

BAE SYSTEMS PENSIONS  
BECAUSE PLANNING IS  
PART OF THE JOURNEY

# A GUIDE TO YOUR BENEFITS

APRIL 2012

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**BAE SYSTEMS**

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This Guide is intended as a source of information on the provisions of the *Scheme*. It is subject to changes in the future as required by HM Revenue & Customs and to the Rules of the *Scheme* that set out the legal basis for the Trustees' administration of the *Scheme* and which override any provisions of this booklet with which they are inconsistent. Copies of the Rules are available from the *Pensions Service Centre* and the website when accessed from *Company* locations.

## BECAUSE PLANNING IS PART OF THE JOURNEY

The BAE Systems Pension 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 Guide will provide you with information about the *Scheme*, therefore it is important that you take time to read it and understand fully the benefits available to you. The *Scheme* is the BAE Systems Pension Scheme Levels 125, 167, 187 and 200. Level 100+ is dealt with in a separate booklet.

**This Guide features certain terms and expressions which have specific meanings within the *Scheme*. These are shown in italics and the definitions will be revealed if you use your mouse to hover over any of these.**

The BAE Systems Pension Scheme is a flexible scheme, allowing you to choose the level of your contributions appropriate to your changing needs. You have a choice of four levels which are explained on [page 8 of this booklet](#).

The *Scheme* also provides valuable benefits if you retire on ill-health grounds and to your dependants if you die.

Members of the BAE Systems Pension Scheme are contracted out of the State Second Pension (S2P), which was formerly known as the State Earnings Related Pension Scheme (SERPS), the second tier of the State Pension. This means that the *Scheme* replaces some of the pension that the second tier of the State Pension would have paid to you at retirement. Your Basic State Pension (the first tier) remains unaffected and you will remain eligible to receive it in addition to your pension from the BAE Systems Pension Scheme.

# SUMMARY OF SCHEME BENEFITS

## YOUR BENEFITS IF YOU LEAVE

**Deferred benefits**

OR

**A transfer to another scheme**

## YOUR BENEFITS WHEN YOU RETIRE

**A pension for life**

OR

**A reduced pension for life plus a tax free cash sum**

## YOUR DEATH BENEFITS

**In Service**

= Spouse's pension payable for life

+ Lump sum

**In retirement**

= Spouse's pension payable for life

+ If within five years of retirement, balance of pension paid as lump sum

**In deferment**

= Spouse's pension payable for life

+ Lump sum



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# MEMBERSHIP OF THE SCHEME

Since 5 April 2003 the *Scheme* has no longer been offered to new members, although some employees at that date had a right to join later than this.

Contributing members continue to earn benefits from the *Scheme* in accordance with this booklet and the Rules in force from time to time.

## OPTING OUT

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

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

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 who may charge a fee for this service. For more information, visit [www.unbiased.co.uk](http://www.unbiased.co.uk).

If you decide to opt out:

- You will lose the benefit of the *Company's* commitment to meet the balance of the cost of future pension provision under the *Scheme*.
- You will have to pay higher National Insurance contributions.
- 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 protection provided by the *Scheme* to you and your family in the event of your early retirement from the *Company* on account of ill-health.
- You will lose the opportunity to earn a pension linked to your future earnings and service.

If you subsequently change your mind please note that re-entry into the *Scheme* is not allowed.



“THE SCHEME PROVIDES BENEFITS FOR YOU AND YOUR FAMILY.”



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# MAKING CONTRIBUTIONS

## YOUR CONTRIBUTIONS

Your rate of contributions is determined according to the *Base Pension Level* you choose:

### Level 125

7.29% of Contribution Earnings

### Level 167

9.29% of Contribution Earnings

### Level 187

11.29% of Contribution Earnings\*

### Level 200

12.59% of Contribution Earnings\*

\* Under the *Scheme Maximum* overall expected benefits (excluding those arising from *Additional Voluntary Contributions*) must not exceed 2/3rds of your final earnings (see note on [page 7](#)). You will not be allowed to change to level 187 or level 200 if that would lead to your benefits at your *Normal Retirement Date* exceeding the *Scheme Maximum*.

