

The Thales UK Pension Scheme (Section 2)

2020 SUMMARY FUNDING STATEMENT

It is part of the Trustee's responsibility to ensure that a full actuarial valuation of Section 2 of the Thales UK Pension Scheme ("the Section") is carried out every 3 years. In addition, other than in a full valuation year, the Trustee will provide you with an annual statement of how the Section is funded and remind you of the results of the last valuation. The previous statement for the Section was provided in 2019 in relation to the position as at 31 December 2018.

How is my pension funded?

Thales UK Limited and the other participating employers in the Section ("the Employers"), pay contributions so that the Section can pay pensions and other benefits to members. You also make contributions to help pay for your benefits. The latest formal valuation of the Section was carried out at an effective date of 31 December 2017.

Results of the Formal Valuation

The formal valuation of the Section showed that on 31 December 2017 the funding position was as follows:

Assets	£645m
Amount assessed as needed to provide benefits ("Liabilities")	£825m
Surplus / (Deficit)	(£180m)
Funding level	78%

As a result of the formal valuation, the Employers' contributions to the Section were amended. The Employers will pay the following contributions from 1 April 2019:

- 29.3% of Pensionable Salaries (inclusive of members' contributions), which are expected to meet the cost of future service benefits, plus £1 million per annum in respect of ongoing expenses of running the Section; and in addition;
- £15.3 million per annum, which is calculated to eliminate the deficit by 31 December 2028. These deficit contributions are currently guaranteed by the parent company, Thales SA, up to an amount of £160 million.

Employer contributions will be reviewed as part of the next formal actuarial valuation due as at 31 December 2020.

The Trustee also obtains regular funding updates from the Scheme Actuary, which provide an estimate of the assets needed today to meet the payment of benefits allowing for future investment returns.

The previous summary funding statement showed the results of a funding update as at 31 December 2018 being a deficit of £158m and a funding level of 80%.

A funding update was carried out as at 31 December 2019.

Results of the Funding Update

A funding update of the Section showed that on 31 December 2019 the funding position was as follows:

Assets	£704m
Amount assessed as needed to provide benefits ("Liabilities")	£901m
Surplus / (Deficit)	(£197m)
Funding level	78%

Change in funding position

The deterioration in the funding level over the year to 31 December 2019 arose because of changes to investment market factors, which increased the value placed on the Section's liabilities. This was partly offset by extra contributions paid by the Employers to address the deficit.

You should be aware that the factors affecting the funding level are very changeable, particularly stock market performance, interest rates and life expectancy. This means that the funding level can go up or down in the future.

Under the scheme funding regime, the method and assumptions used to value the liabilities have been chosen prudently and allowance has been made where appropriate for a suitable margin against adverse deviation from the assumptions. This does not represent the cost, though, of fully buying insurance policies to meet the liabilities (known as “full solvency”). This amount has been estimated as part of the actuarial valuation as at 31 December 2017.

The importance of the Employers’ support

The Trustee’s objective is to have enough money in the Section to pay pensions now and in the future. However, this relies on the Employers continuing in business and supporting the Section because:

- Assets can go down as well as up, and when there is a shortfall, the Employers will usually need to put in more money; and
- The cost of benefits may increase so that the Employers will need to put in more money.

Only if the Section had more than enough money to buy-out the benefits in full could a refund be paid to the Employers. To date, the Section has not been in this position and no refunds have been paid.

We are required to tell you whether the Pensions Regulator has used its legal powers to make directions as to any of:

- The level of benefits available from the Thales UK Pension Scheme going forward
- The method or assumptions used to calculate the liabilities or the length and structure of the recovery plan
- The contributions that should be paid under the schedule of contributions

The Regulator has not used its powers in relation to the Scheme and therefore the Scheme is not subject to any directions

What would happen if the Section started to wind up?

We are obliged by law to provide you with information regarding what would happen in the event that the Section were to wind up.

If the Section were to wind up, the Employers would be required to pay enough into the Section to enable your benefits to be completely secured with an insurance company. As at 31 December 2017, we estimate that the Section would have been 53% funded on an insurance company buy-out basis and the Employers would therefore have been required to pay an additional £580 million into the Section to fully secure the benefits with an insurance company. Please note that this is provided for information purposes - it does not imply that the Employer is thinking of winding-up the Section.

In the event of a wind up, it may be the case that the Employers are unable to pay the full amount required by the insurance company. The Pension Protection Fund (PPF) has been set up by the government to help protect members’ pensions where a company becomes insolvent, although it does not guarantee to pay full benefits. If the Employers became insolvent and the Section entered the PPF, the PPF would take over the Section and pay compensation to members. Further information and guidance is available on the PPF’s website at www.pensionprotectionfund.org.uk. Or you can write to the Pension Protection Fund at Renaissance, 12 Dingwall Road, Croydon, Surrey, CR0 2NA.

What is the Section invested in?

The Trustee’s policy is to invest in a broad range of assets to get the best return possible while taking account of the liabilities of the Section, and the risks of having too much money in any one type of investment. As at 31 December 2019 the Section assets were invested in the following broad proportions:

Shares in UK and overseas companies (equities)	29%
Bonds and cash	37%
Alternative investments	35%

Where can I get further information?

If you have any other questions, or would like any more information about the Scheme or the Section, please contact us at the address below.

Please note that if you are considering leaving the Section, we suggest that you consult an appropriate financial adviser before taking any action.

Yours sincerely,

Thales Pension Trustees (Section 2) Limited

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