



BAE Systems Pension Scheme

Passport Section Classic

A guide to your benefits

Glossary

It may be helpful to refer to this page while you read through the booklet. The definitions of technical terms are highlighted in *italics* throughout the booklet.

Additional Voluntary Contributions (AVCs) are voluntary payments made in addition to your *Basic Contributions* to the *Scheme*. They are invested to provide you with extra benefits at your retirement. AVCs currently qualify for income tax relief at your highest rate although some restrictions apply to high earners.

Basic Contributions are 1.5% of *Pensionable Salary*.

Classic is a section of the *Scheme* that applies to you if you have transferred from the *PCSPS* and were a member of the Classic section of that scheme or were entitled to similar benefits under a different arrangement.

Company is BAE Systems plc and any other employer who participates in the *Scheme*.

Dependant means your *Spouse* or child (including legally adopted children but not stepchildren) under the age of 18 when you die (or age 23 if in full time education or vocational training), or a child of any age if, in the Trustees' opinion, he or she is dependent on you at the date of your death because of physical or mental impairment, or any other person (other than your child) who, in the opinion of the Trustees, is financially dependent on, or interdependent with, you or was dependent on you at the date of your death.

Final Pensionable Salary is your *Pensionable Salary* received in the 12 months ending on the day you leave *Pensionable Service* or die (whichever occurs first). *Final Pensionable Salary* may not exceed the *Scheme Cap*.

Minimum Pension Age is the earliest age at which you may retire and receive immediate pension benefits from the *Scheme*. If you have transferred your pension benefits from the *PCSPS* it is age 50. For all other members it is age 55 unless you have a protected *Minimum Pension Age*. The pension will be reduced because of early payment. The Pensions Service Centre can advise you if have a protected *Minimum Pension Age*.

Normal Retirement Date is the first of the month coincident with or immediately after your 60th birthday.

PCSPS is the Principal Civil Service Pension Scheme.

Pensionable Children are your children, including any conceived but unborn at the date of your death, your adopted and stepchildren, for so long as they are under age 18 (or age 23 if in full time education or vocational training which has been approved by the Trustees).

Pensionable Salary is your basic annual salary plus all other elements of remuneration from the employers which were pensionable under the *PCSPS*. Bonus payments and overtime are excluded, except where they were included under the *PCSPS*. For part-time hours, your actual part-time earnings will be used. *Pensionable Salary* may not exceed the *Scheme Cap*.

Pensionable Service is the number of years and complete months during which you have contributed to the *Scheme*, plus any period in respect of a transfer in and any Added Years which were credited under the *PCSPS*. The benefits in respect of Added Years will reflect any differences which were specified when the Added Years were purchased under the *PCSPS*. *Pensionable Service* cannot exceed 45 years.

Qualifying Service determines whether you are eligible for pension benefits. It is defined as years and complete months of *Pensionable Service*, including the most recent period of *Pensionable Service* accrued in the *PCSPS* but excluding any *Pensionable Service* relating to Added Years purchased by AVCs under the *PCSPS*. Part-time service will count on the basis of the years and complete months for the calendar period that you have worked.

Scheme is the BAE Systems Pension Scheme – Passport Edition.

Scheme Cap is the maximum annual *Pensionable Salary* that is used when working out pension benefits and contributions. From April 2010 this figure was £123,600 and is normally increased each year.

Scheme Maximum refers to the limits which were HM Revenue & Customs requirements up to April 2006 and which continue to apply to *Scheme* benefits in a simplified form. For example, under the *Scheme Maximum* your benefits (excluding AVC benefits but including previous benefits in other schemes) must not exceed 2/3rds of your final earnings.

Scheme Year is from 6 April to the following 5 April.

Spouse is a person who is married to you or who is your Civil Partner (as defined by the Civil Partnership Act 2004) at your date of death.

State Retirement Age is the age at which pensions are payable from the State. This is currently 65 for men and 60 for women. However, over the 10 year period from 2010 to 2020, the *State Retirement Age* will become 65 for everyone and further increases to the *State Retirement Age* will take place for those retiring later than that.

Welcome to Classic

The BAE Systems Pension Scheme – Passport Edition (the *Scheme*) is a valuable part of your remuneration package from the *Company*. The *Scheme* provides you with a range of benefits to support you and your family both now and in the future.

This section of the *Scheme* applies to members who were eligible to join the Classic section of the *PCSPS* and whose employment was transferred to the *Company*. The benefits from this *Scheme* are broadly comparable with those of the Classic section of the *PCSPS*.

This booklet is intended as a helpful guide to the main provisions of the *Classic* section of the *Scheme*. It does not cover every aspect – the full details are contained in the Rules, which are the legal basis of the *Scheme*. Nothing in this booklet can override the Rules and if there is any difference, the Rules will apply. The booklet and the Rules are subject to change in the future. Copies of the Rules are available on request from the Pensions Service Centre.