## CHANGING YOUR BASE PENSION LEVEL

The *Scheme* is flexible and allows you to change your level as your needs change. You have the option to change it on an annual basis effective from 6 April subject to the *Scheme Maximum*. To do this you must fill in an Application to Change Levels form, which is available from the *Pensions Service Centre* and [www.baesystemspensions.com](http://www.baesystemspensions.com), and return it before a specified date in mid-February of any year.

## 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. Full details of the SMART Pensions Arrangement can be found in a separate [SMART Pensions booklet](#).

## INCOME TAX RELIEF

Your contributions are deducted from your pay before tax is calculated; therefore, you automatically receive income tax relief at your highest rate, although some restrictions apply to high earners.

## COMPANY CONTRIBUTIONS

The rate of *Company* contributions required is determined by the Trustees in consultation with the *Company* and with advice from the *Scheme* Actuary, who carries out regular reviews of the financial position of the *Scheme*.

## NATIONAL INSURANCE REBATES

As the *Scheme* is contracted out of S2P, formerly known as SERPS, you make a saving in National Insurance contributions. In addition, the *Scheme* receives a National Insurance rebate from the Department for Work and Pensions as a result of you being contracted out.

“THE SCHEME IS FLEXIBLE AND ALLOWS YOU TO CHANGE YOUR LEVEL AS YOUR NEEDS CHANGE.”



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## MAKING CONTRIBUTIONS CONTINUED

### INVESTMENT RETURNS

These are the income and capital gains (or losses) obtained from the investments held by the Trustees of the *Scheme*. The investment returns achieved by the *Scheme* qualify for certain tax concessions.

### 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 for members in accordance with the Rules of the *Scheme*.

### 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* although, please note that contracted-out benefits cannot be transferred in. The value of any transferred-in benefits will be paid to Standard Life and the choice of investment funds is set out in the **AVC Guide**. If you wish to consider this option you should contact the *Pensions Service Centre* for more details.

### 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.

If you are absent because of sickness or injury and you stop paying contributions, we will continue to treat you 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 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 service unless you return to work at the end of that period of leave. In this case, your periods of service before and after that leave will be treated as continuous but will exclude the period of parental leave itself. A period of parental leave will only be treated as service if, on your return to work, you pay the shortfall of contributions in respect of that period as if you had been working normally.

### PAYING ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

Under the terms of the *Scheme*, you may increase your benefits by paying *Additional Voluntary Contributions* (AVCs). Contributions are deducted from pay before tax is calculated so you automatically receive tax relief at your highest rate although some restrictions apply to high earners. AVCs might be of particular interest to those members who join the *Scheme* later in their working life, or who are considering the possibility of retiring early. A separate booklet giving more details about AVCs is available from **the website** or from the *Pensions Service Centre*.



# HOW TO CALCULATE YOUR PENSION

Your *Individual Pension Percentage* builds up each *Scheme Year* up to the date you leave and will vary from year to year according to the level of contributions you choose and your earnings during that year. Your pension at retirement will therefore reflect your earnings pattern over the whole of your *Scheme* membership. An example of how it is calculated is shown on the right:

## Note

Your *Contribution Earnings*, *Basic Salary* and *Final Basic Salary* in the calculations above will be restricted to the *Scheme Cap* if appropriate. 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. Your final earnings can include other taxable benefits, such as overtime or shift payments and may therefore be greater than your *Final Basic Salary*.

## STEP 1

### CALCULATE YOUR *INDIVIDUAL PENSION PERCENTAGE* FOR EACH *SCHEME YEAR*

#### Annual *Individual Pension Percentage*

=

**Contribution Earnings in the *Scheme Year***

÷

**Basic Salary at start of *Scheme Year***

×

#### **Base Pension Level**

Level 125  
Base Pension Level of 1.25% a year

Level 167  
Base Pension Level of 1.67% a year

Level 187  
Base Pension Level of 1.87% a year

Level 200  
Base Pension Level of 2.00% a year

## STEP 2

### CALCULATE YOUR *TOTAL PENSION PERCENTAGE*

#### Total Pension Percentage

=

**The sum of your Annual individual Pension Percentages for each *Scheme Year* you have completed**

## STEP 3

### CALCULATE YOUR PENSION

#### Earnings Related Pension

=

#### **Pension A**

Total Pension Percentage for service to 5 April 2006

×

Final Basic Salary (12 months average)

+

#### **Pension B**

Total Pension Percentage for service from 6 April 2006

×

Final Basic Salary (36 months average)

×

Longevity Adjustment Factor\*

\* Pension B is adjusted by the *Longevity Adjustment Factor* which will vary from time to time and will be calculated at the same time as your pension.


