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Dear Member,

Over the last year a great deal of Pensions Update has been dedicated to keeping you up to date with the issues arising from the acquisition of **telent** by Pension Corporation. This time around we return to a more “business as usual” edition. On the following pages you will find articles looking at:-

- The annual Plan Report and Accounts approved by the trustee in July.
- The current funding position of the Plan.
- Options available to members who are thinking of retiring and taking their pension from the Plan before they reach age 65.

The last of these includes a reminder of the change in the law introduced by the Finance Act 2004 which comes into effect from 2010 and which changes the earliest retirement age from 50 to 55.

One other item which may be of interest, which is not covered elsewhere, is the election of Member Nominated

Directors to the board of the trustee. You may remember that in Pensions Update published in June 2007 we invited members to participate in a new process for electing the Pensions Consultative Committee which in turn was due to elect new Member Nominated Directors in September 2007. The new PCC was duly elected, but following the announcement of the proposed acquisition of **telent** by Pension Corporation, they (the PCC) agreed to reappoint the existing Member Nominated Directors for a further 12 months. This twelve month period ends in October 2008 and elections will then be held for new MNDs to take office for a four year period.

We will tell you about the results of this election in our next issue.



Pete Harris – Director, Pensions **telent**

ANNUAL REPORT AND ACCOUNTS

The Board of Stanhope Pension Trust approved the 2007/8 Annual Report and Accounts on 8th July. We have placed a copy on the **telent** Pensions Website and posted hard copies to those members who requested one.

Funding Position

On pages 2 and 3 of this newsletter you will find an article about the current funding position of the Plan. This should be read in conjunction with the discussion of the Plan’s assets, below.

Plan Assets

Table 1 shows the allocation of the Plan’s assets and those of the Escrow as at 31st March 2008.

One asset class which does not appear this year is the Global Tactical Asset Allocation Fund from which we withdrew our investment after a period of poor performance.

During the year, the Plan’s assets decreased by £55.5M (as shown in table 2), which is a result of payments of £155M in members’ benefits and £5.4M in transfers to other schemes, offset by £5.9M received by way of contributions and £99M generated by the investments.

We can expect to see the value of the fund decrease over

**TABLE 1
ASSET ALLOCATION
OF THE PLAN AND
ESCROW**

	£ Million	%
UK Fixed Interest Gilts	216.6	7.3%
UK Corporate Bonds	1185.5	39.7%
Overseas Bonds	102.0	3.4%
UK Index Linked Gilts	86.7	2.9%
UK Corporate Index Linked Bonds	44.9	1.5%
Overseas Index Linked Bonds	2.9	0.1%
Diversified Credit Fund	56.1	1.9%
Cash, Swaps, Other	286.0	9.6%
Fund of Hedge Funds	123.0	4.1%
UK Equities	108.4	3.6%
Global (Ex UK) Equities	67.9	2.3%
UK Property	96.2	3.2%
Secured Loans	104.8	3.5%
Total Plan Assets	2481.0	83.1%
Escrow Assets	504.7	16.9%
Total	2985.7	100.0%

**TABLE 2
VALUE OF PLAN ASSETS**

	£ Million
Opening Value of the Plan	2536.5
Contributions received	5.9
Benefits paid	(155)
Transfer Values and other payments	(5.4)
Returns on Investments	99.0
Closing Value of the Plan	2481

the years as the Plan is mature, which means it has far more members drawing benefits or deferred than those contributing.

This can be seen from table 3 showing the numbers of members in the three categories and how these have changed over the last year, and table 4 showing the age profile of members.

Table 3 – Membership

	2008	2007
Active Members	1046	1126
Deferred Pensioners	20631	21843
Pensioners	36278	36686
Total	57955	59655

Table 4 – Age Profile of Members

Active Members	%	Deferred Pensioners	%	Pensioners	%
under 21	0.9	21 to 30	1.8	under 50	0.6
21 to 30	8.3	31 to 40	18.8	50 to 60	9.3
31 to 40	26.2	41 to 50	34.5	61 to 70	29.6
41 to 50	34.8	51 to 60	31.7	71 to 80	35.5
51 to 60	27.7	61 to 70	13.2	81 to 90	21.9
61 to 64	2.1			91 and over	3.1

FUNDING UPDATE

We like to give regular updates regarding the Plan's funding position, i.e. answering the vital question, "Are we going to have enough money to pay the benefits promised to members?"

