THE MESSIER-DOWTY PENSION SCHEME

pension points

June 2014

Welcome...

...to the 2014 edition of pension points, your regular newsletter from the Trustee Directors of the Messier-Dowty Pension Scheme.

Many of you will be new to the Scheme this year following the Company's auto-enrolment project. This newsletter is our opportunity to let members know what has been happening throughout the last year, in terms of the Scheme and the wider pensions world. We hope you find the following articles of interest and would appreciate any feedback you may have.

For ease of browsing we have split the newsletter into three parts: information for Defined Benefit (DB) Section members (pages 2-3); information for Defined Contribution (DC) Section members (pages 3-5); and a general section of pensions information that is relevant to all (pages 6-8).

If you are a Defined Benefit Section member

As usual, you'll find a summary of the DB Section's income and expenditure for the latest available year, and an overview of how the DB Section's investments have been performing, on page 2.

Additionally, you'll find information about the 'funding' of the Scheme – what it means, and what affects it – on page 3.

If you are a Defined Contribution Section member

You'll find a summary of the DC Section's income and expenditure over the Scheme year to 31 March 2013 and an update on how the DC Section's investments have performed on page 5.

We've also included a couple of articles on how a DC scheme works, the risks associated with DC schemes – and how you can help lessen them. These articles are included on pages 3-4.

For all members

The article 'Pensions Update' on page 6 gives you an overview of recent Changes to the Lifetime and Annual Allowances, and includes an important message about the dangers of pension liberation schemes.

On page 7 there is an article on the steps that the Trustee takes to ensure the Scheme is well run.

We hope you enjoy reading this issue of pension points. If you have any questions, or ideas for future issues, please contact us using the contact details on page 8.

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Facts and figures

Ins and outs

The table below gives a brief summary from the Trustee's 2013 Annual Report and Accounts. This enables you to compare the money that has come into and gone out of the Defined Benefit (DB) Section of the Scheme over the years to 31 March 2013 and 31 March 2012. If you would like to see a copy of the full Report, please contact Roy Brown (see page 8 for contact details).

	Year ended 31 March 2013 £	Year ended 31 March 2012 £
Coming into the DB Section		
Company contributions	7,020,385	10,539,742
Members' contributions	801,974	813,392
Members' Additional Voluntary Contributions (AVCs)	-	-
Investment income	10,033	10,329
Transfer from DC Section	67,888	77,332
Other income	115,796	212,773
Total income	**8,016,076**	**11,653,568**
Going out of the DB Section		
Benefits paid	4,380,730	4,298,320
Payments to and on account of leavers	23,968	1,250
Insurance premiums	212,822	255,048
Investment management expenses	81,344	104,394
Administrative expenses	609,241	718,520
Total expenditure	**5,308,105**	**5,377,532**
In summary		
Value of DB Section at start of year	176,617,764	159,525,253
Money coming in less money going out	2,707,971	6,276,036
Change in market value of investments	19,521,575	10,816,475
Value of Scheme at end of year	**198,847,310**	**176,617,764**

Our membership

On 31 March 2013 the DB Section of the Scheme had a total of 1,652 members.

For the 2012/13 Scheme year our membership was made up as follows:

- 721 contributing members building up benefits in the DB Section, compared to 750 on 1 April 2012;
- 385 were pensioner members (and the dependants of members who have died) being paid benefits from the DB Section, compared to 398 on 1 April 2012; and
- 546 were deferred members who have kept their benefits in the DB Section and will draw them when they retire (including members who have transferred to the DC Section for future service), compared to 537 on 1 April 2012.

Retirement Quotation Policy

If you are considering early retirement or need a quotation as to what your benefits will be at retirement, you are entitled to request two quotations in any Scheme year (which runs from 1 April). The administration team can provide more than two quotations, but members will be charged for each additional one. Please note that a single request for two different retirement dates counts as two quotations.

Investment update

Although the Trustee has overall responsibility for the investment of the DB Section's assets, the day to day management is delegated to specialist investment managers. The current managers are listed on the back page.

The Defined Benefit Section's investment performance

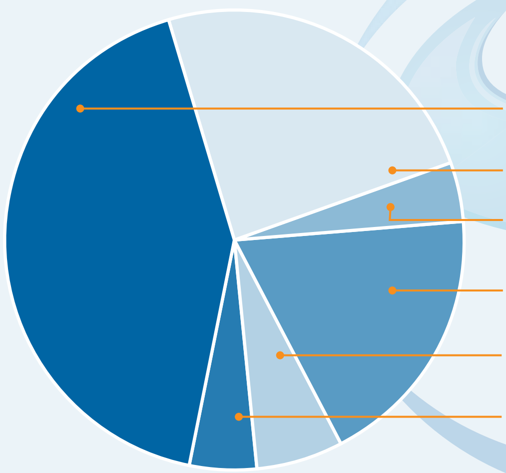
We measure the performance of the DB Section's assets by comparing the returns achieved by our investment managers with a performance target or 'benchmark'. The one and three year performance figures to 31 March 2013 are shown below, together with the benchmark performance. The DB Section's investment performance is regularly reviewed by the Trustee.

