PENSION NEWS

WINTER 2015/2016 EDITION OF INVENSYS PENSION NEWS

WHAT'S INSIDE

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News from the Chairman of the Invensys Pension Scheme Trustee

Dear Member

Welcome to the Winter 2015 edition of the Invensys Pension News.

It has been another very busy year for the Scheme. At the start of 2015, we introduced a Pension Increase Exchange (PIE) option for members who were retiring. PIE allows members to exchange some of their future pension increases for a higher initial pension which subsequently receives lower increases.

Invensys Ltd and the wider Schneider Electric Group (the Company) then decided to extend this option to members who are already pensioners. We included an insert from the Company in the last newsletter to make all pensioners aware of this option. Working out how PIE would work for each member is a very big exercise. So, to make sure that it runs smoothly and that we maintain a high quality service, we're writing to members in batches. If we haven't written to you yet, please be patient. We'll continue to send out these batches throughout 2016.

The Company has now decided that it is not appropriate to make the PIE option available to certain pensioner members. This includes those whose pension is worth less than £10,000, who can take their whole pension as a cash lump sum. If the value of your pension is below £10,000, we have included an insert in this newsletter about taking a cash lump sum.

If you are a pensioner, the Company is offering to pay for independent pension advice to help you decide whether you'd like to take the PIE option. You don't have to take the option, even if you take the advice. Section 1 has more information about the PIE option.

You may have heard about changes to pensions, sometimes called 'Pension Freedom and Choice'. The changes are most relevant for members who have not started to draw their pension (deferred members). Section 2 explains the main ways these changes affect your Invensys pension. Your Scheme pension is very valuable, so please read the warning in this section about how to avoid being scammed.

We've sent you this newsletter slightly earlier than usual. This is because we need to give you notice of the Trustee's plans to pass a resolution under section 251 of the Pensions Act 2004. The Company has asked the Trustee to pass the resolution, which covers the power to pay any surplus funds in the Scheme to the employer in certain limited circumstances. This resolution confirms a power that was always in the Scheme rules. There's more about this in section 4. This notice of the resolution is just for your information as a member of the Scheme. You don't need to do anything.

Finally, if you have a question about your pension, please have a look at the Frequently Asked Questions in section 5. You can also contact our admin office or look on our website. Details are in section 6.

Kathleen O'Donovan
Chairman of the Trustee of the Invensys Pension Scheme

Pension Increase Exchange offer

How you can exchange some of your future pension increases for a higher pension earlier on

Your defined benefit pension includes future increases that help protect your pension income against the effects of inflation. Pension Increase Exchange (PIE) is when you exchange some of your future pension increases for a higher pension now which subsequently receives lower increases.

At the start of 2015, the Trustee introduced a PIE option for members reaching retirement. The Company then decided that it would also offer PIE to some existing pensioners. In our last newsletter, we included an insert from the Company that gave pensioner members more details.

Because making a PIE offer to our pensioners is a large exercise, we are contacting members in batches, following a timetable set out by the Company. We made the first offers at the end of 2015, and we'll make the rest during 2016. If you have not yet had an offer, please be patient. You don't need to do anything yet.

The Company has decided that it's not appropriate to make the PIE offer to some members. This includes members with relatively small pensions, who can take their whole pension as a cash lump sum. It also includes members where the impact of PIE on their pension would be so small that the Company can't justify the cost of offering it.

The Company needs certain information about you in order to work out what PIE offer it can make to you. We'll write to you personally before we send you a PIE offer, to ask for your permission to share with the Company the information it needs. The Company has confirmed that the information we share will only be used for the purposes of making you a PIE offer. **We will make sure your details remain secure.**

The Company is offering to pay for independant pensions advice to help you decide if you want to take up the PIE offer. You don't have to accept the PIE offer, even if you take the advice.

The Invensys Pension Scheme will continue to pay your pension, whether or not you take up the PIE offer.

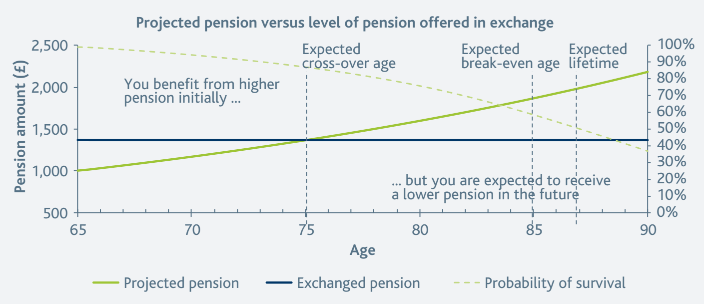
How PIE works

The graph below shows a simplified example of how PIE works. In this example, the member's pension without PIE (the green line) starts at £1,000 a year when they are 65. It increases in line with the standard pension increases in the Scheme. But if the member takes up the PIE offer (the blue line), they will get a higher initial pension of £1,350 a year. Their pension then only increases at the minimum rate required by law.