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## HOW TO CALCULATE YOUR PENSION CONTINUED

### VALUE FOR MONEY GUARANTEE

The *Scheme* gives you the security of a pension which is linked to your earnings record over your *Pensionable Service*. However, depending on such factors as your age, length of service and the *Scheme's* investment performance, you may receive a bigger pension through your *Individual Pension Account* – this is called your 'Value for Money Guarantee'.

You pay contributions as described on [page 5](#), but your *Individual Pension Account* is calculated using only part of these contributions. This part is referred to as your basic contributions. Your basic contributions are determined according to the *Base Pension Level* you choose:

#### Level 125

3% of Contribution Earnings

#### Level 167

5% of Contribution Earnings

#### Level 187

7% of Contribution Earnings

#### Level 200

8.3% of Contribution Earnings

### Individual Pension Account

=

#### Your basic contributions from 6 April last year

+ an additional amount of 3% of your *Contribution Earnings* during the year

+

#### Balance as at 6 April last year

× revaluation as determined by the Trustees after taking actuarial advice and reflecting the investment return (positive or negative) achieved.

When you retire, the value of your *Individual Pension Account* will be converted to pension using the *Pension Rate* and compared with your *Earnings Related Pension*. Your pension will be the higher of the two and both are subject to HM Revenue & Customs restrictions (see [page 17](#)) and the *Scheme Maximum*.



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## HOW TO CALCULATE YOUR PENSION CONTINUED

### BENEFITS FROM ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

These can normally be taken as a tax free cash sum at retirement. Alternatively the fund can be converted into pension using a *Pension Rate* set by the Trustees on the advice of the *Scheme Actuary* or, you may purchase an annuity from an external provider.

### CONTRACTED OUT UNDERPIN

The Contracted Out Underpin relates to the basis on which the *Scheme* is contracted out of the S2P (State Second Pension), formerly known as SERPS (State Earnings Related Pension Scheme).

### GUARANTEED MINIMUM PENSION

When you leave the *Scheme* 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 service up to 5 April 1997 had you not been contracted out. The 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 *GMP Age*. Once in payment, the *Scheme* guarantees to increase any GMP earned since 6 April 1988 by 3% a year, or the rise in the Consumer Prices Index (CPI) if less. The S2P is calculated and given annual CPI increases as if you had not been contracted out and the GMP from the *Scheme* (including any increases) is then deducted. In this way, the State provides extra inflation-linked increases to your GMP. However, the State will not increase your GMP if by doing so it would exceed the S2P you would have received had you not been contracted out.

### PROTECTED RIGHTS

With effect from 6 April 1997, GMPs ceased to build up. For service after this date until 6 April 2012, the *Scheme* was contracted out on a money purchase basis. This simply meant that there is an extra underpin in operation for service during this period. This is separate from the 'Value for Money Guarantee'.

This underpin is called your Protected Rights fund and comprises:

- The saving in National Insurance contributions (made by you and the *Company*) as a result of you being contracted out of S2P.
- An additional National Insurance rebate from the Department for Work and Pensions, dependent on your age.
- The investment returns made on these amounts.

From 6 April 2012 (and from before this date for a small group of members), the *Scheme* is contracted out on a 'Reference Test' basis. Under the Reference *Scheme* Test, the *Scheme Actuary* has confirmed that the *Scheme* provides benefits which are broadly equivalent to, or better than, those under a Reference *Scheme* described in legislation. The Reference *Scheme* benefits are designed to compare favourably with the pension provided by SERPS and S2P; but there is no guarantee that each member will receive better benefits, as the *Scheme Actuary* has to look at the benefits of the *Scheme* membership as a whole, not at each individual. Members' benefits and spouses' benefits are tested separately.



“THE SCHEME GIVES YOU SECURITY OF A PENSION WHICH IS LINKED TO YOUR EARNINGS RECORD OVER YOUR PENSIONABLE SERVICE.”