	1 year (%)	3 years (% p.a.)
DB Section	14.4	4.5
Benchmark	12.9	3.8

Figures are estimated by Mercer and are gross of fees.

As at 31 March 2013 the DB Section's assets were split as shown in the pie chart on the right.

The value of the DB Section's investments (including members' AVCs) on 31 March 2013 was c.£196.6 million.



Investments	Market value of Scheme assets
Equities	£87,132,684
Index-linked gilts	£ 49,598,176
Property	£ 8,733,177
Diversified Growth Strategy	£38,412,602
Fund of Hedge Funds	£ 12,460,548
Cash	£9,583

What is funding?

You may have seen media coverage about 'funding' for defined benefit schemes such as ours. But just what does funding mean?

Each year, active members earn benefits in the Scheme that are linked to their salary. The estimated cost of providing all the benefits that the members have earned to date is known as the Scheme's 'liabilities'. The Company and members still employed by the Company pay in contributions. These contributions are then invested to help provide members' benefits. All contributions and investment income are held in a communal fund and make up the Scheme's 'assets'. The money and investments belonging to the Scheme are kept totally separate from those of the Company.

To check the Scheme's financial security, the Trustee compares the value of its liabilities to its assets – and this defines its 'funding level'. If the value of the Scheme's assets is less than the value of the Scheme's liabilities, it is said to have a 'shortfall'. If the value of the Scheme's assets is more than the value of the Scheme's liabilities there is said to be a 'surplus'.

The Trustee carries out an in-depth look at the Scheme's finances at least once every three years. The Scheme's actuary, a qualified, independent professional, undertakes this 'actuarial valuation'. The Trustee also checks the financial security of the Scheme regularly in between the full actuarial valuations. Following each actuarial valuation, the actuary estimates the contributions that the Company needs to pay to cover the cost of benefits now and in the future. The Trustee then agrees a level of contributions for the Scheme with the Company and record this in a document called the Schedule of Contributions.

The Trustee reviews and updates the Schedule of Contributions as required, but at least each time the Scheme has an actuarial valuation.

Each year you receive a summary funding statement which updates you on the funding situation.

Defined Contribution Section

DC pensions - an overview

In the DC Section members contribute to a pot which builds up in a similar way to an investment savings scheme. On retirement this pot is then used to provide benefits in retirement. In the DC Section the income you will eventually receive in your retirement is dependent mainly on three key factors:

- How much is paid into your member account and when
- Any investment returns earned
- The cost of buying a pension when you retire (or, following changes announced in the Government's 2014 Budget, if you 'draw down' benefits how long you live and the investment return your pot earns during your retirement)

How much is paid in

As a DC member, you decide how much you pay into the Scheme. The more you pay in, the higher the likely income you will have following your chosen retirement date. You may also be entitled to additional contributions from the Company depending on the terms of your membership. You can change your contributions by completing the contribution change form available via PlanViewer and giving this to your site HR contact.

Investing your member account

You can choose where your member account is invested from the range made available by the Trustee Directors. If you don't want to make your own investment choices, or don't want to actively manage your investments, your account is invested in the Lifestyle strategy by default. This invests your account in funds expected to give higher long-term returns (but can be subject to sharp short-term shifts in value, up or down) while you are some years from retirement, so your savings have the opportunity to grow. As you approach retirement, the value of your account is automatically and gradually moved to funds designed to protect the value of your retirement account against changes in the cost of buying a pension and taking a cash lump sum (but are likely to give lower returns too).

In the Lifestyle strategy, it's assumed that you plan to retire at age 65, so if you're planning to retire at a different age, it's important you tell us. If you don't, your fund may be invested either too conservatively or too aggressively. If you would like to change where your member account is invested, contact Fidelity (details at the end of the newsletter) or log on to the PlanViewer.

The Trustees review the lifestyle strategy from time to time and are considering the impact of the Budget on the approach currently in place.

