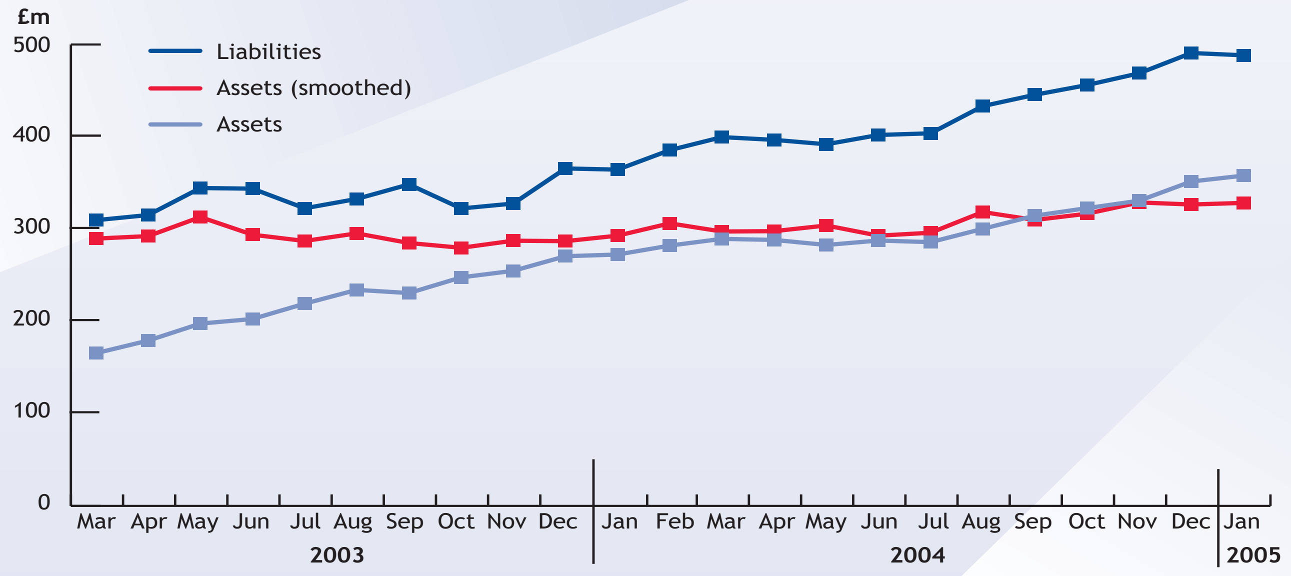
## funding update

A valuation involves comparing a scheme's assets – broadly speaking, the money it has and what it can expect to come in through contributions and investment returns – with its liabilities, or costs. If a scheme has greater liabilities than assets, it is 'in deficit'. Most UK final salary schemes, ours included, are currently in this position.

The size of the deficit changes daily. Since our last formal valuation, it has ranged between £12 million and £99 million, with an average of £60 million. This is why it is important we take action now to make sure we can continue to offer a high quality pension scheme to our members.

Funding a pension scheme is an extremely complex matter and we spend a lot of time at our meetings talking to the Scheme Actuary to see what the latest trends are. There are a lot of different ways the funding position can be illustrated but we thought you might find the simplified chart on the right helpful to illustrate these trends. It shows the assets the Scheme holds at the end of each month and the Actuary's estimate of what the liabilities were at the same date. Of course there are a lot of other assumptions and allowances to be built in before we decide with the Company what contributions will be paid but this chart helps you to see what has been happening. We plan to update this chart and give you a much fuller explanation of how a pension scheme valuation works in the next edition of intouch.




Note: The smoothed asset number is an average of the assets held over the past three years. The Actuary makes this adjustment so that we don't over react to short term moves in the stock market.

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# any questions?

## what if I don't want to pay more?

We believe that the changes proposed are the most effective ways of continuing to provide final salary benefits for our members in the face of rising costs.

The Company has underlined its commitment to the Scheme by paying higher contributions. While we are asking members to share some of this cost, at 1.5% of pensionable salary, we have kept the increase as low as possible … and tax relief and the SMART option mean that the effective increase will be even less than this.

If you decide not to pay the higher contributions, you will become a deferred member of the Scheme – but please bear in mind the benefits you will be giving up. The Scheme provides life assurance and ill-health benefits as well as a pension. Please note that if you take out a separate personal pension, the Company will not pay into it and you will also have to pay any missing costs or charges yourself.

## are these the only changes?

They are likely to be the only changes this year. That said, the Trustees, the Company and the Pensions Council will continue to keep a close eye on the situation. The issues surrounding longer life expectancy and future investment returns remain and solutions will need to be found.

Additionally, the Government's new Finance Act, which takes effect in April 2006, will make the way pensions are taxed more flexible. We may introduce some further changes at about the same time to take advantage of this.

## when are the changes taking place?

**April 2005** You will receive a request to pay the increased pension contribution.

The pension you build up from now on will be guaranteed to increase in payment in line with inflation up to 2.5% (rather than 5%) a year.

