



Stanhope
Pension Trust

Pensions update

For members of the G.E.C. 1972 Plan

23 January 2003

More stability through change

The Trustee of the G.E.C. 1972 Plan (the Plan) has a duty to complete regular checks on the financial position of the Plan to ensure that it can pay the promised benefits, both now and in the future.

The most important check is the actuarial valuation, which is carried out by an independent actuary. The actuary is an experienced professional who determines the funding level for the Plan and also provides recommendations for future contribution rates.

In this newsletter we comment on the key results of the latest actuarial valuation which has just been completed. We also let you know about some necessary changes made by the Trustee. These reflect the Plan's mortality experience (that is, how long people live), and the Plan's investment strategy, identified as part of the actuarial valuation process.

The last formal valuation was in 1999. At that time the Plan was fully funded on an ongoing basis, and I am pleased to announce that, with the changes which are announced here, the latest valuation maintains this position with the Plan continuing to be 100% funded on an ongoing basis.

The results are very pleasing, particularly when global stock markets have been so volatile and taking account of the substantial movement in Plan membership that has taken place since the last valuation.

As you will probably be aware, the world of pensions is changing in the UK due to many factors, but principally because of the poor performance of global investment markets and also the fact that most people now have a longer life expectancy. While the Plan has benefited from the prudent investment strategy adopted by the Trustee during recent

times, we cannot operate without the real world impacting on the way the Trustee runs the Plan.

It is against this background that the Trustee has to consider every possible future contingency for the Plan. The cost of providing Plan benefits through the purchase of annuities would, in common with pensions generally, be significantly higher.

I hope you will take a few moments to read through this newsletter and understand the points it covers. If you have any queries then please contact the Marconi Pensions Office, whose details are on the back page.

J M Brew
Chairman of the Trustee Board

What the actuary has to say...



I check the funding level of the Plan on a regular basis. In doing so I use a number of assumptions and factors when calculating both the funding level and the future contribution requirements. I also take the opportunity to test assumptions used in the past against the actual experience between each valuation period.

One particular trend identified in past valuations has continued to be a feature of the latest valuation results, as at 5 April 2002. As has been reported in the press, people are generally living longer, and those receiving pensions from the Plan are no exception to this trend. Indeed, I estimate that, compared to the position three years ago, Plan members are now expected to live at least one year longer than was previously assumed.

This improved mortality has been allowed for in the latest valuation results, which show a funding level of 100% and a Company contribution rate of 8.2%. However, I have advised the Trustee that if mortality trends continue in the way they have then the Plan would suffer a financial strain – the funding level could fall as low as 90%. This strain could only be eased if investment returns exceed expectations or by higher contributions, or both.

Furthermore, the Plan is now pursuing a more cautious investment strategy than was the case in the past, as the general outlook for investment returns remains uncertain. It should also be noted that whilst the Plan remains 100% funded on an ongoing basis, if it were forced to wind up for whatever reason then the assets would not be sufficient to ensure that all the benefit commitments could be met.

The Trustee has recognised these important points and as a consequence has reviewed practices in certain areas. There are no changes to the benefit entitlements from the Plan but certain factors used in the Plan for calculating transfer values and early retirement pensions have been reviewed. In addition, the practice of offering 'in-house' annuity rates to members paying AVCs has been reviewed.

By proactively managing the Plan in this way, the Trustee is acting in the overall interests of all the beneficiaries of the Plan, whether they are active members, deferred pensioners, pensioners or dependants.

G J Mitchell
Actuary, Watson Wyatt LLP

Summary of the financial position of the Plan

In the years since the last actuarial valuation of the Plan was undertaken there has been a large decrease in both the membership and the value of the Plan. The largest part of these reductions is a result of the corporate decisions taken by the Company, mainly resulting from the flotation of ALSTOM and the sale of the defence businesses to BAE SYSTEMS. These corporate changes resulted in the Plan's assets being transferred to new pension schemes but this was matched by a similar transfer of liabilities, the total effect being neutral for the Plan. The remaining reductions in the Plan's value results from the payment of benefits and the decreases in the value of the investments, net of contributions and investment income.