The cost of buying a pension

(or, following changes announced in the Budget, the cost of providing an income by means of draw down from your pot each year)

The cost of buying a pension is dependent on a number of factors including:

- How old you are – the older you are, generally the larger your pension/'draw down' income will be
- The state of your health and your lifestyle – if your health or lifestyle might impact on how long you might live you may be able to buy a bigger pension through what is known as an impaired life annuity with an insurer or (post Budget) you might reflect this in the way in which you draw down from your pension pot
- The type of income you want – you need to consider whether the amount you need each year should vary for example increase to reflect the increasing cost of living, continue after your death to provide for your spouse/partner or simply vary to reflect varying lifestyle needs

When you get to the age when you want to start your pension, the Trustee through Fidelity will help you understand the options available to you and if you decide to buy an annuity help you shop around to make sure you get a good deal.

To risk or not to risk…?

So, you're looking forward to that happy day when you can retire and put your feet up. A new car, exotic holidays relaxing in the sun, no money worries – all sounds great doesn't it? But will you be financially secure enough to enjoy your dream retirement?

You have the responsibility of deciding where to invest your money. How you choose to invest will depend on your view of the options available and your attitude to taking risks. If you are an experienced investor, this is second nature. But most of us are not.

Keep an eye on things

You should review your financial position regularly to keep an eye on how your investments are doing. Fidelity provides a system called Plan Viewer, which you can use to manage your particular fund. On Plan Viewer you can change your investment strategy online at any time in conjunction with any lifestyling strategy you may have. Your rate of contribution can be changed at each renewal date on 1 April or at any time in the occurrence of a qualifying lifestyle event by contacting the Human Resources department.

Your annual benefit statement shows you how your benefits in the Scheme are building up but you should also check any other retirement savings accounts you have.

Further help and advice

If you'd like help reviewing your pension savings, or you are in any doubt about which investments are best for you, you should get independent financial advice. Visit **www.unbiased.co.uk** for details of advisers in your area.

So, is it all worthwhile?

No matter what you see yourself doing in years to come, there's no doubt you have to make some important financial decisions. There's no easy answer to where the best place to invest your money is. You need to decide what you want for your future and how much risk you are prepared to take to get it and then choose the right investment fund for your circumstances.

No-one can guarantee that your money will make you a millionaire overnight but, with the right financial decisions, you can help yourself toward a comfortable retirement.

Facts and figures

Ins and outs

The table below gives a brief summary from the Trustee's 2013 Annual Report and Accounts. This enables you to compare the money that has come into and gone out of the Defined Contribution (DC) Section of the Scheme over the years to 31 March 2013 and 31 March 2012. If you would like to see a copy of the full Report, please contact Georgina Edwards (see page 8 for contact details).

	Year ended 31 March 2013 £	Year ended 31 March 2012 £
Coming into the DC Section		
Company contributions	910,199	755,066
Members' contributions	59,824	35,034
Members' Additional Voluntary Contributions (AVCs)	46,860	75,702
Transfers in	-	-
Total income	**1,016,883**	**865,802**
Going out of the DC Section		
Benefits paid	16,020	6,182
Payments to and on account of leavers	3,916	9,989
Transfer to DB Section	67,888	77,332
Total expenditure	**87,824**	**93,503**
In summary		
Value of DC Section at start of year	1,471,906	630,476
Money coming in less money going out	929,059	772,299
Change in market value of investments	186,813	69,131
Value of DC Section at end of year	**2,587,778**	**1,471,906**

Our membership

On 31 March 2013 the DC Section of the Scheme had a total of 357 members.

For the 2012/13 Scheme year our membership was made up as follows:

- 312 contributing members building up funds in the DC Section, compared to 266 on 1 April 2012;
- 45 deferred members who have kept their benefits in the DC Section and will draw them when they retire, compared to 40 on 1 April 2012.

Investment update

The Trustee has made available a range of investment options for members of the DC Section of the Scheme, through a specialist investment provider – Fidelity.

The Defined Contribution Section's investment performance

The investment managers appointed by the Trustee aim to meet set benchmarks, as agreed with the Trustee. The Trustee routinely monitors manager performance relative to their benchmarks and, should a manager be considered unlikely to meet the required benchmark in the future, then the Trustee may seek to replace the manager with a preferred alternative available on the Fidelity investment platform.

The investment returns achieved for the DC Section of the Scheme in the year to 31 March 2013 are shown in the table below, together with the benchmark performances.