The 'fair share' pension option will become available for members wanting to retire early.

**May 2005** Your May payslip will be the first to reflect the higher contribution to the Scheme.

We will send you more details about SMART pensions and an invitation to take up the option.

**[July 2005]** SMART pension arrangements are planned to start (subject to Inland Revenue approval).

## getting in touch

If you have any more questions about the Scheme changes, or your individual benefits, you can call the pensions team on 01935 705353, or write to:

Westland Pension Scheme
Box 205
Westland
Lysander Road
Yeovil
Somerset
BA20 2YB

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

# intouch

AgustaWestland
A Finmeccanica Company

April 2005

Westland Pension Scheme

## planning for the future

You will have seen a copy of the March 2005 Brief issued by the Trustees of the Pension Scheme and the Pensions Council. The Brief outlines a number of changes that are being made with the aim of strengthening the fund. This special issue of intouch tells you more about the changes and why they are necessary.

For a number of different reasons, most schemes across the UK, ours included, have found themselves in deficit at their most recent valuation. Because funding pressures are likely to continue, companies and Trustees are all looking at ways to contain their scheme costs going forward. We take you through the reasons in this issue's 'insight', along with some of the measures companies are taking to address the situation.

As Trustees, we are responsible for continuing to run the Scheme in your best interests. In our November 2004 issue, we reported on the review we carried out of our investment strategy, and we also looked at the results of our latest valuation.

Pension costs continue to rise, and we firmly believe that we should take action now to restore our Scheme's funding level in good time. We believe that the proposed changes are the best way forward for you, the Company and the Scheme. You are being asked to increase your contributions, but – unlike many other companies – you will still be provided with final salary benefits, where your pension is linked to your salary and service when you retire.

Read on for more details – and please get in touch with us (the contact details are on the back) if you have any questions.

**"We believe that the proposed changes are the best way forward for you, the Company and the Scheme."**

IN THIS ISSUE

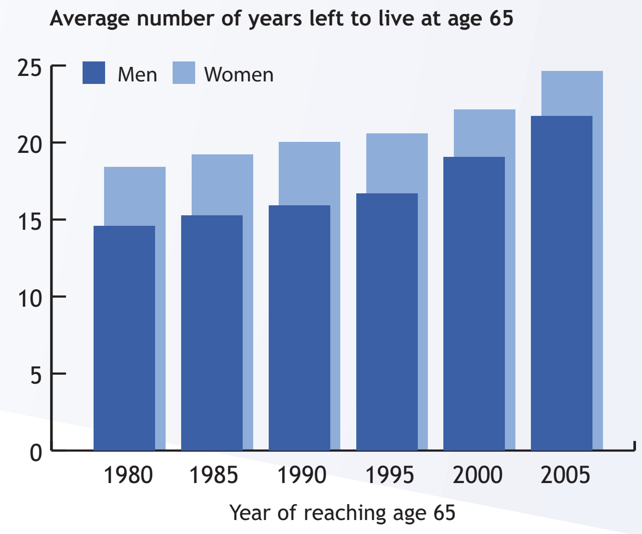
insight

# rising costs

Providing pensions has become more expensive in recent years, to the point where most companies in the UK are having to make changes to their pension arrangements to address the rising costs. There are a number of different reasons for this.

## life expectancy

This chart shows how life expectancy for both men and women has gone up in the last 25 years.




Source: Hewitt Bacon & Woodrow

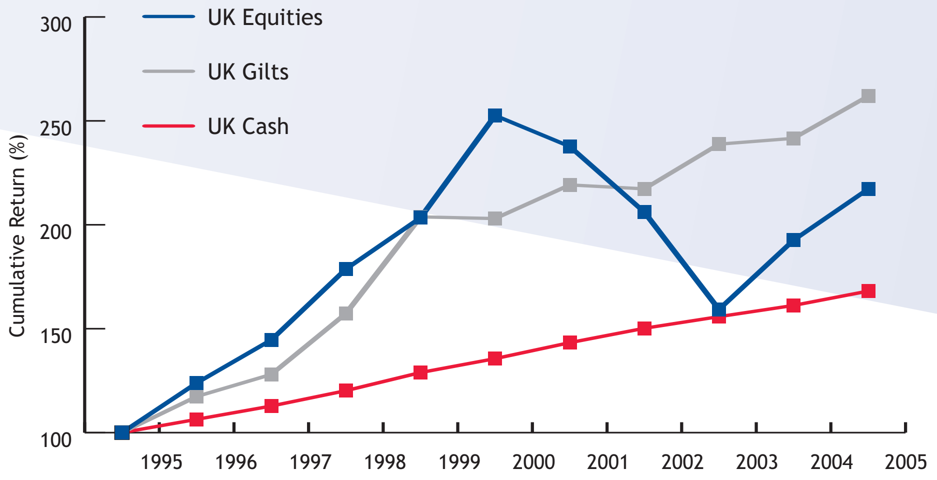
It is, of course, good news that most of us can expect to live longer. But rising life expectancy means that we will probably be receiving our pensions for longer as well. This costs more to provide and must be taken into account by the Actuary in his valuation.