Please take time to read through this booklet to understand the benefits available to you.

You will notice that certain terms in this booklet are printed in *italics*. The meanings of these words are explained in the Glossary on page 2, which you may find helpful to refer to as you read through the booklet.

As a member of the *Scheme* you are contracted out of the State Second Pension (S2P) which was formerly known as the State Earnings Related Pension Scheme (SERPS). This means that the *Scheme* replaces some of the pension that S2P would have paid to you at retirement and as a result you pay a lower rate of National Insurance contributions. Your basic State Pension remains unaffected and you will remain eligible to receive it in addition to your pension from the *Scheme*.

Additional information about the *Scheme* is available via the following:

Pensions website: www.baesystemspensions.com

e-mail: farnborough.pensions@xchanging.com

Pensions helpline: **01252 383810**

Pensions Service Centre
PO Box 87
Hertford House
Farnborough Aerospace Centre
Farnborough
Hampshire
GU14 6YU

What will you find inside?

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Membership of the Scheme

Eligibility

You are eligible to join if you have transferred directly from the Classic section of the PCSPS or a scheme broadly comparable with the Classic section of the PCSPS and your employment was transferred to the *Company*.

You cannot join the *Scheme* after reaching age 64.

The *Company* may at its discretion allow you to join the *Scheme* even if you do not satisfy the conditions set out above.

Ceasing to be eligible while still an employee

You will cease to be eligible for membership if, with your agreement, the nature of your employment duties change to a role that is not eligible for membership of *Classic*. In these circumstances, you may be offered membership of an alternative pension arrangement.

You will also cease to be eligible if the *Company* tells you that you are no longer eligible in circumstances where you originally joined the *Scheme* at the *Company*'s discretion despite not satisfying the eligibility conditions, or if it might be unlawful for the Trustees to accept further contributions from your employer in respect of you.

Opting out

Membership of this *Scheme* is not a compulsory part of your employment with the *Company*. As a member of the *Scheme* you can opt out of *Classic* at any time.

You will be required to give the Trustees and the *Company* two months' written notice of your intention to leave *Pensionable Service*.

At the end of the pay period in which your two month notice period expires, you will be treated under the *Scheme* as if you had left *Pensionable Service*, but you will not receive any benefits until you have actually left service or reach age 75, if earlier.

If you decide to opt out:

- You will lose the benefit of the *Company*'s contribution to the cost of future pension provision under the *Scheme*.
- You will lose the protection provided by the *Scheme* to you and your family in the event of your death in service.
- You will lose the part of the protection provided by the *Scheme* to you and your family in the event of your early retirement from the *Company* on account of your serious ill-health.
- You will lose the opportunity to earn a pension linked to your future earnings and service.
- You may only rejoin with the specific permission of the *Company* and subject to any conditions that the Trustees consider appropriate.

The decision to opt out is yours alone but you should give careful consideration before doing this and you may wish to consult with an Independent Financial Adviser (see page 13).

Making contributions to the Scheme

Your contributions

Your *Basic Contributions* are 1.5% of your *Pensionable Salary*.

You may choose whether or not to pay *Basic Contributions* in respect of any *Pensionable Service* on or after *Normal Retirement Date*. This decision must be made no later than one month before *Normal Retirement Date*. If you choose not to make *Basic Contributions*, your *Pensionable Service* will cease (see page 7).

Income Tax relief

Your contributions are taken from your pay before tax is calculated, so you will automatically receive full income tax relief at your highest rate. Some restrictions to tax relief apply to high earners. Please contact an Independent Financial Adviser if you think this may apply to you.

SMART Pensions arrangement

Provided that you are employed by companies wholly owned by BAE Systems plc or participating joint venture companies, all contributions to the *Scheme* will be made under the SMART Pensions arrangement, unless you choose to opt out of SMART. Full details of the SMART Pensions arrangement can be found in a separate SMART Pensions booklet available from the Pensions Service Centre or via the pensions website.

Company contributions

Your employer makes contributions at a rate determined by the Trustees in consultation with the *Company* and with advice from the *Scheme* Actuary. These rates may change from time to time following the regular reviews of the financial position of the *Scheme*.

How the contributions are used

Your contributions, together with those from the *Company*, are credited to the fund and are invested by the Trustees. The proceeds are used to provide benefits in accordance with the Rules of the *Scheme*.

Paying Additional Voluntary Contributions

Under the terms of the *Scheme*, you may increase your benefits by paying *Additional Voluntary Contributions (AVCs)* whilst you are in *Pensionable Service*. AVCs might be of particular interest if you joined the *Scheme* later in your working life or you are considering the possibility of retiring early.

