

DB retirement options

Pension guide – Information for members

The purpose of this guide is to provide members of a BAE Systems defined benefit (DB) pension scheme with an explanation of the options available to them at retirement, including information about taking tax-free cash (also known as a Pension Commencement Lump Sum (PCLS)) and how this is calculated. The BAE Systems DB pension schemes are listed below.

- **BAE Systems Pension Scheme** (Level 125-200, Level 100+, 2000 Plan, Alvis, SIPS, Aircrew, Passport)
- **Royal Ordnance Pension Scheme**
- **BAE Systems Executive Pension Scheme**

In conjunction with this guide, if you are thinking of retiring immediately on leaving employment from the Company please refer to the [DB retirement process](#) guide which provides an explanation of the retirement process, actions and timings associated with drawing your pension. Scheme-specific information can also be found in your [Member Booklet](#). If you are thinking of retiring earlier than age 65, please refer to the Early Retirement FAQ, which is available on the BAE Systems intranet site (under 'People Policies').

This guide is not intended as financial advice. If you are uncertain of what action to take it is recommended that you speak to an independent financial adviser. You can visit moneyhelper.org.uk or unbiased.co.uk to find out how to contact an independent financial adviser near you.

1. What are my DB scheme retirement options?

Whether you generate a quote via [OneView](#) or obtain this directly from Aptia, the figures and information provided will be the same. You will usually have either two or four retirement options, depending on which Scheme/section you are a member of and your age.

1 Option 1 – Full pension

The figures provided under this option assume that you wish to take all of your benefits as an annual pension, with no tax-free cash sum.

Where applicable, for members of the 2000 Plan with savings in the Selected Benefits Scheme (SBS) and the small number of members who have with-profit savings invested with Standard Life, Clerical Medical or Prudential, these benefits will be included in this amount. If you have any savings held within the separate Mercer Master Trust, these will not be included in this option.

2 Option 2 – Tax-free cash sum and reduced pension

Under this option you would receive a tax-free cash sum and reduced pension. You will automatically be quoted the maximum tax-free cash that Aptia believe you can receive. This is usually 25% of the value of your pension benefits.

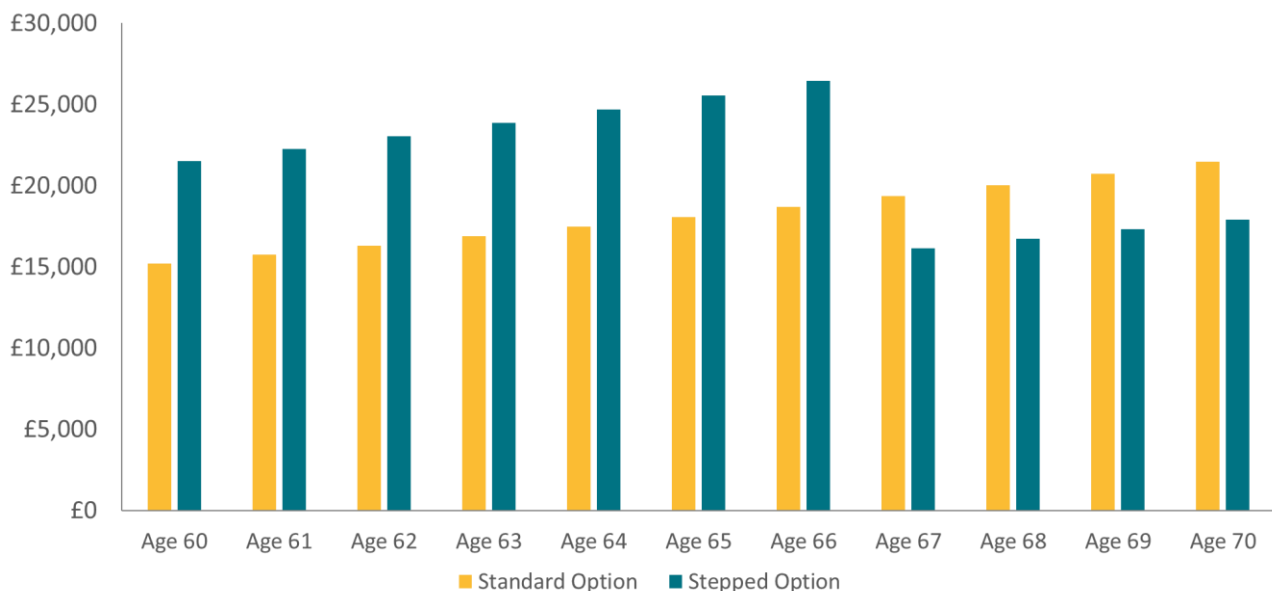
If you want to receive a cash sum that is less than the maximum, you can ask Aptia to provide a revised quotation based on the amount of tax-free cash you want to receive.

