



babcock

trusted to deliver™

Keeping you informed

December 2015

Babcock International Group Pension Scheme – Defined Contribution Section

Contents

- 2 New Flexibility and Investments
- 5 News
- 6 Online Access
- 7 Headline Accounts & Investments

A message from your Trustee Chairman

Welcome to 'Keeping you informed', a summary of the past year and providing information about the Babcock International Group Pension Scheme (the Scheme).

Last year we informed you about changes to the ways in which members can access their pension benefits in a defined contribution scheme. These changes were announced by the government in the 2014 Budget and came into effect in April this year. We have seen a large take-up of members wishing to make use of this new flexibility and this has confirmed the previously held Trustee's view that a review of the investments and options available to members was required.

This review has now taken place and a summary is provided in this newsletter although further details will be sent out to all members in due course.

As part of the investment review, the Trustee has also been working with the Scheme administrator, Friends Life, to improve communications. To this end, a new website is now available via www.pensions.babcock.co.uk.

As always, we welcome your feedback – you can get in touch with us via the pensions team, so please let us know if you have any comments or questions. Contact details are given on the back page. We hope you find this edition of your newsletter useful and informative.

Colin Patterson
Chair of the Defined Contribution Committee

New Flexibility and Investments

On 19 March 2014 the Chancellor outlined radical changes as to how people access their pension benefits from a defined contribution scheme like this one. These changes came into effect from April 2015 and many members of this and other schemes are already taking advantage of the new flexibility.

In summary, members are no longer obliged to purchase an annuity from an insurance company but instead can take their monies as a one off-lump sum, a series of lump sums, an annuity or a combination to suit their needs.

Traditionally the investment choices available in the Scheme, and in particular the default fund, had been designed based on the fact that members would have to purchase an annuity at retirement. With this no longer being the case, the Trustee has reviewed the choices available to members and will be changing the funds available from February 2016.

This will have most impact on the default fund. This is the fund members' contributions are invested in, if they have not told the Trustee where they would like their contributions to be invested. The Trustee would always encourage members to review what fund their contributions are invested in and understand whether it is the right fund for them. You can change your investment choices at any time.

So, what's new?

From April 2015 the government allows members aged 55 or over to take their benefits in a number of ways:

Option	Description
Annuity Purchase	At retirement, the member takes their fund and purchases a guaranteed, regular income from an insurance company. The member can take 25% of their fund tax free before purchasing the annuity.
Uncrystallised Funds Pension Lump Sum (UFPLS) – Whole	A member can take a lump sum, the first 25% of which is tax free, with the remainder being taxed at the member's marginal rate.
Uncrystallised Funds Pension Lump Sum (UFPLS) – Partial	A member can take a series of lump sums (at a time to suit them), the first 25% of each lump sum is tax free, with the remainder being taxed at the member's marginal rate. The remainder of the fund will continue to be invested until it runs out.
Flexi-Access Drawdown Fund (FADF)	A member can take 25% of their fund as tax-free cash. The remainder is then drawn as and when required but each withdrawal is subject to tax at the marginal rate.

It is up to an individual scheme as to whether all these options are available and currently this Scheme allows members to purchase an annuity or take an UFPLS in one lump sum. The other options are available, if the member transfers from the Scheme to a policy in their own name.

Unsurprisingly, the ability to take the entire fund as a one-off lump sum (albeit taxed) has been very popular in this scheme and other schemes. The Trustee expects this trend to continue, possibly because individual member accounts are modest and are likely to remain so for some years to come, and has therefore decided to make the default fund more appropriate to members' behaviour.

In future the default fund will target an investment strategy at retirement on the assumption that most members will want to take their fund as a lump sum rather than purchase an annuity.

Other funds will also be available for those members wishing to target annuity purchase or Flexi-Access Drawdown and a range of funds based on easily identifiable asset classes will sit alongside these funds.

The changes are expected to take place in February 2016 but we will write to you in January 2016 providing full details of the changes and the new funds plus information as to how your existing funds will be transferred by the Trustee. In January you will be given the option to choose which funds you want to invest in if you do not want to go with the Trustee's default transfer. You will be able to do this online, so if you are not already registered, now is a good time to do so by following the instructions on page 6.

In summary the new funds will be:

Lifestyle Funds*

Lifestyle funds aim for a good level of growth in the early to mid-stages of saving for retirement. As you approach your target retirement age (which can be changed at any time) your investments will gradually move from growth funds to other funds to help protect your money, reduce volatility but also to be invested in funds closely matched to how you want to take your benefit at retirement.

Target Lump Sum**

This will initially invest in the Global Equity Fund before gradually switching to the Diversified Growth Fund 20 years before your target retirement date. 5 years before your target retirement date your money will start to switch into the Money Market Fund.