You can choose how much to pay and you can change or suspend your contributions at any time. You have a choice of investment options. Contributions are deducted from pay before tax is calculated so you automatically receive tax relief at your highest rate. Some restrictions to tax relief apply to high earners. Please contact an Independent Financial Adviser if you think this may apply to you.

The AVC Guide gives more details about AVCs and can be downloaded from the website.

Temporary absence

If you are temporarily absent from work, your membership of the *Scheme* will continue for as long as you pay contributions into the *Scheme*. If you take paid absence from work, you will continue to pay contributions and this period will count in full towards your pension. If you stop paying contributions to the *Scheme*, your *Pensionable Service* will cease. On recommencing contributions, your *Pensionable Service* before and after the break will be treated as continuous, so that your benefits in respect of *Pensionable Service* before and after the break include changes to your *Pensionable Salary* earned after the break.

If you are absent because of sickness or injury and you stop paying contributions, you may continue to be treated as remaining in *Pensionable Service* for up to one year from the date you were first absent, or longer if the *Company* and Trustees agree.

If you are absent as a result of maternity, adoption or paternity leave, you will be treated as still in *Pensionable Service* for as long as you have a statutory or contractual right to return to work. You will pay contributions on any amount of pay (including any statutory maternity, adoption or paternity pay) made while you remain employed by the *Company*.

If, however, you are absent as a result of parental leave, you will be treated as if you have left *Pensionable Service* unless you return to work at the end of that period of leave. In this case, your periods of *Pensionable Service* before and after that leave will be treated as continuous but will exclude the period of parental leave itself.

Retirement benefits

Retirement at Normal Retirement Date

When you retire, you will receive an annual pension and a one-off lump sum. The amount of these benefits will depend on your *Final Pensionable Salary* and length of *Pensionable Service*. It will also depend on the amount of any AVCs you may have made.

Pension at Normal Retirement Date

Your annual pension is worked out as follows:

$$\text{Pensionable Service} \times \frac{1}{80\text{th}} \times \text{Final Pensionable Salary}$$

Pension example

If your *Final Pensionable Salary* is £20,000, and your *Pensionable Service* is 30 years, your annual pension is:
 $30/80\text{ths} \times £20,000 = £7,500$ a year.

Lump sum

Your lump sum, which is currently payable free of tax, is three times your annual pension.

Lump sum example

If your annual pension is £7,500, your lump sum on retirement is:
 $3 \times £7,500 = £22,500$.

You can normally choose to exchange some of your annual pension for a tax free cash sum on retirement. The amount of this cash sum depends on your circumstances but is typically up to 25% of the total value of your pension benefits.

Early retirement

Retiring early from Pensionable Service except on medical grounds

You are permitted to retire at any time after your *Minimum Pension Age* and receive an immediate pension.

Your pension will be calculated as shown above and will be reduced by an early retirement factor to account for the extra years over which your pension will be paid. The early retirement factors are agreed between the *Company* and the Trustees on advice from the *Scheme Actuary*. They are reviewed periodically and may change from time to time.

Note

If you retire and draw your pension from *Pensionable Service* before *Normal Retirement Date*, you must also leave the *Company*.

Retiring early from Pensionable Service on medical grounds

If you cannot work due to ill-health, you may retire at any age with an immediate pension, subject to certain conditions and with the consent of the Trustees.

To receive this benefit, the Trustees need evidence from their medical adviser that you are suffering from physical or mental impairment and must be satisfied that this condition means you are permanently unable to perform your current job or any comparable employment with the *Company* without necessarily preventing you from working in any capacity in future.

The basis of the calculation of the medical retirement pension and lump sum is dependent upon the length of your *Qualifying Service* and is illustrated below.

If you have completed less than five years' Qualifying Service

You may receive an annual pension of:
 $\text{Pensionable Service} \times \frac{1}{80\text{th}} \times \text{Final Pensionable Salary}$

+

A lump sum equal to three times the initial annual pension

If you have completed five years' or more Qualifying Service

You may receive an annual pension of:
 $\text{Pensionable Service} + \text{Additional Pensionable Service}^* \times \frac{1}{80\text{th}} \times \text{Final Pensionable Salary}$

+

A lump sum equal to three times the initial annual pension payable less $\text{Additional Pensionable Service}^* \times \frac{1}{80\text{th}} \times \text{Final Pensionable Salary}$

*Additional Pensionable Service is the lower of 10 years and 75% of the period between leaving *Pensionable Service* and *Normal Retirement Date*.

You may choose to give up part of your pension to provide a cash sum at retirement as described on the left.

Until *Normal Retirement Date*, the Trustees may require evidence of your continued illness from time to time. The Trustees have the power to reduce or suspend the pension described above if, in their opinion, this is justified by a subsequent change in your medical circumstances.

Retirement after Normal Retirement Date

If your employment with the *Company* continues after *Normal Retirement Date*, you may start to receive a pension at *Normal Retirement Date* as if you had left employment at that time.