Investments	1 year		3 year	
	DC Section (%)	Benchmark (%)	DC Section	Benchmark (%)
Diversified Growth Fund	6.6	2.1	6.2	1.5
BlackRock Global Equity 50/50 Fund	17.2	17.6	7.9	8.3
Threadneedle Pensions Property Fund	0.9	1.6	3.9	4.6
BlackRock Over 15 Years UK Gilt Index Fund	8.0	8.1	12.2	12.3
BlackRock Over 5 Years UK Gilt Index Fund	11.5	11.7	12.7	13.0
Fidelity UK Corporate Bond Pensions Fund	12.5	11.9	9.5	8.8
BlackRock Cash Fund	0.2	0.4	0.3	0.4

Pensions update

Reduction to annual and lifetime allowances

In the Chancellor's Autumn Statement, a reduction to the annual and lifetime allowances was announced. The annual allowance (AA) is the total amount of tax-favoured pension savings that can be made in any one year. The AA will be reduced from £50,000 to £40,000 from 6 April 2014. This comes after the AA was cut from £255,000 to £50,000 in the 2011 Budget.

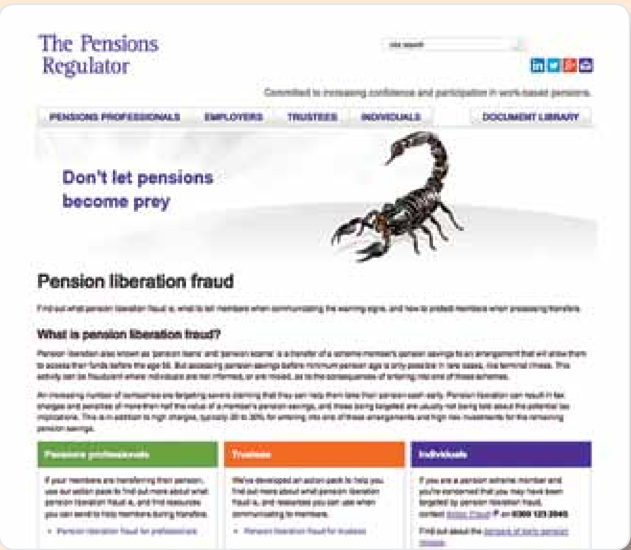
Following a cut from £1.8 million to £1.5 million in April 2012, the lifetime allowance (LTA) is also set to be further reduced to £1.25 million from April 2014. The LTA is the amount of tax-favoured pension savings that can be made over an individual's lifetime.

Any pension savings made above either of these allowances will be liable for a tax charge, so if you think you are likely to exceed the AA or LTA we recommend that you seek financial advice.

Beware of pension liberation arrangements

The Pensions Regulator has launched an initiative to clamp down on fraudulent arrangements that claim to offer members access to their pension savings before reaching the age of 55. These schemes are called pension liberation arrangements and are usually sold to members on the basis that they "can unlock their pension early", and often target members with financial difficulties or poor credit. What members are not told is that pension liberation is actually illegal.

The tax advantages that are offered to pension savings come with the condition that the pension benefits are not accessed before age 55, except in circumstances of long-term ill-health. Therefore these pension liberation arrangements can result in significant tax charges. Additionally, these schemes have high charges – typically 20% - 30% of the pension account – and often invest the remaining pension savings in high risk investments. Of course, people being targeted by these arrangements are not usually told about these potential implications.



How can you identify a pension liberation scheme?

There are a number of ways of identifying these arrangements. You should beware of any approach received in respect of your pension savings which involves:

- Unsolicited text messages or telephone calls
- Overseas transfers
- Access to your benefits before age 55 (this is only permitted in very rare circumstances)
- No printed documentation provided
- Encouragement to speed up the transfer (e.g. using a courier)
- Suggestions of legal loopholes
- Companies demanding personal information
- Cash bonus
- Offers of loans from the scheme to you

If you ask for a transfer value quotation in respect of your Scheme benefits, the administrators will send you information on these arrangements to help protect you. However, it is your personal responsibility not to enter into an illegal arrangement.

Further information is available at

http://www.thepensionsregulator.gov.uk/pension-liberation-fraud.aspx

Governance

One of the stated aims of the Pensions Regulator is to improve the administration, or governance, of pension schemes.