So, in the short term, PIE will give the member a higher yearly pension. However, after a period of time, assuming the member is still alive, the standard pension will catch up with and then overtake the PIE pension. How quickly that happens will depend on the level of future pension increases. The level of those increases will depend on the future level of inflation.

This graph is only an example of how PIE can work. Your own PIE offer will include a personal illustration showing how the figures apply to you.

Example of how PIE works



Any dependant's pension that we pay to a beneficiary after you die is based on the terms of your pension. As a result, if you take the PIE option, your dependant's pension will also have less protection against inflation than if you kept your standard pension. As a result, dependants will be required to sign the PIE acceptance form. How this may affect you will be explained by the pension adviser.

How the increased initial pension is calculated

PIE would give you an initial increase to your pension equal to 80% of the value of the future increases you give up. The Trustee and Company agreed the figure of 80% as part of the discussions about the terms of the PIE offer.

Although not universal practice, it is common for PIE options to be set at less than the full value of the future increases you give up. This is because:

- It protects the funding of the Scheme for all members. For example, if a member with short life expectancy accepted the PIE offer they would draw down a larger total value of pension payments than they would under a standard pension. Setting the PIE initial increase at less than full value protects the Scheme against this
- It reflects the fact that having a choice to accept PIE is a valuable option for some members

Pension Increase Exchange

If you would like to know more about Pension Increase Exchange, you may like to watch the video at **www.invensyspensions.co.uk/**

Pensions Freedom and Choice

How you can take advantage of the pension freedoms that were introduced in 2015

New ways for people to access their pensions, known as 'Pensions Freedom and Choice', came in on 6 April 2015. The changes are intended to give deferred members more choice about how to take money out of their pension, and to make sure that they can get guidance or advice about their choices.

Because IPS is predominantly a Defined Benefit (DB) scheme, not a Defined Contribution (DC) scheme, most of these changes only affect you if you have paid Additional Voluntary Contributions (AVCs) or have a Defined Contribution fund. However, if you want to take advantage of the new freedoms, you have the option to transfer your DB benefits to a DC arrangement.

Transferring your DB Benefits out of the Scheme

If you have not yet started drawing your pension, you can convert your DB pension into a lump sum that can be transferred to a registered DC arrangement. This lump sum is known as a Cash Equivalent Transfer Value (CETV). The first stage is to ask us how much your CETV would be. If your CETV is more than £30,000, you must, as a legal requirement, take advice from an independent financial adviser, at your own cost. This is because the Government wants to make sure that you think carefully about your options and understand the consequences. So, as part of the transfer information we give you, there will be an 'Advice Confirmation Form'. Your adviser must complete this form before your transfer can go ahead.

You can't transfer your DB benefits after your Normal Retirement Age (NRA). So, if you do want to transfer, you must send the appropriate forms to us at least three months before your NRA.

Transferring your DC or Additional Voluntary Contributions (AVCs) savings

If you have DC or AVC savings in the Scheme, you can use them to provide part of your tax free lump sum or increase your DB pension when you retire. Alternatively, you might want to use these savings in a different way. For example, you might want to use them for 'income drawdown', where you invest the money and take some of it as income at the same time.

IPS doesn't offer options such as income drawdown, but you can choose to transfer your DC or AVC savings to a pension provider that does offer them.

Pension Wise

If you have DC savings, including AVCs, you can now get free impartial guidance about your options when you are coming up to retirement. You can access this new service, called Pension Wise, online, on the phone or face to face. The website is pensionwise.gov.uk. The phone number to make an appointment is 030 0330 1001. Pension Wise can give you guidance that is personalised to your circumstances, but it will not recommend any particular products or tell you what to do with your money. If you want someone to recommend what you should do, you need to speak to an independent financial adviser.

You can only use the new pension freedoms and the Pension Wise service if you have DC savings.

Pension wise

Don't get stung by pension scams

The Pensions Regulator is warning members that pension scams are on the increase. Unregulated providers are tempting members with investment and cash offers for their pension savings. This type of offer could be a scam, so check carefully before you make any decisions.

