

## Income needs in retirement

### The Pensions Policy Institute (PPI) recently published research suggesting that pensioners may not have sufficient income to meet all of their retirement needs.

The think-tank's report – *Retirement Income and Assets: Do pensioners have sufficient income to meet their needs?* – identified the main factors determining pensioners' needs for income and looked at whether they were likely to have enough money to cover their needs and expectations throughout retirement.

The research found income needs changed over the course of retirement. It said pensioners tend to remain active in their 60s and may desire relatively high levels of retirement income – but may see income needs reduce in their 70s, as they become less active.

However, the PPI also warned that the onset of disability, widowhood and the need for long-term care could all

contribute to higher costs in later retirement when pensioners are in their 80s and 90s.

PPI director Niki Cleal commented: *"This research shows that pensioners will need a range of assets and sources of income to help them cope with the uncertainty and extra costs they may face later in their life as a result of the onset of disability, widowhood or the need for long-term care."*

Everyone's plans for retirement will be different, but, even if you're a long way from retiring, it is important to think carefully about your pension savings and weigh up whether they are likely to give you the income you will need. You might want to think about making Additional Voluntary Contributions – for more details, contact the SIPS team.

You can read the report in full on the PPI's website: [www.pensionspolicyinstitute.org.uk](http://www.pensionspolicyinstitute.org.uk).

## Scheme reminders

### SIPS Website

**Don't forget to visit the SIPS website, [www.sips-pensions.co.uk](http://www.sips-pensions.co.uk), for all the latest news regarding the Scheme. The site is updated regularly and provides a central resource for general information about the Scheme – as well as providing another means of contacting the SIPS team with any questions you have.**

### State Pension

**Did you know that you can request a forecast of your State Pension online from The Pension Service (part of the DWP) at [www.thepensionerservice.gov.uk](http://www.thepensionerservice.gov.uk)? You can then add your benefits from the State to those expected from your SIPS pension to obtain a more complete picture of the likely total pension you could receive in retirement.**

### Expression of Wish Form

**If you die as a member of SIPS, a lump sum death benefit may be payable from the Scheme. The Trustee Directors have discretion to decide who should receive such benefits, but you can help them with their decision by completing an Expression of Wish Form. This will ensure that your wishes are taken into account in the distribution of benefits.**

You should always ensure that your Expression of Wish Form is up-to-date, particularly if your personal circumstances have recently changed – for example, if you have been married or divorced. You can request a new form from your Human Resources Department or pensions office, or alternatively download one from the SIPS website, [www.sips-pensions.co.uk](http://www.sips-pensions.co.uk).

## More Information

If you have any questions about the Scheme or if you need more information about your benefits, please contact the SIPS team at:

Capita Hartshead, **PRIVATE SECTOR PENSIONS (SIPS)**  
257 Ecclesall Road, Sheffield S11 8NX

**Tel:** 0845 601 0607  
(or +44 141 353 7000 if calling from overseas)

**Email:** [member.enquiries@sips-pensions.co.uk](mailto:member.enquiries@sips-pensions.co.uk)

**Website:** [www.sips-pensions.co.uk](http://www.sips-pensions.co.uk)

# VIEWPOINT

Shipbuilding  
Industries  
Pension Scheme

## Report and Accounts Newsletter

BVT SUB-SECTION

### Managing Director's Introduction

#### Welcome to this first edition of Viewpoint for members of the BVT Sub-Section.

On 1 July 2008, the shipbuilding members of the VT Group transferred to a new segregated section (the BVT Sub-Section) within the BAE Section of the Shipbuilding Industries Pension Scheme (SIPS). These members' past service benefits within the VT Group Section up to 1 July 2008 were transferred to the BVT Sub-Section on a "share of fund" basis. Following a "share of fund" valuation, the asset transfer of £51.7 million took place on 31 December 2008. BVT was set up as a separate sub-section of the BAE Section because initially BVT is a joint venture between BAE Systems plc and VT Group plc, with the option of the full ownership transferring to BAE Systems plc. The member benefits and contributions in respect of the BVT Sub-Section are different to members in the BAE Section.