3 Option 3 – Stepped pension*

**(only available to members of the BAE Systems Pension Scheme with Levels 125-200 Benefits or 2000 Plan Benefits, who retire at least 6 months before State Pension age)*

Under this option you would receive a stepped pension, with no tax-free cash sum.

Taking a stepped pension allows you to redistribute your benefits, so that your overall income before and after your State Pension age is spread more evenly. It is not an enhancement to your Scheme pension, rather it is a redistribution of when your Scheme pension is received. It is achieved by you choosing to increase your Scheme pension in the years before your State Pension age, in exchange for reducing your Scheme pension after your State Pension age, when your State Pension will start to be paid to you. An example of what this might look like for a member retiring at age 60 is shown below.



Please be aware that taking a stepped pension will be tested against your Annual Allowance. It will be important that you consider this prior to choosing this option if you believe you could be affected. Please refer to the [Stepped pension](#) guide for more information about this option.

4 Option 4 – Tax-free cash sum, reduced pension and stepped pension*

**(only available to members of the BAE Systems Pension Scheme with Levels 125-200 Benefits or 2000 Plan Benefits, who retire at least 6 months before State Pension age)*

Under this option you would receive a tax-free cash sum and reduced pension, plus a stepped pension, as explained above.

2. Can I always receive a tax-free cash sum when I retire?

Usually when your pension starts you can receive up to 25% of the value of your pension benefits as a tax-free cash sum. This is also called a Pension Commencement Lump Sum (**PCLS**).

The maximum PCLS an individual can receive from all their registered pension arrangements is set by HMRC and is known as the Lump Sum Allowance, which is £268,275, however it may be higher for members who have a previous Lifetime Allowance protection.

The Trustees are also required to ensure you receive a minimum level of pension in some circumstances. For example, if you were a member of a contracted-out pension scheme before April 1997 the scheme must pay you a minimum pension, called the Guaranteed Minimum Pension (**GMP**). If you have a GMP benefit, Aptia will calculate whether your pension is more than this minimum, and in some situations it may mean limiting the amount of tax-free cash you can receive, and may mean you cannot take any tax-free cash at all.

3. How is the tax-free cash sum calculated?

How these lump sums are calculated differs for DB and defined contribution (**DC**) benefits.

If you only have DB benefits

You will usually have the option to exchange up to 25% of the value of your DB pension for a tax-free cash sum. When calculating the value of your DB pension for this purpose, under legislation HMRC values your pension by multiplying it by a fixed factor of 20, regardless of your age when you retire. The formula for this is quite complicated, but an example is shown in the [Appendix](#)

The amount of tax-free cash you receive for each £1 of annual pension you exchange is based on rates set by the Trustees, which are known as “commutation factors”. The amount of annual pension that you will need to give up for cash depends on your age at retirement. The rates are calculated by the Scheme’s Actuary and may change from time to time to reflect fair value for both members and the Scheme.



Please note that commutation factors are reviewed at least every three years and retirement estimates are calculated using the factors in force at the date of the calculation. Therefore quotations for retirement dates in the future are subject to change as the factors could change.