# WHEN YOU REACH RETIREMENT

## RETIRING FROM PENSIONABLE SERVICE AT NORMAL RETIREMENT DATE

Your pension will be calculated as shown on pages [7](#) to [9](#). If you transferred benefits into the *Scheme* from a previous pension arrangement, you will receive an additional yearly amount on top of your pension earned whilst in the *Scheme*.

### Pension at Normal Retirement Date

=

**Scheme Pension**

+

**Benefits transferred in from a previous pension scheme (if any)**

+

**AVC benefits converted into a pension (if any)**

## RETIRING EARLY FROM PENSIONABLE SERVICE EXCEPT ON MEDICAL GROUNDS

You may be permitted to retire at any time after age 55 and receive an immediate pension, subject to the consent of the Trustees and the *Company*. The current policy of the Trustees and the *Company* is normally not to withhold consent at or after age 60.

Your pension will be reduced by an early retirement factor to account for the extra years over which your pension will be paid. The early retirement reduction 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.

## ADDITIONAL DEATH BENEFIT

If you joined the *Scheme* before 1 October 1991, you may continue to be covered for a death benefit lump sum of 3 x *Annual Earnings* in the last *Scheme Year* before retirement up to your *Normal Retirement Date* (see [page 13](#)).

## STEPPED PENSION OPTION

If you retire before State Pension Age (except on medical grounds), you can even-out fluctuations in your retirement income by choosing a Stepped Pension Option with the consent of the Trustees. This allows you to receive an increased level of pension up to State Pension Age and a correspondingly reduced level afterwards.

### Note

If you retire from *Pensionable Service*, you must also leave the service of the *Company*.



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## WHEN YOU REACH RETIREMENT CONTINUED

### 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 and the *Company*.

There are two levels of benefits payable, depending upon the severity of your illness.

Chronic ill-health is defined as a physical or mental condition which, in the opinion of the Trustees, permanently prevents you from undertaking any regular work for the *Company* or any other employer.

Incapacity is defined as a physical or mental condition which, in the opinion of the Trustees, permanently prevents you from carrying out the primary duties of your occupation.

The basis of the calculation of the medical retirement pensions are illustrated in the following diagrams:

#### Chronic ill-health Pension

=

***Scheme Pension*. This will be calculated as shown on pages 7 to 9.**

+

**If you have completed less than 10 years *Pensionable Service*: 50% of your prospective pension\***

OR

**If you have completed 10 or more years *Pensionable Service*: 66.67% of your prospective pension\***

\* Your prospective pension will be based on the number of years from retirement to *Normal Retirement Date*, your *Final Basic Salary* at retirement and your prospective pension percentage as defined in the Rules based on 1.67% and will be adjusted by the *Longevity Adjustment Factor*.

#### Incapacity Pension

=

***Scheme Pension*. This will be calculated as shown on pages 7 to 9 and will be reduced by an early retirement factor unless the Trustees and the *Company* agree otherwise.**

#### Notes

If you are a member admitted on the basis of restricted terms, your pension payable on retirement due to chronic ill-health may be based on your pension earned to date only, with no account being taken of any prospective pension. If you are affected by restricted terms this will have been notified to you.

The Trustees have the power to reduce or suspend a chronic ill-health or incapacity pension if, in their opinion, this is justified by a subsequent change in your circumstances.

**“YOU MAY BE PERMITTED TO RETIRE AT ANY TIME AFTER AGE 55 AND RECEIVE AN IMMEDIATE PENSION, SUBJECT TO THE CONSENT OF THE TRUSTEES AND THE COMPANY.”**



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## WHEN YOU REACH RETIREMENT CONTINUED

### DEATH BENEFIT

If you retire on medical grounds, as described previously, after 1 December 2006, the death benefit lump sum payable if you die before your *Normal Retirement Date* will be 3 x *Annual Earnings* in the last *Scheme Year* before retirement. If the lump sum benefit payable under the five year guarantee (see [page 13](#)) would be greater, that will be paid instead.

### RETIRING FROM PENSIONABLE SERVICE AFTER NORMAL RETIREMENT DATE

If you continue contributing to the *Scheme*, your pension will be calculated as shown on [pages 7 to 9](#) at your actual retirement date, but with the *Longevity Adjustment Factor* applied as at *Normal Retirement Date*. You will continue to be covered for the *Scheme's* death in service benefits until you retire.