If you invest in this fund, there is an assumption that you will take all your money as a cash lump sum at retirement.

Target Flexibility

This will initially invest in the Global Equity Fund before gradually switching to the Diversified Growth Fund 20 years before your target retirement date. 5 years before your target retirement date your money will start to switch into the Money Market Fund and the Target Level Annuity Fund.

If you invest in this fund, there is an assumption that you will draw down on your investments over your retirement in a flexible way to suit your circumstances.

Target Annuity

This will initially invest in the Global Equity Fund before gradually switching to the Diversified Growth Fund 20 years before your target retirement date. 5 years before your target retirement date your money will start to switch into the Money Market Fund and the Target Level Annuity Fund.

If you invest in this fund, there is an assumption that you will purchase an annuity at retirement.

*Lifestyle funds are designed to target a pre-defined investment allocation at your retirement date. You can change your retirement date at any time and the investments in the lifestyle fund will be adjusted if necessary.

** This will be the default fund and your contributions will be invested here if you do not tell the Trustee where you would like your contributions to be invested.

Self-Select Funds

Emerging Market Equities	The fund aims to provide long-term growth by investing in shares of companies that operate in emerging market economies. It invests in one or more underlying fund(s) that invest in a diversified portfolio of emerging market equities. The underlying fund(s) may change.
Global Equities	This fund aims to provide long-term growth by investing in shares of companies on a global basis, including emerging markets. The underlying fund(s) may change.
Diversified Growth Fund	The fund aims to provide long-term investment growth through exposure to a diversified range of asset classes. The fund may invest in equities, fixed interest securities, property, commodities and the shares of infrastructure companies. The underlying fund(s) may change.
Stewardship	The objective of the fund is to generate capital growth and increasing income. The manager seeks to achieve this by investing mainly in an ethically screened and diversified spread of UK equities. The ethical screening applied to the fund means that a number of the UK's largest companies are screened out on ethical grounds. As a result, the fund will usually include significant exposure to medium and smaller companies. The manager may also invest in other investments such as derivatives. Investment is concentrated in companies whose products and operations are considered to be of long-term benefit to the community both at home and abroad.
Target Increasing Annuity	This fund aims to generate a return that is consistent with the changing cost of purchasing an annuity at retirement that increases in line with inflation. The fund invests in UK Index-Linked Gilts to achieve this objective. The underlying fund(s) may change.
Target Level Annuity	This fund aims to generate a return that is consistent with the changing cost of purchasing a non-increasing annuity at retirement. The fund may invest in fixed income securities, cash, deposits and money market instruments. The underlying fund(s) may change.
Money Market Fund	The fund aims to achieve a return that is in line with short-term interest rates and to provide short-term liquidity. The fund may invest in cash, cash deposits, money market instruments and fixed income securities. The underlying fund(s) may change.

News

In the 2015 Budget the government announced more changes for pension schemes:

Changes to pension saving allowances

The amount a person can pay into a pension scheme and claim tax relief is governed by two limits. The first is the Annual Allowance which limits the amount a person can contribute in an individual year and the second is the Lifetime Allowance which limits the amount a person can receive from all their different pension arrangements at retirement.

In reality, these limits impact few people but could affect you if you earn over a certain amount or have been contributing to pension schemes for a long time.

Annual Allowance

The government announced that from 6 April 2016 this will remain at £40,000 a year, however, it will start to reduce for people earning over £150,000 a year on a tapered basis.

For every £2 of income over £150,000 the annual allowance will be reduced by £1 until the annual allowance reaches £10,000; at this stage there will be no further reduction. A summary is below:

Income	Annual Allowance
£150,000 or less	£40,000
£170,000	£30,000
£190,000	£20,000
£210,000 or more	£10,000

The definition of income is complex and includes the value of any pension contributions paid by your employer but you should be unaffected if you earn less than £110,000.

If you think you are affected, you should look at further information on the HMRC website or speak to a financial adviser. Unless you decide otherwise, your contributions to this Scheme will remain unchanged.

Lifetime Allowance

This is the amount a person can build up in all their pension benefits before they start to be charged additional tax. For the 2014/15 tax year the amount is £1.25m but this will reduce to £1m from 6 April 2016. It will then be frozen until 2017 when it will start to rise in line with inflation (CPI) each year.

If you think you may be affected and have pension savings over £1m, it may be possible to protect the value of your current pension benefits. Details are available on the HMRC website.

