PENSION NEWS

Airbus UK Pension Scheme

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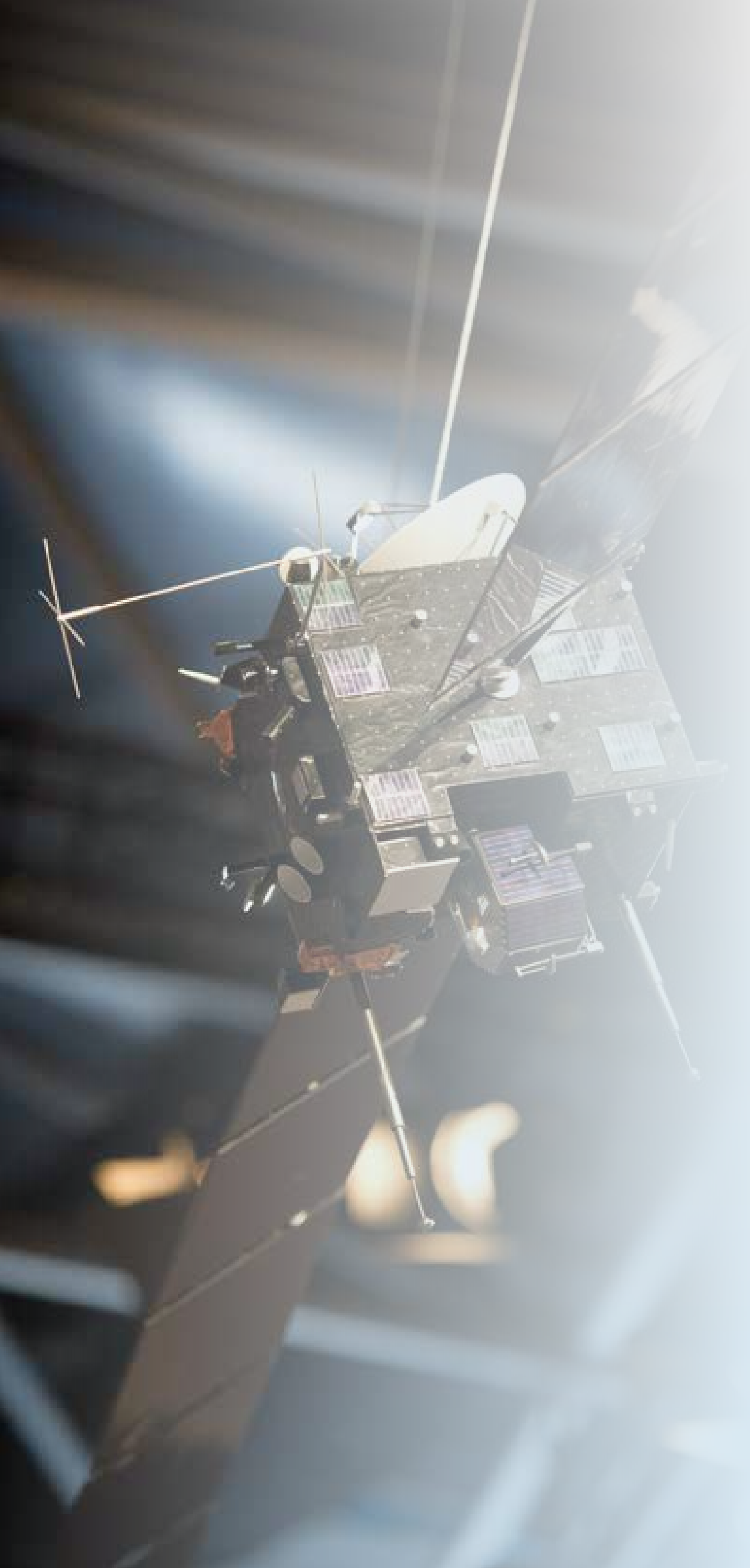


Actuarial valuation

The results of the actuarial valuation of the Scheme as at 5 April 2016 are summarised here.