### HOW YOUR PENSION WILL BE PAID TO YOU

Your monthly pension will be paid in advance on the first working day of each calendar month direct to your bank or building society account. These pension payments are subject to tax under the PAYE system, using a tax code provided by HM Revenue & Customs.

### PENSION INCREASES

Your pension (excluding the GMP) will normally be increased on 1 May each year. Proportionate increases are given in the first *Scheme Year* of retirement to any pension beginning after 1 May.

The increases are calculated as follows:

#### PRE-GMP AGE

Your pension earned before 6 April 1997 will be increased annually by either 4% a year or, if less, in line with the cumulative increase in the Retail Prices Index (RPI) since the pension started.

Your pension earned on or after 6 April 1997 and up to 5 April 2006 will be increased annually by the rise in the RPI, subject to a maximum increase of 5% a year. Your pension earned on or after 6 April 2006 will be increased annually by the rise in the RPI, subject to a maximum increase of 2.5% a year.

The GMP is not increased before *GMP Age*.

#### POST-GMP AGE

Your pension earned before 6 April 1997 will be increased annually by either 4% a year or, if less, in line with the cumulative increase in the Retail Prices Index (RPI) since the pension started. Any GMP is protected against inflation partly by the *Scheme* and partly by the State. Further details are shown on [page 9](#).

Your pension earned on or after 6 April 1997 and up to 5 April 2006 will be increased annually by the rise in the RPI subject to a maximum increase of 5% a year.

Your pension earned on or after 6 April 2006 will be increased annually by the rise in the RPI subject to a maximum increase of 2.5% a year.

Additional increases to pensions in payment may be awarded if the *Company* requests the Trustees to do so. The *Company* will then need to pay any additional contributions which the Trustees consider prudent (after the Trustees have sought actuarial advice).

### OPTIONS ON RETIREMENT

#### TAX FREE CASH SUM

You will be able to exchange part of your pension for a tax free cash sum on retirement.

The amount of the cash sum depends on your circumstances but is typically about 25% of the total value of your pension, subject to the consent of the Trustees. The rates used to calculate the value of your pension are determined by the Trustees on advice from the *Scheme Actuary* and may change from time to time.

# DEATH BENEFITS

## DEATH IN SERVICE

If you die while still a contributing member, the following benefits will be paid:

**A lump sum death benefit equal to three times your *Annual Earnings* at your date of death.**

+

**A lump sum equal to the contributions paid by you into the *Scheme*.**

+

**A spouse's pension equal to the greater of:**

50%  
×  
*Total Pension Percentage*  
×  
*Final Basic Salary*

OR

20%  
×  
*Contribution Earnings* over the last complete *Scheme Year*.

## DEATH IN RETIREMENT

If you die while receiving a pension from the *Scheme* the following benefits will be paid:

### Your spouse's pension

This will be equal to 50% of your pension at your date of death, ignoring any reduction to take account of the fact that you chose to exchange part of your pension for a cash sum or the effect of choosing a Stepped Pension.

+

### The five year payment guarantee

If you die whilst receiving a pension from the *Scheme* within the first five years after your retirement, a lump sum equal to the unpaid balance of five years' pension payments (at the rate applicable at the date of death disregarding future increases) will be paid at the Trustees' discretion.

## ADDITIONAL DEATH BENEFIT

If you joined the *Scheme* before 1 October 1991, retire from active service before your *Normal Retirement Date* and do not commute the whole of your pension for a lump sum at retirement, you will be covered for an additional death benefit up to your *Normal Retirement Date* of 3 x *Annual Earnings* in the last *Scheme Year* before retirement.

### RESTRICTED TERMS

If you are a member admitted on the basis of restricted terms, the amount of lump sum death benefit may be restricted. If you are affected by restricted terms you will have been notified of this.



## DEATH BENEFITS CONTINUED

### DEATH WITH DEFERRED BENEFITS

If you die after leaving the *Scheme* and are entitled to a deferred pension (see [page 15](#)), the following payments will be made:

**Your spouse or civil partner will be paid a pension equal to 50% of your deferred pension which is attributable to *Pensionable Service* on and after 6 April 1997; and for service before 6 April 1997 (if any) your spouse or civil partner will be paid a pension at least equal to a spouse's GMP.**

+

**Lump sum equal to the greater of:**

The unpaid balance of five years' pension payments had you chosen the early payment option immediately before your death.