Government Consultation on pension schemes and saving

Also announced in July's Budget was a government consultation on how to encourage people to save more. Currently, people paying contributions to a pension scheme receive tax relief on those contributions at their marginal rate of income tax e.g. 20%, 40% or 45% depending on how much they earn. The government wants to look at whether this is fair or whether a flat rate of income tax relief should be applied to everyone or whether all contributions should be taxed but the benefits at retirement will be tax free.

The government has not announced its decision yet but details will be provided to our members when these are known.

Online Access

Your Defined Contribution e-community

You can access further details about the Defined Contribution section, including literature, planning tools and calculators, news articles, forum topics, quizzes and opinion polls, by visiting our brand new e-community site at www.pensions.babcock.co.uk and clicking on the "Defined Contribution Section" link in the middle of the page.

To access e-community, simply click on Register, enter the registration code **BAB13001** and your email address and follow the onscreen instructions. An email will be sent to you with a link to set your password and you will then be able to access the site.

Available 24/7, with apps available for Android and iPhone users, e-community is a brand new communication centre for your Defined Contribution Section.

Once in e-community, you will be able to access a wealth of financial education and tools to help you plan more effectively for your retirement as well as register for Friends Life membersite access. The Friends Life membersite allows you to access up-to-date information about your individual plan including your fund value, current investment instructions, contribution and transaction history as well as gives you the opportunity to review your details to ensure you're on target to afford the retirement you deserve. Please note that you will have separate login details for membersite.

Going forward, the Trustee would like to encourage all members to **register for membersite** so they can review their benefits at any time. In addition the Trustee intends to provide more communications online, such as this newsletter, so that information is provided in a quicker, more cost effective manner.

By registering to access your account and providing your email address, it means you can access these communications.



Help us to help you

Being a Scheme member means that you're covered for a generous lump-sum death benefit. You can nominate who you would like to receive the lump sum on an expression of wish form. Although they are not legally bound to follow them, the Trustee will take your wishes into account.

However, if you don't complete a form, there are risks that your benefits might not be paid in the way you want and tax might be charged.

If your personal circumstances have recently changed or you cannot remember who you have nominated to receive the lump sum, you should complete a new form. You can download an expression of wish form from the Scheme website or ask your HR team.

Headline Accounts & Investments

On 31 March 2015 the overall value of the DC Section's assets was £269.6 million.

Income & Expenditure	£m
Total value of the DC Section's assets on 1 April 2014	£199.4m
Plus income (contributions and transfers in)	£51.4m
Minus expenditure (benefits, transfer out and expenses)	-£12m
Plus net return on investments	£30.8m
Total value of the DC Section's assets on 31 March 2015	£269.6m

Membership

On 31 March 2015, there were 23,126 members in the DC Section.

Active members	Deferred members
15,366	7,760

Full copies of the Scheme accounts for each year from 2012 are available on the Scheme website.

Investments

The table below shows a summary of the investment performance shown on the website's fund factsheets for the individual funds available to members. Depending on when you joined the Scheme, when your contributions are invested and any specific fees negotiated by the Trustee with Friends Life your own performance may differ. However, you can access information about your personal account by following the steps on page 6.

Fund*	% performance of fund in 12 months to 30 September 2015	% performance of benchmark index	Fund % Performance v. Benchmark Index
FL Blended Defensive	8.2	7.8	0.4
FL Blended Moderate	2.5	4.0	-1.5
FL Blended Growth	-1.4	1.1	-2.5
FL BlackRock (50:50) Global Equity Index Fund	-3.9	-0.6	-3.3
FL BlackRock Over 15 Years Gilt Index Fund	13.5	14.0	-0.5
FL BlackRock Over 5 Years Index Linked Gilt Index Fund	11.3	11.8	-0.5
FL BlackRock Corporate Bond All Stock Index Fund	3.7	4.5	-0.8
FL Stewardship Fund	-1.8	-2.3	0.5
FL BlackRock Market Advantage Strategy	-2.1	-0.8	-1.3
FL BlackRock Institutional Sterling Liquidity	-0.4	0.4	-0.8



babcock

Further information

You can find information in a number of places. The Scheme website is a good place to find communications as well as formal documents, such as the Scheme Guide and Investment Guide.

Contact details

If you have any questions about your benefits or the Scheme in general, please contact the administration team:

Friends Life
Pixham End
Dorking
Surrey RH4 1QA

Email: babcock@friendslife.co.uk

Telephone: **0345 604 4463**

The helpline is open from 8:30 to 17:30, Monday to Friday.

If you would like to get in touch with the Trustee Directors, please contact:

The Secretary to the Trustee Board,
Babcock International Group Pension Scheme,
Fountain House South
Horizon West
Canal View Road
Newbury
Berkshire
RG14 5XF

Tel No: **01489 770908** or **01489 770948**