You can't usually access the money in your pension savings before you're 55 at the earliest, unless you are seriously ill. But some companies are offering to help members do this, using increasingly creative approaches.

Unlocking your pension savings early may sound tempting, but be careful if you're approached by a company with an offer like this. Such companies may sound legitimate, but they typically offer unusual investments such as overseas property or biofuels. They promise high returns but don't tell you about the high level of risk. They may cause you to face a tax bill of up to 55% of the value of your pension, or they may simply disappear with your money, leaving you with nothing.

Once you've transferred your money into a scam, it's too late. So make sure you check the facts before you make an irreversible decision.

There are certain things to look out for:

- Website promotions, cold calls, text messages or adverts encouraging you to transfer your pension to a new arrangement for a cash payment or loan
- Someone coming to your door offering you a 'free pension review', 'one-off investment opportunity' or 'legal loophole'

If you want to find out more about a particular pension offer, speak to an independent financial adviser.

If you'd like more information on pension fraud, you can contact The Pensions Advisory Service. It is an independent voluntary organisation with local advisers who are experts in pensions. You can phone on 0300 123 1047 or go to pensionsadvisoryservice.org.uk and search for 'pension scams'.

Don't rush into it. Remember that your Scheme pension is very valuable.

Jargon buster

- In a **Defined Contribution (DC)** scheme, contributions are paid into your own 'pension pot' and invested. How much is in your pot when you retire depends on how much is paid in, how the investments perform, and what charges the scheme makes.
- In contrast, the pension you get from a **Defined Benefit (DB)** scheme is linked to your earnings and how long you've been in the scheme.
- **Additional Voluntary Contributions (AVCs)** are extra contributions that you can choose to make while you're an active member of the Scheme. Your AVCs go into a DC fund and you can use them to give yourself additional benefits when you retire.

2015 valuation and previous funding updates

News on our 2015 valuation, and why our funding has improved since last time

The Scheme Actuary is carrying out a valuation to assess the funding level of the Scheme. As we highlighted in the Summer 2015 newsletter, the Trustee and Company agreed that this valuation should have an effective date of 31 March 2015. The Trustee and Company are negotiating the assumptions to be used so that the valuation can be completed. We expect to be able to tell you the outcome of the valuation in the Summer 2016 newsletter.

Though we don't yet have the final figures, we do know that the funding of the Scheme has significantly improved since the last valuation. At that valuation, at 31 October 2012, the Scheme had a deficit of £478m and was 90% funded. There are two main reasons for the improvement:

1. Sale of Invensys Rail – Invensys Rail was a division of Invensys plc and a participating employer in the Scheme. It was sold to Siemens in May 2013. As part of the sale process, the Trustee negotiated a package of measures to improve the funding position of the Scheme. Among other benefits, the Scheme received a cash contribution of £400m, and a separate reservoir trust of £225m was created to fund the Scheme in the future if necessary.

2. Acquisition of Invensys plc by Schneider Electric – Invensys plc became a subsidiary of Schneider Electric in January 2014. As part of the acquisition process, the Trustee held discussions with Schneider Electric, which agreed to provide incremental financial security to the Scheme. This included a guarantee of £1.75bn from the Schneider Electric group to support the Scheme. Also, the assets in the reservoir trust were split evenly between the Scheme and the Company, resulting in a payment to the Scheme of approximately £105m in April 2014. Following the acquisition, Invensys plc was re-registered as Invensys Limited.

Previous valuation and funding updates

Each year, the Scheme Actuary produces funding updates. The results from the most recent funding update as at 31 March 2014 are shown below, along with the 31 March 2013 update and the 31 October 2012 valuation positions.

	31 March 2014 £m	31 March 2013 £m	31 October 2012 £m
Market value of assets*	4,579	4,476	4,303
Value of technical provisions	4,563	4,921	4,781
Past service surplus/(shortfall)	16	(445)	(478)
Funding level	100%	91%	90%

* These asset figures exclude AVCs and Defined Contribution funds.

Change in funding position

The funding position improved by £461m between 31 March 2013 and 31 March 2014. This table shows the main factors that affected the funding position:

	£m
Deficit as at 31 March 2013	**(445)**
Special cash contribution in respect of Invensys Rail	400
Net return on investments	(57)
Effect of changes in economic conditions and other factors	118
Surplus as at 31 March 2014	**16**

As we mentioned in the Summer 2015 newsletter, the Trustee continues to monitor the funding position of the Scheme using the assumptions that were put in place for the 2012 valuation. On these assumptions, the Scheme was 100% funded as at 31 March 2015 with a surplus of £4m. The final position at this date will depend on the assumptions adopted for the 31 March 2015 valuation.