The efficient running of a pension scheme largely depends on two key factors:

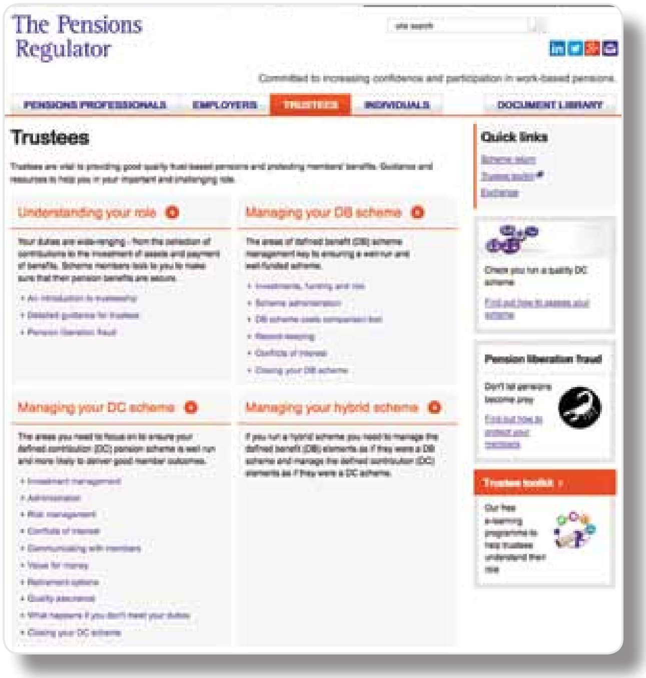
- the knowledge and understanding of the trustees; and
- the scheme's internal procedures.

Trustees' knowledge

The trustees of all pension schemes need to be able to demonstrate that each trustee has the level of knowledge and understanding required by the Regulator. This includes the law relating to pensions and trusts, the funding of pension schemes and the investment of pension scheme assets. The Regulator has issued guidance to help trustees in their duties.

So trustees must demonstrate they fulfil the Regulator's requirements for knowledge and understanding. If necessary, this may mean they have to undertake special training to bring them up to scratch.

The Trustee Directors of the Scheme regularly take part in training events and consult their specialist advisers to maintain and improve their level of pensions knowledge.



Policy and procedure

Nowadays there is an increasing focus on transparency into the way pension schemes are run. A scheme should be able to demonstrate clearly that it is run according to its governing documents and legal requirements. To do this, the Trustee must carefully document any decisions made by them in relation to the running of the Scheme.

An effective trustee board is likely to have set itself objectives which are brought together in a business plan. The Trustee of the Scheme has a business plan against which progress is measured on a regular basis. In addition, the Trustee has in place policies and procedures relating to the running of the Scheme.

These developments aim to reassure Scheme members about how the Scheme is run and to ensure that those responsible for the operation of the Scheme possess the necessary knowledge and understanding to carry out their duties, with clear policies and procedures.

Your pension team

Running a pension scheme is a challenging business and that is why we work with third-party professionals to make sure the Scheme runs smoothly and efficiently.

Our advisers

To help us fulfil our duties we appoint a number of professional advisers. Our current advisers are:

Administrators and consultants
Mercer Limited (Defined Benefit Section)

Fidelity Investment Services Limited (Defined Contribution Section)

Scheme actuary
Jane Ralph, FIA, Mercer Limited

Actuarial and investment advisors
Mercer Limited

Investment managers
BlackRock Advisors (UK) Limited

Wellington Management International Limited

Threadneedle Asset Management Limited

Standard Life Investments Limited

Fauchier Partners

Fidelity Investment Services Limited

Legal adviser
Wragge & Co LLP

Banker
National Westminster Bank plc

Your Trustee

The trustee company, Messier-Dowty Pension Trustees Limited, is made up of six Trustee Directors whose job is to ensure all aspects of the Scheme are considered.

Your current Trustee Directors are:

Maxwell Gough	Member nominated	Deputy Program Chief Engineer, Messier-Dowty Ltd
John Herring	Member nominated	Site Projects Manager, Messier-Dowty Ltd
Julie Johnson	Member nominated	Finance Manager, Messier-Dowty Ltd (Secretary to the Trustee)
Ian Broughton Resigned May 2014	Company nominated	HR Director, Messier Services Ltd
Bob Hawkes	Company nominated	Head of Spares Production, Messier-Dowty Ltd
The Law Debenture Pension Trust Corporation plc	Independent Trustee	Represented by Antony Macwhinnie

Any questions?

If you would like more information on the Scheme, or you have any queries about your own DB Section benefits, please contact Roy Brown at:

Messier-Dowty Pension Scheme
Administration Team
Mercer Limited
Four Brindleyplace
Birmingham
B1 2JQ

Telephone: **0121 733 4114**

Email: **messierdowty-uk@mercer.com**

If you're already receiving your pension from the DB Section please see your monthly pension payslip for who to contact with your questions.

If you have any questions on your DC Section benefits, please contact Georgina Edwards at:

Fidelity Pensions Service Centre
Beech Gate
Millfield Lane
Lower Kingswood
Tadworth
Surrey KT20 6RP

Telephone: **08457 234 235**

Email: **pensions.service@fil.com**

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