What is an actuarial valuation?

It is important to remember that the Scheme's aim is to deliver the employer's promise to pay certain benefits on retirement or earlier death, as set out in the Scheme rules. An indication of these benefits is provided in either the benefit statement that members receive each year or notified to them when they leave the Scheme or retire.

The cost of these benefits is met through contributions paid by members and the employer spread over working lives. These contributions are held in a Trust Fund which is separate from the Employer. The Trust Fund is looked after by the Trustees, who are responsible for deciding on the investment policy, after consulting with the Principal Employer.

At least every three years an actuarial valuation of the Scheme is required to be carried out by the Scheme's Actuary. The aim of this valuation is to measure the assets of the Scheme compared with its liabilities - the expected cost of meeting all the benefits promised - to check whether the assets are sufficient to pay pensions as they become due.

If the assets in a scheme are greater than the liabilities then the scheme is said to have a surplus. If the liabilities are greater than the assets then the scheme is said to have a deficit. If the valuation identifies that there is a deficit, additional contributions will be required to correct it.

These deficit contributions are in addition to ongoing contributions made by members and the employer to continue earning future benefits.

What happens during a valuation?

The Actuary cannot predict in detail what will happen to each member in the future and so a set of assumptions is recommended to the Trustees. They cover matters such as members' life expectancy, future salary increases, future price inflation and the expected future return on the Scheme's investments. Through the valuation process the Trustees hold discussions with the Principal Employer about the assumptions made and the impact on the rate of contributions required, which are set by the employers in agreement with the Trustees.

The Trustee's main objective is to have enough money in the Scheme to be able to pay the pensions and other benefits due to members as they fall due, based on benefits promised up to the date of the valuation. In addition they need to agree the rate of ongoing contributions required and any deficit contributions required (if applicable). The funding of the Scheme does rely on the continuing support of the employers. Also important is the investment strategy set by the Trustee, after taking professional advice and consulting with the Principal Employer.

Results of the 2016 valuation

The headline result is that the valuation now shows a significant increase in the deficit, as the following table indicates:

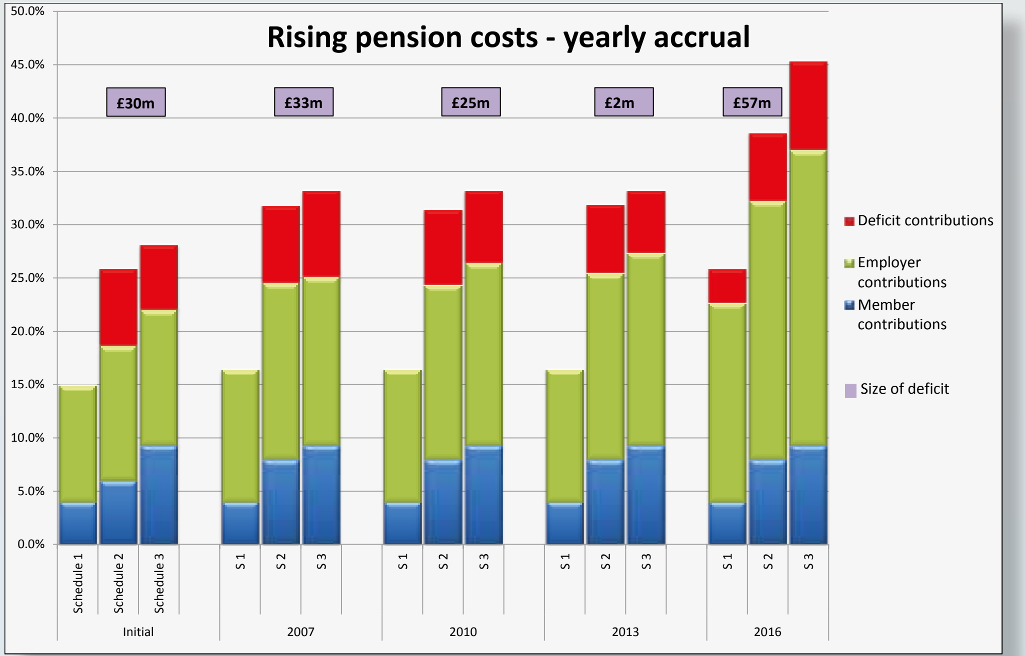
	2013 Valuation	2016 Valuation
Assets	£454.2m	£663.3m
Amount needed to provide Scheme benefits	£456.1m	£720.3m
Shortfall	£1.9m	£57.0m
Funding level	99.6%	92.1%