Solvency funding position

As at 31 October 2012, it was estimated that the amount required to secure the benefits of the Scheme in full with an insurance company in the event of the Scheme winding up was £6,496m. This is a shortfall of £2,193m. This figure is just an indication and does not imply that the Trustee or Invensys Limited are considering winding up the Scheme.

Invensys Limited

The Scheme has made no payments to Invensys Limited or any of its parent or subsidiary companies in the 12-month period to 31 March 2014.

Section 251 Resolution

Notice of a resolution that the Company has asked us to pass, under recent pensions legislation

The Company has asked the Trustee to pass a resolution under section 251 of the Pensions Act 2004, which covers the power to pay any surplus funds in the Scheme to the employer in certain limited circumstances.

Since the Scheme was established in 1988, there have always been some circumstances in which some of the Scheme's funds might be paid to the employer under the Scheme's trust deed and rules. These include:

- Where the Scheme is winding up and there is a surplus after members' benefits have been secured with an insurance company. This is referred to as the buy-out valuation basis. It is much more conservative than the Technical Provisions valuation basis currently used to report the Scheme's performance to members and the Trustee
- Where tax legislation required action to be taken to reduce a 'statutory' surplus
- Where the employer has the right to hold back a member's benefits because of the member's criminal or fraudulent behaviour
- Where the employer has made an overpayment to the Scheme, for example because of an administrative error

This resolution under section 251 is merely retaining powers that were always in the Scheme.

These provisions are important to the Company, because there are accounting benefits if it remains theoretically possible for a surplus to be paid to the Company at some stage in the future. The likelihood of a surplus actually arising on a buy-out basis (which is what is required) currently seems remote, as the estimated deficit in the Scheme on this basis was £2.2bn, based on the last valuation.

As these matters are important to the Company, it has asked the Trustee to pass the resolution required under the legislation.

Background to section 251

The Pensions Act 2004 introduced a provision under section 251 that was initially due to come into force on 6 April 2011. At the end of 2010, the Trustee told members that it was considering passing a resolution under section 251. However, since there was at that time some uncertainty about the scope of section 251, the deadline was extended from April 2011 to April 2016, and the resolution was never actually passed. We told you about this decision to postpone in the 2011/2012 Winter newsletter.

In the five years since then, the Department for Work and Pensions has clarified the scope of section 251. It's now clear that the resolution is only intended to cover genuine 'surplus' provisions, rather than any payment out of scheme funds to an employer.

We have included these details in this edition of Invensys Pension News because the law requires us to tell you that the Trustee has decided to pass a resolution to retain the ability to pay sums to the Company. This resolution will be made under section 251(3) of the Pensions Act 2004 and will take effect from 5 April 2016, subject to no circumstances arising before that date which would cause the Trustee to conclude otherwise. If for some reason the resolution does not go ahead in this way, we'll tell you in a future edition of Invensys Pension News.

This notice is only for your information. You don't need to do anything.

Frequently Asked Questions

When will I find out how much my pension will increase this year?

Pensions in payment are increased on 1 April each year for most members. We will include brief details of the increase with your April payslip.

I'm getting close to my normal retirement date. What will happen?

If you are a deferred member who is close to your normal retirement date (usually age 65), the IPS team will write to you approximately 12 weeks before your birthday. If you would like to get an annual benefit statement, please write to the team at the address in section 6.

Please remember to notify us if you change your address.

I'm a deferred member. Can I find out what my pension's transfer value is?

Yes. Please write to the team at the address in section 6. You can ask for one transfer value per year, up to 12 months before your normal retirement date. Transfer requests within 12 months of your normal retirement date are at the discretion of the Trustee. If you want a second transfer value in a 12-month period, you will need to pay £250.

I'm retiring, so when will I get my first pension payment?

We aim to pay your pension as soon as possible after your retirement date. If you have chosen a tax-free cash sum, the money will usually go into your bank account a few days after your retirement date, as long as we received all of your documents on time. We pay all new pensions through our monthly payroll on the first day of each month. So, if your retirement date is in the first half of the month, we can usually pay your pension on the first day of the following month (including any back pay). If your retirement date is in the second half of the month, it is usually too late for us to put the payment through payroll, so we'll pay you on the first day of the month after. This means that we might pay your pension as much as seven or eight weeks after your retirement date.

I have got HMRC protection for my pension. Does the Trustee need to know about it?