It has been a very turbulent time for the world economy during the financial year 2008/09. Stock markets throughout the world have experienced huge losses as the credit crisis that emerged in 2007 caused serious concerns over the solvency of many of the world's largest financial institutions. Recent economic data throughout both developed and emerging economies reveals a sharp and widespread recession.

The financial turmoil of the past year has had a severe impact on the SIPS, with virtually all of its asset classes producing negative performance. The value of the fund at 31 March 2009 was £1.223 billion compared with £1.477 billion at 31 March 2008.

The SIPS combined Unitised Pools had a negative 20.6% return over the year to March 2009, compared with a negative 21.5% return for the SIPS bespoke benchmark. Despite negative returns,

several managers were well ahead of the benchmark (thereby attracting performance related payments); whereas others lagged well behind the benchmark. The specialist multi-manager structure and strategy embraced by the Trustee has delivered excess returns since its inception in March 2001; the cumulative performance over this period was 1.0% per annum compared with 0.2% for the composite benchmark. It is estimated that the 0.8% per annum out-performance over this period translates to a value of approximately £40 million.

The Trustee Board continues to monitor the funding position of each section of SIPS on a quarterly basis. The reports, produced by the Scheme Actuary, show the funding projections from the date of the last valuation. There are three valuations during 2009 – Ferguson Shipbuilders, VT Flagship Training and Fleet Support. The Trustee Board considered the provisional results for the three sections at its meeting on 1 July and is now in discussions with the Independent Participating Employers.

As part of its ongoing governance process, the Trustee Board carried out reviews of several of its advisers, including the legal and investment advisers. In both cases, the Trustee decided to retain Linklaters and Stamford Associates. A new AVC Provider, Prudential, was introduced from 1 April 2008.

At a corporate governance level, the Trustee Board has continued to review and update its Governance Document and Risk Register on a regular basis. The Trustee Board has also discussed at length its own effectiveness. As a result, a new committee, the Audit, Accounts and Administration Committee, was established earlier this year. In addition, the Investment Committee has been given extended terms of reference. The new structure allows more time to be spent on the audit and

administration aspects and for the Trustee Board to focus on strategic issues. The Trustee Board also continues to monitor compliance with the Myners Principles, which were revised during the year.

During the year, the Scheme Secretary and I visited all the Local Pension Committees (LPCs). Two seminars (North and South) were also held for members of LPCs during the year.

As ever, the year has been extremely challenging in a number of ways – the economic crisis, the continuing efforts to wind up the Appledore Shipbuilders Section, a decision to buy out the benefits of the Rathbone Training Section, continued monitoring of the Employer covenants, and the continuing need to keep abreast of developments in the pensions arena.

Jackie Peel joined the Trustee Board in September 2008, replacing Nola Waller who resigned. Tony Paull also resigned in September 2008. In June 2009, following the end of the financial year, Christian Elliott, Mary Garner and Jerry Wells also resigned from the Trustee Board. My thanks and best wishes go to both Tony and Jerry who retired from A&P Falmouth and BVT respectively. Can I also thank Christian, Mary and Nola for their contribution and wish them well for the future.

I would like to express my sincere thanks to our advisers for their advice and assistance during the year. Can I also thank the IPES for their continuing support, not least in providing the Trustee Directors of Hadrian Trustees Limited who represent both the IPES and the members. Finally, I thank all the Trustee Directors for their input and support during the year.