There are a number of factors that contributed towards this, including the rate of salary increases and the fact that membership is getting older but the main reason is the low expected future return on the Scheme's investments.

The rate of salary increases is important because the Scheme's benefits are based on members' future rate of salary when benefits are calculated. As the Scheme has no new members joining the average age of membership is always increasing; this makes the cost of meeting each year's benefit higher too. The Trustees also used additional analysis provided by the Scheme Actuary to help them make assumptions about how long members will live, as this of course has an impact on how long pensions will need to be paid.

Most importantly, if the Scheme's investments during members' working lives do not match the rate of benefit increase then a deficit could arise. Also the type of investments the Trustees hold to match pensions in payment are typically Government bonds. The return on these investments is linked to interest rates and inflation. With the expectation that interest rates will now stay lower for longer, this has a major impact on the overall cost.

The following table shows how the costs of funding the Scheme have steadily increased over previous valuations, but then a sharp increase has come about in 2016. Much of this is the result of lower future expected investment returns.



The cost of ongoing accrual of benefits has also increased considerably from this valuation. This has meant that contributions will need to increase and a revised Schedule of Contributions has been agreed.

What is the outcome?

The employers have taken some time to reflect on the impact of this rise in the cost of benefits of the Scheme going forwards. The employers want to carry out another valuation for this Scheme to align with the valuation date for the Airbus Section of the BAE Systems Pension Scheme, which has over 5,400 Airbus members. Whilst the outcomes and challenges of the valuations may be different, they feel this is a more sensible approach than having different valuation dates for each scheme.

Therefore, to conclude the 2016 valuation for this Scheme the employers have agreed with the Trustee to pay a one-off deficit contribution of £20m in October 2017. In addition the employers' contributions will increase from July 2017, as part of a 10 year Recovery Plan to clear the balance of the deficit, along with the employers meeting the additional cost of accrual.

The employers will then review the position again after further analysis of both Airbus schemes' valuation results. In the meantime member contributions will remain the same and benefits continue to accrue as before.

The importance of the employers' support

The funding of the Scheme does rely on the continuing support of the employers. If an employer goes out of business any shortfall in its share of a pension scheme would become a debt on that employer. The employer would be required to pay a debt to the pension scheme that represents the cost of securing the employer's share of the benefits promised with insurance policies.

The cost of buying insurance policies is very expensive, especially for younger members. For example, if the Airbus Group UK Pension Scheme had wound up and insurance policies were purchased on 5 April 2016 it has been estimated that the Scheme's assets would have met 51% of the cost. Under normal circumstances it is unlikely that a pension scheme would be forced to wind up immediately and so the trustee could continue to keep the scheme open and pay the benefits as they became due, although further benefits would not accrue.

The worst that could happen would be that the employer became insolvent whilst a scheme had a shortfall and there was not sufficient proceeds from the insolvency to meet the cost of buy-out policies. The Government has set up the Pension Protection Fund to cover such eventualities, subject to certain limits and conditions. Details can be found at: www.pensionprotectionfund.org.uk

The Pensions Regulator

In certain circumstances the Pensions Regulator can direct how the Scheme's technical provisions must be calculated, set the period for eliminating any funding shortfall, specify the level of company contributions to be paid (rather than leaving these issues to be determined by the Trustee) and has the power to modify the Scheme's future accrual of benefits. No such circumstances have arisen.