This article therefore gives an overview of how the Plan is valued, and then lays out how well we are progressing towards the trustee's target, and where we stand against how an insurance company would value the Plan.

Two key things to keep in mind when reading this article:-

1. Any valuation of the Plan is dependent on the assumptions used.
2. While we may request additional funds from **telent**, our investment is the primary means of closing any funding gap.

Valuing the fund

In valuing the fund we are comparing the amount of money we have, with an estimate of what we need today to be able to pay benefits in future.

The amount of money we have is easy to establish – it is the value of our investments.

The amount we need today has to be estimated. Three major factors which affect this are:-

- **Inflation.** If we pay someone a pension this year of £100, next year it will be £100 plus inflation (capped at 5%), so the higher inflation is, the more we will have to pay out.
- **How long people live.** If life expectancy goes up, we will be paying pensions for longer and will need more money.

- **By how much we assume our investments will grow.** If we have promised to pay a pension of £105 in a year's time, and if we believe our investments will grow by 5% per year, then we only need £100 today to meet that promise.

The box on page 3 gives a simple example which shows how these different assumptions can lead to different estimates of the amount of money we need today.

Our current target

Following the Ericsson Transaction in 2005, the Board set itself a target of having, by 2021, enough money to

- a) meet reasonable predictions of future inflation
- b) cover significant improvements in life expectancy
- c) put all of the Plan's investments into low risk, i.e. low return, investments.

We do not yet have enough money to do this, but this target is a useful measure of progress. Our investment strategy is based around achieving higher levels of return so that we can close this gap over time.

At the end of 2006/7, we estimated we were 94% of the way to achieving this target. By the end of 2007/8, we had moved backwards to around 88% of the target. The main reasons for this were:-

- Expected future inflation went up, increasing the amount we expect to have to pay.
- The target is based on eventually being able to invest in low risk assets. Over the year such assets became more expensive.
- Our investments didn't perform as well as expected, mainly as a result of the turbulence in investment markets during the year. In particular one of our investment managers, whom we no longer use, performed particularly badly.

So in summary, while this lack of progress toward our target is a concern, it is not as bad as the bare numbers may suggest.

1. Global investment markets have been through a very difficult year and over the long term can expect to recover.
2. The target we are using to measure ourselves will move up and down over time, and this year was one in which it went up

Insurance company assessment

One way of securing benefits is for an insurance company to provide a fully guaranteed pension for every member. In calculating the cost of doing this, an insurance company places a very high value on pensions promised, i.e. they are cautious in the way they assess future inflation, they assume big increases in life expectancy, and they will look to use low risk investments straight away. Also they need to cover their costs and indeed generate profit.

Every three years, when we carry out a full valuation, we estimate what an insurance company would require to provide members' pensions in this way. At the time of the last triennial valuation, as at 5th April 2005, the Plan's assets were estimated to be 67% of what an insurance company would require. It should be noted that since this assessment was carried out, the Ericsson transaction resulted in £185M being contributed to the Plan and £490M being placed in Escrow.

Future Valuation

Since we set our targets in 2005, there have been significant changes in investment markets. The last full formal valuation of the Plan, including the estimate of

what an insurance company would require to provide individual policies for members, was carried out as at 5th April 2005.

We are therefore currently in the process of reassessing our funding targets, which includes carrying out a full Plan valuation. Also at the time of going to press the Investment Committee is closely monitoring recent developments in global financial markets. We will update members on both of these matters in future newsletters.



Example To make things simple, let's just look at one pension, which this year is £100.

If we estimate that inflation will be 3%, in a year's time we will have to pay

$$£100 + 3\% \times £100 = £103$$

If we can safely assume a 6% return on investments, to pay that £103, we will need £97.17 today, because
 $£97.17 \times 6\% = £5.83$ and
 $£97.17 + £5.83 = £103$.