Alternatively, you may choose to start to receive a pension when you leave employment with the *Company*. In this case, you may choose whether to continue or cease *Basic Contributions* if you continue to work after *Normal Retirement Date*. You must choose whether to continue paying *Basic Contributions* no later than one month before your *Normal Retirement Date*.

If you chose to continue to make *Basic Contributions* to the *Scheme*, your pension will be calculated as shown on page 6 but based on your *Pensionable Service* and *Final Pensionable Salary* at your actual retirement date. You will continue to be covered for the *Scheme's* death in service benefits until you retire.

If you chose not to continue to make *Basic Contributions* to the *Scheme*, your benefits will be calculated as shown on page 6 as at *Normal Retirement Date*. The benefits will be deferred to actual retirement when they may be increased by a late retirement factor as agreed between the *Company* and Trustees after taking actuarial advice.

If you continue in *Pensionable Service* after reaching age 75 you will be treated as having left *Pensionable Service* on reaching that age and your pension will be put into payment.

General information regarding retirement

AVCs

You will normally be able to take your AVC fund as a tax free cash sum at retirement, subject to HMRC restrictions (see page 11). Alternatively the fund can be converted into additional *Scheme* pension using the conversion terms set by the Trustees on the advice of the *Scheme's* Actuary. Alternatively, you may purchase additional pension from an external provider.

If you do not wish to take your AVCs at the same time as your *Scheme* pension, you must apply to the Trustees in writing before your *Scheme* pension comes into payment.

How your benefits will be paid to you

The lump sum is paid direct to either your bank or building society account.

Pensions are paid in advance on the first working day of every month direct to your bank or building society account. Pensions are treated as earned income for tax purposes but are not subject to National Insurance deductions. Any tax that is due is taken off before the pension is paid.

Pension increases

Your pension will increase annually in line with the increase in the Retail Prices Index (RPI). A proportional increase will be paid in the first year of retirement. Any transferred in GMP element will be increased in accordance with the legislation – see the contracting out section below.

Example

You retire in mid October with an annual pension of £7,500. The following April, the increase in RPI is 3.5%. As you retired exactly halfway through the relevant 12 month period, the pension is increased proportionately (in this case by half of the total increase i.e. 1.75%). Therefore, your annual pension becomes £7,631.25 after six months.

During the second year, the increase in the RPI is 4.2%. Therefore your annual pension becomes £7,951.76 a year later.

Contracting out

When you leave *Pensionable Service* for any reason, the total benefit from the *Scheme* and the State will be at least equal to the earnings related pension you would have earned in respect of transferred in *Pensionable Service* attributable to service prior to 6 April 1997 had you not been contracted out. This minimum level of benefit which the *Scheme* has to provide on behalf of the State is known as the Guaranteed Minimum Pension (GMP).

A number of restrictions apply to the GMP. In particular, it is not payable before *State Retirement Age* and no part of it can be exchanged for a cash sum. Provision of a GMP may restrict your options on early retirement as the reduced pension must be sufficient to provide your GMP.

When you reach *State Retirement Age*, the basic State Pension will become payable in addition to your *Classic* pension, as long as you have paid enough National Insurance contributions.

Part of the pension increases relating to any GMP is paid with your State Pension.

There is more information on the State benefits on page 12 of this booklet.

Death benefits

As well as a lump sum death benefit, pensions may be payable to your *Spouse* and *Pensionable Children* on your death. The death benefits that are payable when you die depend on whether you are still working for the *Company*, are retired or have left the *Company* with deferred benefits.

Death in service

If you die while still in *Pensionable Service* and making *Basic Contributions*, the lump sum death benefit payable is equal to three times your *Pensionable Salary* at the date of your death.

Example

Your *Pensionable Salary* is £20,000.

The lump sum death benefit will be £20,000 x 3 = £60,000.

A pension is paid to your *Spouse* equal to 50% of the pension that you would have received if you had retired on ill-health retirement terms immediately before your death.

Death after you retire

If you die before reaching age 75 and within two years of retiring, a lump sum death benefit will be payable. This is known as the 'Two Year Guarantee'.

The lump sum death benefit is equal to the difference (if any) between two times your annual pension on the date you died (the 'ceiling benefit') and the total pension you have already received.

Example

Your annual pension is £7,500.

You die 11 months after retirement. The lump sum death benefit is calculated in two parts. The 'ceiling benefit' is worked out first and the pension you have already received is taken from this.

'Ceiling benefit': $2 \times £7,500 = £15,000$

Less the benefits you have already received: £6,875
(11 months' pension)

Two Year Guarantee lump sum to pay: £15,000 - £6,875 = £8,125

A pension is also paid to your *Spouse* equal to 50% of your pension at the date of your death.