How can I get more information?

A member's pension is an important benefit. More information may be obtained about the Scheme and how it is managed by contacting the Pensions Manager. A copy of the Trustee Report and a copy of the Statement of Investment Principles can also be obtained.

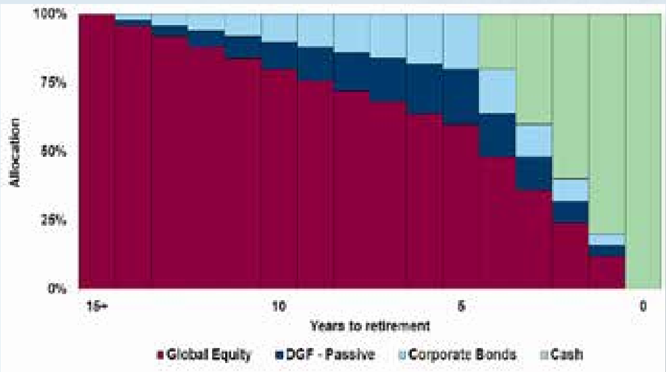
Legal & General Funds

Cash Lifestyle Fund

Members of Schedule 1 who have a Retirement Account and those members of Schedules 2 and 3 who pay AVCs will be invested in the Airbus Group Mixed Lifestyle Fund unless individual funds have been self-selected. The Trustees have agreed some changes to this fund which will be launched soon. The existing version and the new version of this fund are shown below.

Current Fund

New Fund



The change of emphasis during the early years of investing, i.e. whilst members are more than 15 years away from retirement, is to fully invest in global equities. Then introduce the more cautious Diversified Fund and bond funds during the period leading towards retirement to reduce the impact of possible investment market falls. This is believed to deliver more growth over the life of the investment and a smoother pathway of removing investment risk towards retirement.

The expectation for this fund is that members will take all their investment pot as a cash sum at retirement. This matches the behaviour of most members. But there are other lifestyle funds that are offered by the Scheme to target the purchase of an annuity at retirement, or for income draw-down – where the pot is kept invested in an approved plan outside of the Scheme and an income drawn from it in a flexible manner.

A communication will be issued to tell you more about how and when the new funds will be implemented.

Self-Select Ethical Fund

There is a range of different investment funds which members can use to self-select their investment choices, rather than use the Lifestyle options. In response to feedback from some members the Trustees will add an Ethical Fund to the self-select range for members to invest in. The general aim of this fund will be to achieve long term capital growth through investment in an ethically screened and diversified list of international companies that are considered to be making a positive contribution to society.

A communication will be issued to all members with further details nearer the time.

Pensions Consultative Committee

The Pensions Consultative Committee (PCC), whose members are nominated and elected from the whole active and pensioner membership as appropriate, is responsible for selection of Member Nominated Directors (MNDs).

Name	Constituency	Status
Inaki Azpiazu-Pelaez	Filton	PCC Member
Steve Chafer	Leicester, Newcastle, Guildford	Trustee
Denise Chappell	Stevenage	PCC Member
Mick Sheahan	Stevenage	PCC Member
David Hobbs	Oxford	PCC Member
Tim Gilbert	Guildford	PCC Member
Bill Mullin	Broughton	PCC Member
Matthew Johnson	Broughton	PCC Member
Craig Musker	Newport	PCC Member
Guy Newham	Portsmouth	PCC Member
Steve Parker	Portsmouth	Trustee
Mario Schiavo	Filton	PCC Member
Phil Wadey	Corsham, Hawthorn, Oakhanger	Chairman of the PCC
Ian Westall	Pensioners	Trustee