If you have a larger pension – usually more than £50,000 per year – and you have not yet retired, you may have arranged with HMRC to protect some or all of your pension savings against an excess tax charge. It is important that you let us know if you have done this, so that we can pay your benefits correctly. Please give us a copy of your HMRC protection certificate for our records.

What if I can't remember – or have changed my mind about – who I've nominated to receive death benefits from the Scheme?

If you have been receiving your pension for less than five years, or you are under 65, or you are a deferred member, you should update your nomination form. That way, we will know your wishes about who you would like to receive benefits if you die. You can download a blank nomination form from www.invensyspensions.co.uk/useful_information/forms.html or you can ask the IPS administration team to post you a form.

If you are a pensioner of more than five years' standing, or receive a spouse's pension, child allowance or dependant pension, there would be no further benefits after your death. So you don't need to complete a nomination form.

I'm a pensioner and I get sent a P60 each year. What is it for?

We send you a P60 each May that states your income from the Scheme for the previous tax year. It is an important document and you will need to produce it if HMRC asks you for it. Every year, lots of members call us to ask for a duplicate P60 because they've lost the original. So please look out for your P60 arriving with your payslip in May and keep it in a safe place.

How do I change my bank details so that I can get my pension paid into a new account?

If you need to tell us about a change to the account we pay your pension into, you can use the form included with the newsletter. The form asks for all of the information we need to pay your pension into a UK bank account.

If you would like your pension paid into an overseas bank account, we can arrange it on your behalf via Western Union. We need some additional information when paying your pension into an overseas account, so please phone our helpline and ask us to send you the correct form.

How is the increase to my pension worked out each year?

This will depend on whether you have taken the Pension Increase Exchange (PIE) option. If you have taken that option, you will have swapped all but the statutory minimum increases for a higher starting pension, and you will not get the level of increases outlined below.

For members who have not taken the PIE option, most of the pension increases are calculated by looking at the annual rise in the Retail Prices Index (RPI) in the 12 months to December. If this is below 3%, or above 5%, it is adjusted so that the minimum increase that is applied is 3% and the maximum is 5%, in line with the Scheme's rules.

Some parts of your pension are increased differently, depending on the section of the Scheme you were in:

- Pension for members who joined after 5 April 2000 receives the full rate of RPI inflation measured to December 2015, up to a maximum of 5%
- Pension earned after 5 April 2006 receives an increase equal to the rise in RPI to December 2015, up to a maximum of 3%
- Guaranteed Minimum Pensions earned between 6 April 1978 and 5 April 1988 is not increased by the Scheme
- GMP earned between 6 April 1988 and 5 April 1997 is increased for most pensioners by the annual rise in the Consumer Price Index to September 2015, up to a maximum of 3% and subject to a minimum of 0% as required by legislation
- GMP earned between 6 April 1988 and 5 April 1997 is increased for members of certain categories identified in the 2012 review of the Scheme's rules by the annual rise in the RPI to September 2015, up to a maximum of 3%
- Pension earned by previous members of the Electricity Supply Pension Scheme receives an increase equal to the rise in RPI to September 2015, up to a maximum of 5% with no underpin

Some sub-sections of the Scheme have further guarantees that were agreed at the time that former schemes were merged with the IPS Scheme. In accordance with the rules, these members will have the appropriate increase applied.

The Government has established the Pension Service to provide pensions, benefits and retirement information. If you have any questions about your GMP entitlement, please contact the Pension Service on 0800 731 7898. You may have earned GMP while you were a member of another company pension scheme and the Pension Service will be able to see all of your records.

Contact details

The Scheme Administration office is at:
PS Administration Ltd
36 Gallowgate
Newcastle upon Tyne
NE1 4TD

Helpline: **0191 341 0600**

Pensioner Helpline: **0845 300 0549** (BT local rate)

Email: invensyspensions@puntersouthall.com

You can also visit our website at **www.invensyspensions.co.uk**

If you would like this newsletter as an audio CD, please contact Amy MacKnight on **0191 341 0647**.

The National Fraud Initiative

This is for your information only – you do not need to do anything.

In accordance with the Data Protection Act 1988, we have to tell you that, along with other organisations, IPS took part in the Audit Commission's National Fraud Initiative in 2014/2015. This initiative checks the data that we hold against registered deaths to identify cases where pensions are still being paid after the pensioner's death. This data-matching exercise meets the requirement of data protection law.

Unfortunately, we continue to identify cases of fraud. In such cases, it is the Trustee's policy to pursue fraudsters. The Trustee has successfully prosecuted individuals through the courts when faced with evidence of fraud.