If a pension has been reduced for early payment, the amount of the pension payable to your *Spouse* will be no less than the 'Limited Spouse's Pension' (see page 9), except where the pension is not payable to a *Spouse* or the marriage took place after your date of retirement or where your *Spouse* is living together as husband and wife with another person to whom he or she is not married.

Death in service after Normal Retirement Date (whilst not paying contributions to the Scheme)

The lump sum death benefit is equal to the sum of the pension instalments that would have been paid to you for two years if you had retired the day before you died (disregarding annual pension increases).

A pension is also paid to your *Spouse* equal to 50% of the pension you would have received if you had retired immediately before your death without giving up part of your pension for a lump sum but including increases between the date you left *Pensionable Service* and the date of your death.

Death in deferment

If you die after leaving *Pensionable Service* and are entitled to a deferred pension (see page 10), a lump sum death benefit is payable equal to the total *Basic Contributions* that you paid to the *Scheme* plus, if you transferred your *PCSPS* benefits to the *Scheme*, your total contributions to the *PCSPS*, without interest.

A pension is also paid to your *Spouse* of 50% of your deferred pension including annual increases up to the day you died.

Payment of lump sum death benefits

The lump sum death benefit will be paid to, or for the benefit of, your *Dependant(s)*, relatives or nominees, at the Trustees' discretion. This generally enables payment to be made quickly and normally without liability to Inheritance Tax.

Expression of Wish Form

You can help the Trustees decide who will receive the lump sum benefits payable on your death by completing an Expression of Wish Form. The Trustees will consider your wishes but are not legally bound by them.

Please note that the Trustees will not pay any benefits to charities, societies or clubs.

You can obtain an Expression of Wish Form from the Pensions Service Centre. The completed form should be returned to the Pensions Service Centre. You should complete a new Expression of Wish Form if your wishes or circumstances change.

Please note that this form can only be considered by the Trustees if it is held by the Pensions Service Centre, so forms submitted to the *PCSPS* while you were a member of that scheme will not be taken into account.

Important note

At the time of a divorce or dissolution of a Civil Partnership, a court may order that when a *Scheme* member (or a previous member) dies, all or part of the death benefit must be paid to the ex-spouse. If this is the case, any balance will be paid to the person you nominated or to your personal representative if there is no valid nomination.

Children's pensions

Children's pensions will be paid if you die leaving *Pensionable Children* and no pension is payable to a *Spouse*. The children's pension will be paid to one or more of the *Pensionable Children* or used for their benefit in such shares as the Trustees decide. The children's pension will stop when there are no remaining *Pensionable Children*.

The level of the pension paid depends on the number of *Pensionable Children*, but will total no more than 50% of your pension.

Other Dependants' pensions

The Trustees may, at their discretion pay a pension to a *Dependant* (or apportion between *Dependants*), if you die leaving one or more *Dependants* and no pension is payable to a *Spouse* or *Pensionable Children*.

If a *Dependant's* pension is paid to a person who is under the age of 18 at the date of your death (or 23 if in full time education or vocational training), it will usually only continue until age 18 (or age 23 if in full time education or vocational training).

The Trustees may review the payment of a *Dependant's* pension and reserve the right to reduce, suspend or terminate the pension if, in their view, the circumstances of the *Dependant* has changed.

Payment of Spouse's pension

Payment of the *Spouse's* pension will commence on the first day of the month following the date of death.

If your *Spouse* is more than 10 years younger than you, the *Spouse's* pension will be reduced by 2.5% for each year of age difference greater than 10, plus an additional proportion for each additional complete month.

Any benefits in respect of a GMP must always be paid to a *Spouse*.

The *Spouse's* pension is payable for life and will not cease on remarriage.

Contracting out

If you die after your pension starts, the *Spouse's* pension will never be less than the 'Limited Spouse's Pension'. This is approximately half the member's GMP for a widow and half the member's GMP in respect of *Pensionable Service* after 5 April 1988 for a widower.

Leaving or opting out

If you leave *Pensionable Service* or opt out of the *Scheme* before you retire, you have a choice of options for your benefits. The options available are dependent on your *Qualifying Service* within the *Scheme*.

If you have three months' or less Qualifying Service

You will be entitled to a refund of your total contributions (including any *AVCs*) to the *Scheme*, less tax and any amount in respect of reinstatement into *S2P*.

If you have more than three months' but less than two years' Qualifying Service

Your choice is:

- A refund of your total contributions (including any *AVCs*) to the *Scheme*, less tax and an amount in respect of reinstatement into *S2P*; or
- A transfer out of your *Classic* pension rights.

If you have two or more years' Qualifying Service

Your choice is:

- Deferred benefits within *Classic*; or
- A transfer out of your *Classic* pension rights.