The following table shows the financial changes in the interim period between the actuarial valuations:

Fund account for the year ended	2002 £ million	2001 £ million	2000 £ million
Contributions	50.4	50.6	96.5
Investment income	84.5	105.9	192.1
Other income	0.0	0.1	0.2
Total income	134.9	156.6	288.8
Benefits and individual transfers paid	171.1	137.1	267.8
Bulk transfer values paid	62.6	2,681.1	1,025.1
Administration expenses	8.4	8.7	11.4
Other	0.1	0.1	0.2
Total expenditure	242.2	2,827.0	1,304.5
Changes in net market value	(76.4)	(59.4)	359.6
Net decrease in the fund	183.7	2,729.8	656.1
Fund at the end of the year	2,495.2	2,678.9	5,408.7

Ignoring the effects of bulk transfers, the major changes in income and expenditure in the last year have been in the amounts received in respect of SBS contributions, the amounts paid in respect of cash lump sums on retirement and individual transfer values. These significant movements have occurred as a result of the large change in membership during the year under review, as the Company has reduced in size.

Fund performance figures to 30 September 2002

	Fund return %	Benchmark return %
Quarter	-2.5	-3.3
1 year	2.8	2.8
3 years	3.2	0.5

In common with most other pension schemes, the Plan has seen its investments reduce in value over the last two years. However, the prudent investment strategy adopted by the Trustee to switch from equities to bonds over the last several years has meant that the fall in the global equity markets has had less of an impact on the Plan and it is in a healthier position than many other pension schemes of its size.

Transfer values

A recent Trustee meeting agreed that the future rate of **credited interest*** assumed for transfer values would be guaranteed at 2.5% pa. Previously, during periods of high anticipated investment returns, the Trustee had allowed for a more generous annual rate on a discretionary basis.

This assumption became effective from 24 October 2002. Allowance for any terminal bonuses will continue to be taken into account in determining the benefit and thus any member's transfer value. However, terminal bonuses will not be guaranteed beyond 5 April 2003.

What all this means in simple terms is:

- credited interest used for transfer values is now consistent with current rates awarded to all members;
- transfer values for some members will now be lower than they would previously have been.

* Credited interest is interest credited monthly on your contributions at a rate determined by the Trustee, by reference to the rate of return on the assets of the Plan, but not less than 2.5% per annum.

Early retirement factors

If you decide to retire early, either as an active member or a deferred pensioner before your normal retirement date, then the amount of pension you will receive from the Plan is reduced to take account of the fact that your pension is likely to be paid for a longer period than would have been the case had you retired at your normal retirement date (age 65). The Plan's actuary recommended that the early retirement factors should be reviewed. This review has now taken place, and the new factors are set out on the opposite page.

The new factors will not be applied to members who have already retired. The new factors are applicable from the date of the Trustee meeting held on 12 December 2002 to all retirements where a final quotation has not already been provided on the old basis. The Company recognises that some active members may be adversely affected by the introduction of the new factors. Therefore, with the consent of the Trustee, the Company will make additional contributions which will be sufficient to make up the difference between retiring on the old factors and the new. However, this augmentation only applies to the following groups:

- where a contributing Plan member retires immediately as a result of the current voluntary redundancy programme;
- where a contributing Plan member retires immediately as a result of the current compulsory redundancy programme;

Open market annuity rates

If you are paying Additional Voluntary Contributions (AVCs) to SBS, Merrill Lynch or Standard Life then when you retire you can convert your AVCs into an extra pension, on top of your Plan pension. The amount of pension that you will receive is determined by using current annuity rates at the time you retire.

For many years Plan members with AVCs tended to use 'in-house' annuity rates that were determined by the Trustee. These have been quite generous, compared to the open market rates offered by insurance companies at the same time, because of higher investment returns that the Plan was anticipating earning. However, at the Trustee meeting in October 2002 it was decided to cease offering in-house annuity rates. All Plan AVCs will now be converted into pension using an open market annuity rate.