If, on the other hand, we think inflation will be 4%, but we will only earn 5% from our investment, in a year's time we will have to pay

$$£100 + 4\% \times £100 = £104$$

To pay that, we will need £99.05 today, because
 $£99.05 \times 5\% = £4.95$ and
 $£99.05 + £4.95 = £104$.

Finally, if, on average, we expected a member to die within the next year, and he/she lived for two more years, clearly we would pay more to this member.

TIMING YOUR RETIREMENT

The basic benefit from the GEC 1972 Plan is a pension for life from age 65. However, members are able, subject to trustee approval, to take early retirement under the Plan.

In this article we look at:-

- If you are aged 53 or under, how the Finance Act 2004 may affect when you can retire.
- The basis for determining early retirement pensions.
- How you can structure your pension if you take early retirement.

Finance Act 2004

Pensions Update, sent to members in March 2006, gave information about the impact of the Finance Act 2004 on the Plan.

One of the changes introduced was to increase, from 50 to 55, the

earliest age at which you can take your pension, with effect from 6th April 2010. As this is now only 18 months away, we thought it would be useful to remind you of what this means in practice. The table below shows how this may affect you.

What is the basis for determining early retirement pensions?

Very simply, if you retire at age 55, your pension is likely to be in payment for longer than if you retire at age 65. Therefore, a pension of £1000 per year starting from age 55 would be likely to cost the plan more than a pension of £1000 per year starting from age 65.

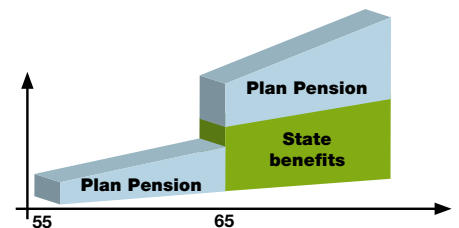
For this reason, if you take early retirement, a reduction is applied to the pension you receive. The reduction is calculated according to a table produced for us by the Plan Actuary. The aim of the reductions is to ensure fairness, i.e. overall,

as a result of early retirements no more or less is paid by the Plan than if everybody retired at age 65.

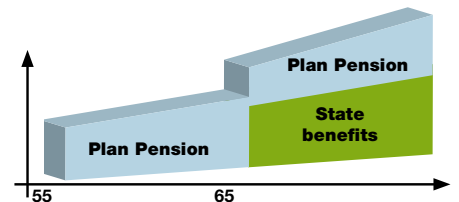
You can find the early retirement factors on the **telent** Pensions Website, or by contacting the Pensions Office on 01785 785 400.

Structuring your Early Retirement Pension

If you take early retirement, at say, age 55, when you reach age 65, your state pension will come into payment and your annual income is likely to increase.



This may suit you. However, some people may prefer to take more of their pension earlier with a reduced Plan pension at age 65, so that their overall income is smoother.



This is called front end loading and it is a facility offered by the Plan. If you are interested in learning more about how this might work for you, please contact the Pensions Office 01785 785 400

Are you affected by changes to the Finance Act?

If you are currently receiving a pension from the plan.

You are unaffected by the change.

If you:-

- are not currently receiving a pension from the Plan, and
- are already over age 55, or
- will reach age 55 before 5th April 2010.

You are unaffected by the change.

You may take an early retirement pension, subject to trustee approval, at any time.

If you:-

- are not yet receiving a pension from the Plan, and
- will reach age 55 after 6th April 2010 and,
- are aged over 50, or will reach this age before 6th April 2010

You may be affected

You may take an early retirement pension, subject to trustee approval, at any time between when you reach(ed) age 50 and 5th April 2010.

If your pension is not put into payment prior to 6th April 2010, the earliest date at which you will be able to take an early retirement pension is when you reach age 55.

- If you will not reach the age of 50 until after 6th April 2010.

You may be affected

You will not be able to take an early retirement pension until you reach age 55.

telent

if you have any queries about any of the content in this newsletter then please contact us at:

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