Your deferred benefits

Your deferred pension and lump sum will be calculated in the same way as your pension at *Normal Retirement Date* (see page 6), but based on *Final Pensionable Salary* and *Pensionable Service* on the date you leave *Pensionable Service*.

Your pension and lump sum will then be increased each year as follows:

- Any *GMP* entitlement you have will be subject to fixed rate revaluation over the period to *State Retirement Age* (and if not put into payment then, will be increased further as required by law).
- The balance of your deferred pension will increase in line with statutory increases up to a maximum of 5% per year compound over your period of deferment.

Certificate of Deferred Benefits

When you leave *Pensionable Service*, you will be given a Certificate of Deferred Benefits and it is important that you keep this safe. It is also important that you keep the Pensions Service Centre informed of any change of address to ensure that you can be traced when your benefits become due.

Early payment of your deferred pension

Your preserved benefits can be paid before *Normal Retirement Date* if you have reached the *Minimum Pension Age* and you apply for an immediate payment of your preserved benefits.

Your pension will be calculated as shown on page 6 and will be reduced by an early retirement factor to account for the extra years over which your pension will be paid. The early retirement factors are agreed between the *Company* and the Trustees on advice from the *Scheme* Actuary. They are reviewed periodically and may change from time to time.

In the event of your death the *Scheme* will pay benefits to your *Dependants* (see page 9).

Late payment of your deferred pension

If the Trustees agree, you may be able to elect to receive your benefits starting later than your *Normal Retirement Date* but not later than your 75th birthday. Your benefits will increase between *Normal Retirement Date* and the date that you actually retire by a factor determined by the Trustees and the *Company* following the advice of the *Scheme* Actuary.

Transferring out your Classic pension rights

If you leave *Pensionable Service* at least one year before *Normal Retirement Date*, you can ask for a transfer payment to be made to your new employer's pension scheme or to another registered pension arrangement, for example, a registered personal pension plan. The transfer payment will be equal to the value of your benefits (including death benefits but excluding any allowances for discretionary benefits).

Having left *Pensionable Service* you may request the Trustees to provide you with a statement of entitlement of the cash equivalent of your benefits. You should receive this statement within three months of your written request. The amount shown on the statement will be guaranteed for only three months.

If you have at least three months' but less than two years' *Qualifying Service* when you leave, you can choose to take a transfer as above instead of a refund of your contributions. You have three months after leaving *Pensionable Service* to choose this option and the transfer must be completed within six months of leaving service.

More information regarding transferring your benefits is available from the Pensions Service Centre, but please note that they cannot give specific advice on individual cases.

HM Revenue & Customs

A registered scheme

The BAE Systems Pension Scheme is a registered scheme. This means that certain tax concessions apply subject to certain restrictions.

The tax concessions currently in place are:

- Full income tax relief on any contributions you make to the *Scheme*, including *Additional Voluntary Contributions (AVCs)*, although some restrictions may apply to high earners.
- Tax free cash sums may be payable on retirement and death.
- All pensions are treated as earned income and are taxed under the PAYE system.
- Tax advantages for the *Scheme* investments in respect of certain income and capital gains from investments.

Restrictions

The tax concessions are, in effect, clawed back if certain restrictions are breached. There are some restrictions that apply although the great majority of members are unlikely to be affected by them.

The Lifetime Allowance

The value of benefits in registered schemes that you may accumulate in a lifetime must not exceed the Lifetime Allowance. For the 2010/2011 tax year, the amount of the Lifetime Allowance is £1.8 million. This is broadly equivalent to a pension of about £90,000 a year. This Allowance will remain at this level for the next five years after which time it may be reviewed by the Government. If you do manage to accumulate pensions valued at more than this amount, the excess will be taxed at an effective rate of 55% if it is paid as a lump sum.

The Annual Allowance

Any AVCs paid in any tax year plus the increase in value in the pension you earn during the same year must not, when added to contributions or benefits earned in any other registered schemes, exceed 100% of your earnings with an upper limit of £255,000 for the tax year 2010/2011, otherwise you will be taxed 40% on the excess. This Allowance will remain at that level for the next five years, after which time it may be reviewed by the Government.

Tax free cash

In addition to your automatic lump sum benefit, the *Scheme* allows you to take part of your pension as a tax free cash sum at retirement. The overall maximum is 25% of the value of your pension benefits (but cannot exceed 25% of the available Lifetime Allowance).

If you think you may be affected by any of the restrictions set out above or if you want further details, please contact the Pensions Service Centre or consult an Independent Financial Adviser (see page 13).

General information

Management of the BAE Systems Pension Scheme

The BAE Systems Pension Scheme is established under a trust administered by a corporate trustee, BAE Systems Pension Funds Trustees Limited, which has its own Board of Directors (known as the Trustees).