The main reasons for this decision are:

- Members, on average, are living longer – good news for them, but this increased longevity results in each £1 per annum of pension costing more than in the past;
- The shift in the Plan's investment strategy from equities to bonds no longer gives the Trustee the ability to provide annuity rates that are more attractive than the open market;
- Open market annuities allow members to select the type of pension that meets their individual circumstances;
- The launch of the new AVC options last April provided members with more choice of where to invest their AVCs.

Members with AVCs will not have to search the insurance market unaided to find the most competitive annuity provider. The Trustee has entered into an agreement with Hargreaves Lansdown Annuities to provide assistance to Plan members looking to get the best annuity deal. All members with AVCs will automatically receive information concerning this new service.

What all this means is that if you are paying AVCs you can now purchase the type of additional pension that best suits your needs.

In addition augmentation may apply in the future:

- where the introduction of a future voluntary or compulsory redundancy programme specifies that enhanced retirement factors apply.

Augmented early retirement is only available to contributing members aged 50 and over at the date of leaving Marconi. The enhanced early retirement pension will only be applied to contributing members where pension begins on leaving the Marconi Group Company employment and not to members with deferred pensions, whether or not they left under a redundancy programme.

If a member retires early due to ill-health there is no change to the current arrangement.

What all this means is that the Trustee, along with the Plan's actuary, has carefully reconsidered the early retirement factors and brought them in line with future mortality and investment expectations. This should help to keep the Plan stable now and in the future.

Age	Basis 1*		Basis 2*		Basis 3*	
	Old %	New %	Old %	New %	Old %	New %
64	98	93.9	98	91.4	98	93.7
63	96	88.4	96	83.7	96	88.0
62	94	83.4	94	76.8	94	82.8
61	92	78.8	92	70.7	92	78.0
60	90	74.5	90	65.1	90	73.6
59	86	70.6	86	60.0	88	69.6
58	82	67.0	82	55.4	86	65.9
57	78	63.7	78	51.2	84	62.4
56	74	60.6	74	47.5	82	59.3
55	70	57.7	70	44.0	80	56.3
54	66	55.0	66	40.8	78	53.6
53	62	52.5	62	37.9	76	51.0
52	58	50.2	58	35.3	74	48.6
51	54	48.0	54	32.8	72	46.4
50	50	46.0	50	30.6	70	44.3

*The early retirement factors to be used depend on the Pension Basis applicable to the member. The table above shows the percentage of accrued pension payable on early retirement at various ages. The percentages will be applied proportionally at intermediary ages.

Common sense



Clearly the changes described in this issue of Pensions Update will cause disappointment for some members. However, we have tried to present the changes in the context of the real world, as it would be inappropriate for the Trustee or Plan membership to ignore what is happening around us.

The media is currently full of articles referring to a crisis in pensions; the need to save more and retire later.

The Plan remains better funded than many other pension schemes in the UK at the present time. The changes we have explained in this newsletter follow, and are based on, independent professional advice. They have been agreed after full and detailed discussion amongst the Directors of the Trustee Board. The Trustee has acted in the overall

interests of all the beneficiaries of the Plan whether they are active members, deferred pensioners, pensioners or dependants. The aim is to keep the Plan stable and to protect the benefits that all members have accrued to date. This all makes common sense if the Plan is to be able to meet its obligations as they fall due in these challenging times.

The Company continues to support the Plan and agreed to increase contributions to 8.2% of pensionable earnings, as recommended by the actuary. In fact the Company has been paying this rate since April 2002.

Kevin O'Boyle
VP Pension & Benefits

Further information

This edition of Pensions Update provides details of:

- the actuarial valuation of the Plan
- a summary of the Plan's finances and investment performance
- information on the calculation of:
 - transfer values
 - AVC annuities
 - early retirement factors

If you have any questions about the points covered in this newsletter then please contact:

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