**Roger Buttery**  
Managing Director  
Hadrian Trustees Limited  
SIPS TRUSTEE BOARD

## Trustee Board

As at 1 September 2009 the Trustee Directors in office were as follows:

<b>Chairman</b>	Dave Cole * † Employee Director, BAE Systems Marine
<b>Deputy Chairman</b>	Nigel Tinsley * Pensions Director, BAE Systems plc
<b>Managing Director</b>	Roger Buttery * † Hadrian Trustees Limited

Other Employee Appointed Directors:

<b>Alan Clarke †</b>	BVT Surface Fleet
<b>George Clair *</b>	BVT Surface Fleet
<b>Derrick Dewhurst *</b>	BAE Systems Marine
<b>Jamie Webster †</b>	BVT Surface Fleet
<b>Harold Samms *</b>	BAE Systems Marine

Other Employer Appointed Directors:

<b>Neal Misell *</b>	Finance Director, VT Education and Skills
<b>Jackie Peel †</b>	Group Pensions Manager, VT Group Services
<b>Richard Bonnie *</b>	Group Personnel Director, A&P Group

\* Investment Committee member † Audit, Accounts and Administration Committee member

Richard Bonnie, Dave Cole and Jamie Webster are to retire by rotation in accordance with the Trustee Company's Articles of Association at the close of the Company's Annual General Meeting to be held on 23 September 2009.

Trustee Directors are appointed and removed in accordance with the Trustee Company's Articles of Association. The Trustee Board comprises 15 Directors as follows:

- A Managing Director appointed by the Trustee Directors.
- 7 Directors appointed by Employers participating in SIPS.
- 7 Directors nominated by the Shipyard Negotiating Committee of the Confederation of Shipbuilding and Engineering Unions (CSEU).

At the time of writing this update, there were four vacancies on the Trustee Board. One of the vacancies is for an Employee Trustee Director, where a nomination from the CSEU is awaited. The other three vacancies have arisen due to three former Trustee Directors (Christian Elliott, Mary Garner and Jerry Wells) leaving their respective Employers during June. Two of the vacancies are to be filled by BAE Systems Marine (Holdings) Limited, whilst the third Employer vacancy is to be filled by a nomination and, if required, election process in conjunction with the Trustee Company's Annual General Meeting. An update on the composition of the Trustee Board will be published online at [www.sips-pensions.co.uk](http://www.sips-pensions.co.uk) later in the autumn.

In early 2009, the Trustee Board established an Audit, Accounts and Administration (AAA) Committee. The role of the AAA Committee is to oversee the Scheme's external audit, internal audit, accounting and administration arrangements.

## The Scheme's Independent Participating Employers (IPEs)

As at 31 March 2009 there were sixteen active Independent Participating Employers (IPEs) in SIPS:

A&P Group Limited	Capita Business Services Limited	Rathbone Training
Appledore Shipbuilders (2004) Limited *	Civica Software Solutions Limited *	Teledyne TSS Limited *
AMEC Nuclear Holdings Limited	Ferguson Shipbuilders Limited	VT Flagship Training Limited †
AT Engine Controls Limited *	MI Technologies Limited *	VT Group plc
BAE Systems Marine (Holdings) Limited	Naiad Dynamics UK Limited *	
BVT Surface Fleet Support Limited †	Pendennis Shipyard Limited *	

\* Participate solely in the SIPS Money Purchase Plan  
† Non voting IPEs

## Scheme Investment Returns

### Market Background

**The year ended 31 March 2009 again represented a very difficult time for global equity markets.**

The year was characterised by indiscriminate selling, significant volatility and negative returns in virtually all asset classes except government bonds and cash. The backdrop of steadily rising inflation dominated the early part of the year and, at the same time, the lack of available credit remained a continuous threat to financial markets, eventually spreading to the entire banking sector. In response, institutions sought to shore-up their finances by de-leveraging their balance sheets and retaining liquidity. As a consequence, credit markets seized up, and the banking sector crises peaked during the period with a number of institutions failing and requiring assistance from either industry counterparts via takeovers or, in most cases, government sponsored bail-out packages.