## investment conditions

You may recall from earlier issues of intouch (and indeed, from newspapers or television) that world stock markets recently went through a period of poor performance. Shares fell in value between 2000 and 2003, sending most pension schemes into deficit.

Investment conditions have improved since then, but a more cautious market means that investment returns are unlikely to rise as high as they did in the last decade. Because schemes will not be able to rely as heavily on investment returns, more money will be needed from the company or the members.

This graph shows how the UK stock market dipped between 2000 and 2003.




Source:
UBS Asset Management

## interest rates

Returns from Government bonds and cash have also been lower than might be expected because of low interest rates.

## legislation

Since 1997, pension schemes have been unable to reclaim the tax they paid on their income from UK shares. Schemes also face an increase in administration costs in the near future when the measures in the Government's new laws take effect (see the November 2004 intouch).

# options

Companies must now find ways to go on providing schemes for their employees but at costs that are affordable. Here are some of the changes being made in other schemes across the UK.

### higher contributions

One solution is for the company and the members to pay more money into the scheme.

### later retirement

Some schemes are encouraging members to retire later and stay in the scheme for longer, by raising their retirement age or reducing pensions taken before a certain age. This means that the scheme will receive more contributions and the member's pension will cost less (since it is likely to be paid for a shorter period).

### lower benefits

The scheme can save costs if members build up benefits at a lower rate into the future.

### new employees

If the scheme closes to new employees, the costs of benefits become more predictable. The company can then introduce a different scheme for new employees, which may be less expensive and less risky. The member is, of course, faced with more expense and more risk to get the same level of pension.

# changes to our Scheme

We hope that this issue's 'insight' has given you some useful background information on current issues affecting UK pension schemes. The Westland Pension Scheme faces the same issues and we need to take action to contain our Scheme costs (see our 'funding update' overleaf).

With this in mind, here are the proposed changes to our Scheme in more detail ...

## contribution levels

The contribution you pay to the Scheme each month will go up by 1.5% of your pensionable salary. The Company will continue to meet all the remaining costs of the Scheme, and it will increase the additional contribution it is already paying towards making up the deficit to 3.2%. This brings its total contribution, on average, to 12.7% of members' pensionable salaries.

Adjusting the contribution levels like this will result in about £15 million of extra funding from you, the members, and £25 million from the Company over the next ten years.

## SMART pensions

SMART stands for 'Save Money and Reduce Tax'. It is a new option for making contributions, sometimes called 'salary sacrifice'. In short, you can choose to give up the part of your salary you currently pay in as your pension contribution. The Company pays that amount into the Scheme instead as part of its contribution. You - and the Company - will pay lower National Insurance as a result, because it is based on your reduced salary figure.

So, although your salary appears to drop, the amount of money going into the Scheme stays the same and you will see an increase to your take-home pay. Because the Company makes this National Insurance saving for every employee taking part, SMART pensions are a very effective way for it to contain costs.

We will be sending you more details on SMART pensions shortly.

## pension increases

Under current rules, your pension when it comes into payment must increase in line with inflation up to 5% a year. The Government's new Pensions Act gives companies the option of reducing this 'maximum' from 5% down to 2.5% for pensions built up from April 2005. This is to help ease the financial burden on companies from the Government's initiative to provide greater security for pension scheme members. For example, the Scheme must now pay levies for the new Pension Protection Fund which is intended to rescue schemes where the sponsoring employer gets into difficulties.

We are introducing this change, but remember:

It only applies to the pension you build up from April 2005 - so if you are already a member you will have earned some pension that will still have a guaranteed increase in line with inflation up to 5% a year.

We will still have the option to increase pensions by more than 2.5% depending on the rate of inflation and the Scheme's funding position.

## early retirement terms

We propose making one additional change that improves the flexibility available to members of the main section in relation to early retirement.

Under the current Scheme rules, the early retirement terms are 'enhanced' - in other words the amount of pension does not reflect the full cost of paying it out earlier than expected. When the Scheme has a deficit this consent will only be given in exceptional circumstances because of the strain on the fund each early retirement would cause. If the Company does not agree to your retiring, the only alternative would be to transfer your pension into a personal arrangement with an insurance company or other pension provider - and pay all the costs involved in doing so.

To provide more flexibility in future, everyone will have the right to retire early without Company consent. The terms will be on a 'fair share' basis - in other words the reduction in the pension will be to the amount that the Actuary to the Scheme says reflects the value of the benefits you have built up in the Scheme up to the leaving date. This flexibility already exists in the other sections of the Scheme.

## in conclusion

We believe that these changes are the best way forward for you, the Company and the Scheme.
In particular they allow us to continue our Scheme's greatest strength of offering final salary benefits - that is, your pension will be linked to your salary when you retire and your length of service in the Scheme. Only 42% of private sector companies still offer this benefit.