Trustee and Advisers

Trustee	Airbus Group Pension Scheme Trustees Limited
Trustee Board of Directors	Bill Newman (Chairman) – Independent Steve Chafer – Member Nominated Director Keith Davies – Airbus Operations Marcus Wilhelm – Airbus Group Nigel Ede – Airbus Defence and Space Steve Parker – Member Nominated Director Ian Westall – Member Nominated Director
Principal Employer	Airbus Defence and Space Limited
Head of Pensions & Secretary to the Trustee	Clive Bugeja – Airbus Group Limited
Pensions Manager	Laura Millard – Airbus Group Limited
Scheme Actuary	Adam Boyes – Willis Towers Watson Limited
Administrator	Willis Towers Watson Limited
Auditors	Ernst & Young LLP
Banker	HSBC Bank
Investment Consultant	Lane Clark & Peacock LLP
AVC/Retirement Account Provider	Legal & General Assurance Society Limited
Solicitors and Legal Adviser	Sacker & Partners LLP

Tax allowances

Annual Allowance

The level of pension savings you can have each year that benefit from tax relief is known as the 'annual allowance'. If your pension savings in all your pension arrangements in a given tax year are more than the annual allowance, you will pay a tax charge on the excess amount, called the annual allowance charge.
The annual allowance since the 2016/2017 tax year is £40,000, but will reduce for individuals with incomes over £150,000. A reduction of £1 for every £2 of income in excess of £150,000 will apply, with a maximum reduction of £30,000 to £10,000. Income will also include employee and employer pension contributions plus any other taxable income. If the pension savings exceed the annual allowance you may be able to use any unused annual allowance available from the previous three tax years to increase the allowance available for the current tax year. This is known as 'carry forward'.

If the value of your pension in the Scheme exceeds the standard annual allowance in a tax year, you will automatically be sent a statement by our administrators showing the pension savings in the Scheme, together with the equivalent amounts for the previous three years.

You will be responsible to assess your overall position if you have other pension savings or you have earnings outside of Airbus which might take you above £150,000. Ultimately, if you do become liable to a tax charge of £2000 or more, you can ask the Scheme to pay the tax on your behalf, but with reduced Scheme benefits – this facility is called 'Scheme pays'.

Lifetime Allowance

The Lifetime Allowance is the maximum total amount of tax exempt pension savings you can build up in all of your pension arrangements over your working lifetime. If your total benefits were to exceed the Lifetime Allowance then the excess would be taxed at the rate of 55% if you take the excess as cash, or taxed at 25% if it is taken as income.

The current Lifetime Allowance was reduced from £1.25 million to £1 million from 6 April 2016. Final salary scheme pensions will continue to be valued using a factor of 20 so this means you could be charged tax if your pension promise is above £50,000 pa. Defined contribution pots are taken at their face value. It is possible to apply to the HMRC for certain protection if the value of all accrued pensions as at 5 April 2016 exceeded £1m. More information about this can be found on-line at:
https://www.gov.uk/guidance/pension-schemes-protect-your-lifetime-allowance

If you think you might be affected by the lifetime allowance or the annual allowance, you should contact an impartial financial adviser for more details. You can visit www.unbiased.co.uk for details of financial advisers you could contact.

Useful information

Scheme website:

www.airbusgroup.com/pensions

The on-line administration site, ePA, can be found at:

https://epa.towerswatson.com/doc/AST/login.htm

The Legal & General Manage your Account site can be found at:

www.landg.com/manageyouraccount

If you have queries about the management of the Scheme or you require details of the dispute resolution procedure, please contact Clive Bugeja, Scheme Secretary at:

Airbus Group Pension Scheme Trustees Limited
Gunnels Wood Road
Stevenage
SG1 2AS

Tel: 01438 773319
Email: clive.bugeja@airbus.com

As always, if you have any questions about your pension please email ukpensions@airbus.com – one of the team will be happy to help you.

If you have difficulty reading this document you can obtain an audio copy by contacting the Pensions Manager.