Subsequent to the year end, volatility in the equity markets has continued. There are, however, tentative signs that the worst of the financial crisis may be over, following unprecedented efforts by governments and central banks to stimulate economies and inject liquidity, funded by borrowing and printing money. With the exception of the Japanese market, there is evidence of some stabilisation across the majority of the major equity markets.

A diversified multi-manager structure continues to be adopted for the SIPS investments. The majority of the SIPS assets are invested in three unitised pools. The annualised returns to 31 March 2009 covering one and five year periods are summarised below, showing comparisons with the benchmark figures set by the Trustee:

Investment	1 Year to 31 March 2009		5 Years to 31 March 2009	
	Actual Return %	Benchmark Return %	Actual Return %	Benchmark Return %
<b>(a) Unitised Pools:</b>				
Equities	-22.3	-25.8	2.6	2.2
Bonds	-11.4	1.4	1.0	4.1
Absolute Returns	-17.6	-20.6	3.7	2.6
Combined Unitised Pools	-20.6	-21.5	2.6	2.9
<b>(b) Property Fund</b>	-26.5	5.6	N/A	N/A
<b>(c) Private Equity Fund</b>	-6.5	N/A	13.2	N/A
<b>(d) Fixed Interest Fund</b>	8.6	8.6	5.7	5.7
<b>(e) Index-Linked Fund</b>	-2.6	-2.8	5.5	5.4

Over the longer term, since the inception of the multi-manager structure in March 2001, SIPS has achieved an outperformance against the benchmark of 0.8% per annum and this represents a significant outperformance. The calendar year to date has seen a marked improvement in equity markets, with the SIPS equities unitised pool returning 9.5% against the benchmark of 6.5% in the first seven months of 2009.

The Investment Committee and the Trustee Board continue to actively monitor the investment strategy for the Scheme and the performance of individual managers, and it is considered that there is a structure in place which will help to generate returns ahead of the benchmark over the longer term.

## Section Report and Accounts

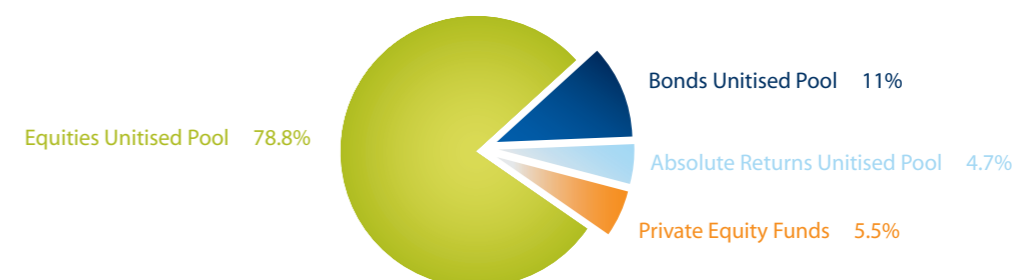
### Summary Financial Statements for the Section

These are not the full financial statements of the Scheme, but are a summary of the fund account and net assets statement taken from the unaudited Section Accounts of the BVT Sub-Section. The auditors have given an unqualified opinion on the financial statements of SIPS and their statement about contributions payable to SIPS is also unqualified. A copy of the audited financial statements of SIPS and the supplement containing the Section Accounts of the BVT Sub-Section may be obtained from the SIPS team at the address on the back page.

Summary Fund Account	2009 £'000
<b>Net assets of the Section at 1 April previous year</b>	<b>0</b>
Income	
Employer contributions	4,928
Transfers between sections	51,707*
Other income	136
<b>Total income</b>	<b>56,771</b>
Expenditure	
Pensions	(79)
Commutations and lump sums on retirement	(1,255)
Death benefits	(134)
Members' AVCs invested	(3)
Administration expenses	(129)
<b>Total expenditure</b>	<b>(1,600)</b>
<b>Income less expenditure</b>	<b>55,171</b>
Change in value of investments	(3,980)
Investment income less expenses	(327)
<b>Total investment returns</b>	<b>(4,307)</b>
<b>Net assets of the Section at 31 March this year</b>	<b>50,864</b>
<i>Summary Net Assets Statement</i>	
Investments	49,899
Net current assets	965
<b>Net assets of the Section</b>	<b>50,864</b>

\* This figure represents the VT Group members' benefits transferred to the BVT Sub-Section on 31 December 2008.