+

A refund equal to the contributions you made to the *Scheme*.

**“YOU CAN HELP THE TRUSTEES DECIDE WHO WILL RECEIVE THE LUMP SUM BENEFITS PAYABLE ON YOUR DEATH BY COMPLETING AN EXPRESSION OF WISH FORM.”**

### PAYMENT OF LUMP SUM DEATH BENEFITS

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

**Lump sum death benefits will be paid at the Trustees' discretion to:**

**Dependants**

OR

**Beneficiaries or nominees**

OR

**Relatives**

#### 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 [www.baesystemspensions.com](http://www.baesystemspensions.com). 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*.**

### PAYMENT OF SPOUSE'S, CIVIL PARTNER'S AND DEPENDANT'S PENSION

The pension is paid to your spouse or civil partner at the date of your death. The pension is payable for life and will commence on the first day of the month following the date of death.

In certain circumstances, the Trustees may, at their discretion, pay the pension to another person. However any benefits in respect of a Guaranteed Minimum Pension or pension resulting from a Protected Rights fund will still be paid to a spouse or civil partner.

If you had been married or in a civil partnership for less than six months, the Trustees have discretion to decide whether your spouse or civil partner should receive the pension.

The Trustees have discretion to reduce the spouse's pension if the marriage or civil partnership had broken down and you were no longer living together.



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# LEAVING THE SCHEME

If you leave the *Company* before you reach retirement, your membership of the *Scheme* will cease. You can also choose to cease your membership of the *Scheme* whilst you are still an employee of the *Company* by ‘opting out’ (see page 4).

You will be entitled to a deferred pension payable when you reach *Normal Retirement Date* or you may transfer its value to another pension arrangement.

## YOUR DEFERRED PENSION

Your deferred pension will initially be based on your *Total Pension Percentage* and *Final Basic Salary*, restricted to the *Scheme Cap* if appropriate, on the date you leave the *Scheme*. At your *Normal Retirement Date* the amount will be compared with the pension derived from your *Individual Pension Account* and whichever method produces the higher figure will apply (see page 8). You will also have the option to exchange part of your pension for a tax free cash sum when you reach retirement.

A Guaranteed Minimum Pension entitlement will be subject to fixed rate revaluation, currently 4.5% per tax year over the period to *GMP 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 the Consumer Prices Index (CPI) up to a maximum of 5% a year compound over your period of deferment for pension relating to service up to 6 April 2009 and 2.5% a year for service after 6 April 2009.

## Certificate of Deferred Benefits

When you leave the *Scheme*, 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.



“IF YOU LEAVE THE COMPANY BEFORE YOU REACH RETIREMENT, YOUR MEMBERSHIP OF THE SCHEME WILL CEASE.”



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## LEAVING THE SCHEME CONTINUED

### EARLY PAYMENT OF YOUR DEFERRED PENSION

#### Early payment option

Your deferred pension can be paid any time after the first day of the month following your 50th birthday. If you take your pension early it will be reduced to allow for the extra years over which your pension will be paid. The level of reduction will be agreed between the Trustees and the *Company*, who will be advised by the *Scheme Actuary*.

OR

#### Discretionary Option

The Trustees have the discretion to apply more favourable terms if you are able to satisfy the Trustees that due to your state of health, you are unable to resume any remunerative employment with any employer. You may apply for ill-health retirement at any time before your *Normal Retirement Date*.

### LATE PAYMENT OF YOUR DEFERRED PENSION

If the Trustees agree, you may be able to elect to receive the pension starting later than your *Normal Retirement Date* but not later than your 75th birthday. Your pension will increase between *Normal Retirement Date* and the date that you actually retire by a factor determined by the Trustees acting on the advice of the Actuary and with the *Longevity Adjustment Factor* applied as at *Normal Retirement Date*.

### TRANSFERRING OUT

As an alternative to leaving your deferred benefits in the *Scheme*, you may choose to take a transfer payment to either your new employer's scheme or to another pension arrangement. This can be requested at any time up to a year before your *Normal Retirement Date* and will be the cash equivalent of your benefits (including death benefits but excluding any allowances for discretionary benefits).

The amount of your transfer payment will never be less than the balance of your *Individual Pension Account*. This is your 'Value for Money Guarantee'.