The Board comprises 14 Trustees; seven are appointed by the *Company*, six are elected by the Central Pensions Consultative Committee (CPCC) and one is elected by the Pensioners Consultative Committee (JPC). The Trustees are responsible for supervising the correct operation of the *Scheme* through its managers, with the assistance, where appropriate, of other professional advisers. Benefits under the *Scheme* are provided from a fund of investments (and not allocated to individual members), which is professionally managed on behalf of the Trustees.

Maximum Scheme Benefits

The benefits payable by the *Scheme* are subject to the *Scheme Maximum*. Under the *Scheme Maximum*, your benefits, excluding *Additional Voluntary Contributions*, must not exceed 2/3rds of your final earnings. These earnings can include taxable benefits, such as overtime or shift payments and may therefore be greater than your *Final Pensionable Salary*. Your final earnings may, however, be limited to the *Scheme Cap*.

The State Pension Scheme and contracting out

The State Pension Scheme has two tiers: a flat rate basic pension tier and an earnings related pension tier (the S2P). As a member of the *Scheme*, you are 'contracted out' of the S2P.

As a result of this, both you and the *Company* pay reduced rate National Insurance contributions.

Being contracted out does not affect your basic State Pension in any way. Your S2P for any transferred in contracted out service up to 5 April 1997 is reduced by your Guaranteed Minimum Pension (GMP) (see page 7). No S2P is earned after that date. Since 6 April 1997, the *Scheme* must pass a scheme quality test. The *Scheme* Actuary has to confirm that *Classic* has passed the new test every three years.

Information on your State Pension is given on your annual benefit statement unless you inform the Pensions Service Centre that you do not want this information included.

For further information on your State entitlement you can contact:

State Pension Forecasting Team
Future Pension Centre
The Pension Service
Tyneview Park
Whitley Road
Newcastle upon Tyne
NE98 1BA

Telephone: 0845 3000 168

Pensions Consultative Committees

A consultative process exists within the BAE Systems Pension Scheme to promote a good understanding of pension matters.

The Pensions Consultative Committees are made up of Pensions Representatives who are elected by the membership to represent the pension interests of all *Scheme* members. There are consultative committees for the North and South areas, a central committee for active and deferred members (the CPCC) and another central committee which represents pensioners (the JPC).

The functions of the consultative committees are to:

- Represent the views of *Scheme* members in consultations with the *Company* on matters relating to the *Scheme*;
- Assist the Pensions Service Centre and the Trustees with the communication of information to members of the *Scheme*; and
- Nominate six representatives from the CPCC and one from the JPC for appointment to the Board of Trustees as Member Nominated Trustees.

Contact details for your local Pensions Representative are available on the pensions website or can be obtained from the Pensions Service Centre.

Transferring benefits from other schemes

If you were a member of a previous employer's scheme or have a personal pension, it may be possible to arrange for a transfer payment to be made to the *Scheme*. If you wish to consider this option you should contact the Pensions Service Centre for more details.

AVC transfers

Members can choose to transfer the value of their AVCs out, even while they remain in active service. These arrangements are not a statutory requirement, but have been introduced to offer greater flexibility to members in their retirement planning. Members can transfer to any registered external pension arrangement, including a SIPP (a self invested pension plan). If you exercise this option no further AVCs will be allowed in the future to the *Scheme*.

If you are interested in pursuing this option please contact the Pensions Service Centre for further information. You are urged to obtain independent financial advice before deciding to exercise this option.



Divorce

Divorce proceedings or dissolution of a Civil Partnership may result in the issue of a Pensions Sharing Order by the Court. Pensions Sharing is not mandatory but it is available as an alternative to pensions earmarking or the offsetting of pensions against other matrimonial assets.

Financial advice

The *Company*, its employees and the Trustees are not “authorised” under the Financial Services and Markets Act 2000. This means that they cannot give investment advice or any advice regarding your membership of the *Scheme*. The information in this booklet is intended to help you make your own decision. However, if you are in any doubt, you should consult an Independent Financial Adviser who may charge a fee for this service.

To find a local Independent Financial Adviser visit www.unbiased.co.uk.

Assignment of benefits

You must not attempt to assign your benefits to obtain cash payments or as security for loans. Under the *Scheme* Rules, there could be no legal claim on the *Scheme* by anyone other than the person entitled to the benefits under the *Scheme* Rules. Your benefits would cease to be payable and would come under the control of the Trustees for payment at their discretion.

Amendments to the Scheme

The *Company* with the consent of the Trustees, may, by deed, amend the *Scheme* at any time. You will be given written notice if your benefits or rights under the *Scheme* are materially affected by such amendments.

The *Company* intends to maintain the *Scheme* for the future, but in the unlikely event of it being discontinued, the Trustees would use the assets of the *Scheme* to provide benefits for the members in accordance with the *Scheme* Rules and applicable legislation. Increased or additional benefits may be provided from the *Scheme* at the discretion of the *Company*, subject to the *Company* paying any additional contributions that the Trustees may require after taking actuarial advice.