The investments of the BVT Sub-Section are invested as follows:



Contributions to the BVT Sub-Section were as follows:

Employers:	2009 £'000
Normal	3,647
Augmentation	551
Deficit funding	590
Other	140
<b>Total employer contributions</b>	<b>4,928</b>

As the Section operates on a salary sacrifice basis, there are no employee contributions to the Scheme.

The BVT Sub-Section paid £1,468,000 in benefits, split as follows:



Section Report and Accounts *continued*

Membership figures for SIPS as a whole:

	2009	2008
Active members at 1 April previous year	7,731	7,113
<i>Add</i>		
New entrants	544	1,109
<i>Less</i>		
Retirements	(201)	(175)
Early leavers	(445)	(307)
Deaths	(9)	(9)
Active members at 31 March this year	7,620	7,731
Deferred pensioners	9,249	9,097
Current pensioners	9,975	9,787
<b>Total membership at 31 March this year</b>	<b>26,844</b>	<b>26,615</b>

Membership figures for the BVT Sub-Section to 31 March 2009 are as follows:



How SIPS works – the Defined Benefit section

**In Defined Benefit (DB) schemes the benefits are defined in advance, and the employee and employer contribution rates may vary over time as the scheme tries to ensure it has sufficient funds to meet its benefit obligations. This is in contrast to defined contribution schemes (such as the DC section of SIPS), where the contribution rates are fixed in advance but the benefits are harder to predict, as they depend on investment choices and investment performance.**

For the majority of sections participating in the DB section of SIPS, the income in retirement is linked to your final salary when you come to retire (or when you stop contributing to SIPS, whichever is sooner).

Your pension is calculated by multiplying your final salary by your length of service as a SIPS member, and then multiplying this figure by a set accrual rate. The accrual rate is the rate at which you build up pension while you are a member of SIPS.

The accrual rate for SIPS Upper Tier members is 1/60th, meaning that for every year you are a member, you earn benefits worth 1/60th of your final salary at retirement. For SIPS Lower Tier members, the accrual rate is 1/80th.

We have provided you with an example of a pension calculation to demonstrate the above. Please note that this is only an example and should not be used to calculate your individual benefits, as each member's circumstances will be different. Alan is an Upper Tier member retiring at age 65, having contributed to SIPS for 24 years. He has a final salary of £32,000. His pension is therefore calculated as follows:

$$\begin{matrix} \text{Final salary} & \times & \text{Length of service} & \times & \text{Accrual rate} & = & \text{Annual pension} \\ \text{£32,000} & & \text{24 years} & & \text{1/60th} & & \text{£12,800} \end{matrix}$$

This is a simplified example – in actual fact, Alan would have the option at retirement to exchange part of his pension for a tax-free 'pension commencement lump sum'. He can exchange up to 25% of the capital value of his benefits in this way, although his annual pension will be reduced as a result. Capita Hartshead will provide members approaching retirement with full details of their options.

If Alan were to take early retirement (before his own normal retirement age of 65), his benefits would be adjusted and calculated as outlined in the SIPS rules.

If Alan had left SIPS ten years ago and had a deferred pension benefit, his pension would have been calculated at the point of leaving the Scheme, on the same basis as described above, but his benefit would be revalued each year until his retirement, in order to take account of inflation.

You can read more details about how your section of SIPS works in your members' booklet. If you have any specific questions about your own benefits, you can contact the SIPS team, whose details are on the back page.