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# 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 apply to high earners.
- Tax advantages for the *Scheme* investments in respect of certain income and capital gains from investments.
- 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.

## RESTRICTIONS

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

### THE LIFETIME ALLOWANCE

If the value of benefits in registered schemes that you accumulate in a lifetime exceeds the Lifetime Allowance, the excess benefits will be taxable at a special rate of tax. For the tax year 2012/13, the amount of the Lifetime Allowance is £1.5 million. This is broadly equivalent to a pension of about £75,000 a year.

## THE ANNUAL ALLOWANCE

If, in any tax year, your *AVCs*, plus the increase in value of the pension earned during the same year (when added to contributions or benefits earned in any other registered schemes) exceed 100% of your earnings or, if lower, £50,000 (for the tax year 2012/13) you will be taxed at your highest marginal rate on the excess. There are provisions for unused Annual Allowance from previous years to be used to offset potential tax liability.

### TAX FREE CASH

The *Scheme* allows you to take part of your pension as a tax free cash sum at retirement. The maximum is calculated at retirement but will be approximately 25% of the value of your pension benefits.

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*. Alternatively, you may wish to consult with an Independent Financial Adviser, who may charge a fee for this service. Please visit [www.unbiased.co.uk](http://www.unbiased.co.uk) for more details.



# GENERAL INFORMATION

## MANAGEMENT OF THE BAE SYSTEMS PENSION SCHEME

The BAE Systems Pension Scheme is established under a trust administered by a Trust Company, 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 Joint Pensioners 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.

## THE STATE PENSION SCHEME AND CONTRACTING OUT

The State scheme has two tiers: a flat-rate basic pension tier and an earnings related pension tier (the State Second Pension or S2P). As a member of the BAE Systems Pension Scheme, you are ‘contracted out’ of the S2P. Being contracted out does not affect your Basic State Pension in any way. However, your S2P pension for the period of your *Scheme* membership up to 5 April 1997 is reduced by your GMP (see page 9) and no S2P pension is earned after that date.

As a result of this, both you and the *Company* pay reduced rate National Insurance contributions. Information on your State Pension is normally 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

[www.direct.gov.uk](http://www.direct.gov.uk)

## 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 committees for the North and South areas, a central committee which represents 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*.
- 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 can be obtained from [www.baesystemspensions.com](http://www.baesystemspensions.com).

## GENERAL INFORMATION CONTINUED

### SWITCHING FROM THIS SECTION OF THE SCHEME TO LEVEL 100+

If you are currently a member of Level 125, 167, 187 or 200 you may, subject to *Company* and Trustees consent, switch to Level 100+ at any 6 April. Your pension percentage earned prior to joining Level 100+ will be applied to your *Final Basic Salary* in Level 100+ when calculating your retirement pension.

There is no option to switch from Level 100+ back to Levels 125, 167, 187 or 200.

It is strongly recommended that you seek independent financial advice if you are considering this option.

### 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. 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 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 guide 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.

[www.unbiased.co.uk](http://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 amendment(s).

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.

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.

## GENERAL INFORMATION CONTINUED

### 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 following external organisations 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 determine 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. 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 8349 144 (Pensions Ombudsman)

**[www.pensionsadvisoryservice.org.uk](http://www.pensionsadvisoryservice.org.uk)**

**[www.pensions-ombudsman.org.uk](http://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. 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**

**[www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)**

## GENERAL INFORMATION CONTINUED

### 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 the deferred benefit entitlements they have in previous employers' schemes. 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.thepensionservice.gov.uk](http://www.thepensionservice.gov.uk)**

### 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 in such schemes.

**[www.pensionprotectionfund.org.uk](http://www.pensionprotectionfund.org.uk)**

### DATA PROTECTION

The Trustees are registered with the Information Commissioners Office for the processing of your personal data for purposes connected with their trusteeship of the *Scheme*. In order to administer the *Scheme*, personal data about you and your relatives and dependants will be processed by the Trustees and the *Scheme's* administrators, which includes third parties who provide ancillary services such as printing and storing of your personal data, and advisers.

By joining the *Scheme* you consent that your personal and sensitive personal data may be processed, where required by law or under contract, to other third parties including, but not limited 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.