Internal Dispute Resolution (IDR)

If you have a query about the *Scheme*, the Pensions Service Centre will normally be able to resolve it. However, should you be dissatisfied with the response you receive, the Trustees have put in place a formal Internal Dispute Resolution (IDR) procedure for resolving complaints or disputes.

The procedure provides a formal system for lodging a complaint, to which a response must normally be made within two months. You may then appeal to the Trustees and this second stage must normally also be dealt with within two months. You may obtain a copy of the full formal IDR procedure from:

**The Pensions Director
BAE Systems plc
PO Box 87
York House
Farnborough Aerospace Centre
Farnborough
Hampshire
GU14 6YU**

If you are dissatisfied with the outcome of the IDR process, the external organisations detailed below are available to investigate complaints.

TPAS (The Pensions Advisory Service) and the Pensions Ombudsman

TPAS is an independent voluntary organisation with a network of local pension experts. TPAS is available to assist scheme members and beneficiaries with any pension query they may have or any difficulty which they have failed to resolve with the scheme trustees or administrators. TPAS may refer complaints to the Pensions Ombudsman.

You may also refer a complaint to the Pensions Ombudsman. The Pensions Ombudsman (appointed under Section 145(2) of the Pension Schemes Act 1993) may investigate and make decisions about any complaint of maladministration and dispute of fact or law in relation to an Occupational Pension Scheme where the person makes a complaint in accordance with the Act. The Pensions Ombudsman will generally expect you to have used the IDR procedures and TPAS before he will investigate any complaint himself.

There is no charge for these services. TPAS and the Pensions Ombudsman may be contacted at:

**11 Belgrave Road
London
SW1V 1RB**

Telephone: **0845 6012 923** (TPAS)
0207 6302 200 (Pensions Ombudsman)

www.pensionsadvisoryservice.org.uk

www.pensions-ombudsman.org.uk



The Pensions Regulator

The Pensions Regulator is the regulator of work based pension schemes in the UK. Created under the Pensions Act 2004, its aims include protecting members' benefits and promoting good administration. It also educates, informs and works with others to raise standards. The Pensions Regulator is able to intervene in the running of schemes where trustees, employers or professional advisers have failed in their duties. The Pensions Regulator can be contacted at:

The Pensions Regulator
Napier House
Trafalgar Place
Brighton
BN1 4DW

Telephone: 0870 6063636

e-mail: customersupport@thepensionsregulator.gov.uk

www.thepensionsregulator.gov.uk

Pension Tracing Service

Information about the *Scheme* (including the address at which the Trustees may be contacted) has been given to the Department for Work and Pensions. The Department acts as a central tracing agency to help individuals keep track of their previous pension arrangements. If you have difficulty finding where pensions you have earned in the past are located the service can be accessed by contacting the Pension Tracing Service at:

The Pension Service
Tyneview Park
Whitley Road
Newcastle upon Tyne
NE98 1BA

Telephone: 0845 6002 537

www.direct.gov.uk (search the site for 'Pension Tracing Service')

Pension Protection Fund

Introduced by the Pensions Act 2004, this Fund has been set up to protect pension benefits for members of company defined benefit pension schemes where the employer has become insolvent and the scheme is unable to meet its obligations. It is funded by a substantial levy on all defined benefit schemes and should help provide peace of mind for many people saving for retirement.

Data Protection Act

The Trustees have notified the Data Protection Commissioner that they process personal data for purposes connected with their trusteeship of the *Scheme*. In order to administer the *Scheme*, data about you and your relatives and *Dependants* will be processed by the Trustees and the *Scheme's* administrators and advisers. The data may be disclosed (even outside the European Economic Area) to insurance companies, the *Company*, any possible purchaser of the *Company* or its business and any trustees, administrators or advisers of any other pension arrangement where a transfer of your pension rights is being made or considered.

Further information

Each year you will receive a benefit statement. You are entitled to request an estimate of the cash equivalent of your benefits (including death benefits, but excluding any allowance for discretionary benefits) once in any 12 month period. You should receive this statement within three months of your written request. The amount on the statement will not be guaranteed.

The Trustees prepare a report of the *Scheme* for each *Scheme Year* which includes the *Scheme's* audited accounts, a statement from the Actuary and a review of the year from the investment managers. You will receive a summary of this information. You can apply to the address below to see the full report.

If you have any questions about the content of this booklet, about your benefit entitlement or about pensions in general, visit www.baesystemspensions.com.

You can also ring the Pensions helpline on 01252 383810 or e-mail farnborough.pensions@xchanging.com.

Alternatively write to:

Pensions Service Centre
PO Box 87
Hertford House
Farnborough Aerospace Centre
Farnborough
Hampshire
GU14 6YU