In certain circumstances it may be necessary to transfer your personal/sensitive personal data to third parties located outside of the European Economic Area. Should this occur the Trustees will ensure that this is done under contract with the necessary safeguards in place to guarantee you the same rights as you would be afforded within your own country of residence.

### FURTHER INFORMATION

Each year you will receive a benefit statement. Once in any 12 month period you are entitled to request an estimate of the cash equivalent of your benefits (including death benefits, but excluding any allowance for discretionary benefits), which can be transferred to another scheme. 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 require any further information on the *Scheme* or on pension matters in general, visit **[www.baesystemspensions.com](http://www.baesystemspensions.com)**.

You can also ring the Pensions helpline on 0845 180 1401 (or if calling from abroad +44 (0) 1293 591956) or e-mail **[farnborough.pensions@xafinity.com](mailto:farnborough.pensions@xafinity.com)**

Alternatively write to:

**Pensions Service Centre**  
**PO Box 1193**  
**Crawley**  
**West Sussex**  
**RH10 0FY**

# TECHNICAL TERMS

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

**Annual Earnings** are your Contribution Earnings for the last complete tax year, without the £1,800 deduction. This is subject to not exceeding the Scheme Cap.

**Base Pension Level** is either 1.25%, 1.67%, 1.87% or 2.00% and is the basis upon which your pension builds up each year. The rate, together with your Contribution Earnings and Basic Salary, determines the value of the Individual Pension Percentage you accrue each year.

**Basic Salary** is your annual rate of basic pay received from your employer. This is subject to not exceeding the Scheme Cap.

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

**Contribution Earnings** are your gross taxable earnings, excluding travel, any subsistence and other temporary allowances, such as bonuses, redundancy payments and the cash equivalents of benefits in kind received from the Company in any Scheme Year, less a fixed deduction equivalent to £1,800 a year. This is subject to not exceeding the Scheme Cap.

**Earnings Related Pension** is your entitlement to a pension based on your Total Pension Percentage and Final Basic Salary.

## Final Basic Salary

For service to 5 April 2006 – is your Basic Salary averaged over the 12 months ending on the last day of the calendar month in which you leave service or die (whichever occurs first). This is subject to not exceeding the Scheme Cap.

For service on or after 6 April 2006 – is your Basic Salary averaged over the 36 months ending on the last day of the calendar month in which you leave service or die (whichever occurs first). This is also subject to not exceeding the Scheme Cap.

**GMP Age** is currently 65 for men and 60 for women.

**Individual Pension Account** is the value derived from your basic contributions, plus a fixed annual addition of 3% of your Contribution Earnings. The balance of your account at the beginning of each Scheme Year is revalued at the end of that Scheme Year in line with the Scheme's investment return (whether positive or negative) over the calendar year ending during that Scheme Year.

**Individual Pension Percentage** is an amount calculated at the end of each Scheme Year and on your retirement based on your Contribution Earnings, Basic Salary and Base Pension Level.

**Longevity Adjustment Factor** is an adjustment figure dependent on age, which is applied to the Scheme Pension amount earned after 5 April 2006. It will adjust the pension earned to reflect changes in life expectancies. Improved life expectancy may mean that future pensions are expected to be paid for longer and the Longevity Adjustment Factor will reduce your pension earned after 5 April 2006 to take account of this. The Scheme Actuary will set the amount of this Longevity Adjustment Factor each year. There are different Longevity Adjustment Factors which apply to benefits on normal retirement, ill-health retirement and to benefits payable following death before retirement.

**Normal Retirement Date** is the first of the month coincident with or immediately after your 65th birthday.

**Pension Rate** is the cost of purchasing £1 of annual pension. The rates are based on your sex, your age and the investment conditions at the time of purchase.

**Pensionable Service** is the number of years and complete months during which you have contributed to the Scheme.

**Scheme** is the BAE Systems Pension Scheme Levels 125, 167, 187 and 200. Level 100+ is dealt with in a separate booklet.

**Scheme Cap** is the maximum earnings used in any calculation of your contributions and benefits. As at April 2012 the figure is £133,800 and it will normally be increased each year. This applies if you joined the Scheme on or after 1 June 1989.

**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 Pension** is the greater of your Earnings Related Pension and the pension which could be provided from your Individual Pension Account.

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

**Total Pension Percentage** is the sum of your Individual Pension Percentages.