If you also have DC benefits

If you also have DC savings, for example Additional Voluntary Contributions (**AVCs**), in addition to your DB pension, these funds can be used to provide some or all of your tax-free cash at retirement. DC savings can include:

- Savings in the separate Mercer Master Trust (including AVCs, and for members with Level 100+ Benefits the Retirement Account contributions)
- The Selected Benefits Scheme (for members with 2000 Plan Benefits who have paid additional contributions to this arrangement)
- There are also some legacy with-profits AVCs invested with Standard Life, Clerical Medical and Prudential, as well as Land & Sea AVCs held within the DB scheme

If you have any Mercer Master Trust (MMT) savings you have the option to transfer these back to the DB scheme at retirement to provide some or all of your tax-free cash. If, having used your DC savings to provide your tax-free cash, this is below the maximum allowed by HMRC, you can then also exchange some of your DB pension up to the maximum tax-free cash available, as described above. Examples of how these tax-free cash calculations work are shown in the [Appendix](#)

4. What are my options under the MMT?

Transfer your DC pension savings held in the MMT to your DB scheme at retirement

At retirement you have the option to transfer any MMT savings to your DB scheme at retirement to provide some or all of your tax-free cash. If you have more MMT savings than the maximum tax-free cash allowed by HMRC, which is broadly 25% of the value of your combined DB and DC benefits (subject to a maximum of £268,275) then any MMT savings above this amount would remain in the MMT. Please note:

- The option to transfer your MMT fund to the DB scheme is only available when you draw your DB pension.
- If you have other non-MMT AVCs (for example savings in the SBS for 2000 Plan members) and the combined value of these AVCs savings exceeds the HMRC maximum, then your non-MMT AVCs must be used first (i.e. before savings held in the MMT) and you may therefore not be able to transfer some or all of your MMT savings to the DB scheme.
- You may wish to transfer just a proportion of your MMT savings to the DB scheme. You can do this but you will need to contact Aptia to let them know how much you wish to transfer from your MMT savings to the DB scheme.
- If you start to access your MMT savings before you draw your DB pension then any funds that have been put into drawdown cannot be transferred to the DB scheme.

Keep your DC pension savings held in the MMT and access these separately

Alternatively you may wish to take your MMT savings at a different time to your DB pension (earlier or later) or choose to transfer these savings to another arrangement. Please note that if you choose to take your MMT savings at a later date than your DB pension then you would not have the ability to transfer your MMT savings to your DB scheme. This option is only available at the time you take your DB pension.

If you do leave some or all of your savings in the MMT, the options available to you for receiving these savings are:

- **As a lifetime income** – You can receive up to 25% of your MMT savings as tax-free cash, and use the rest of your savings to buy a guaranteed income for life. This is called an annuity and you would have flexibility to choose the options for this, for example whether it increases each year with inflation or whether payments would continue to be paid to your spouse after your death. The monthly annuity payments would be subject to income tax. Please note this option is usually only available if you have a fund value of at least £10,000.
- **Via income drawdown** – You can receive 25% of your MMT savings as tax-free cash and use the rest of your savings to provide a flexible retirement income. This is known as drawdown and means you would keep the rest of your funds invested and draw down from these savings regularly throughout your retirement, until all of your fund has been withdrawn. All income withdrawals would be subject to income tax. Please note this option is usually only available if you have a fund value of at least £10,000.
- **As a one-off cash sum** – You can receive 25% of your MMT savings as tax-free cash and receive the other 75% as a taxable lump sum, known as an uncrystallised funds pension lump sum (UFPLS).

Examples of how these tax-free cash calculations work are shown in the [Appendix](#)

More details about these options can be found at scottishwidows.co.uk/save/baesarsp

Please note if you access your DC savings 'flexibly', i.e. via drawdown or as an UFPLS, then this will restrict the amount of contributions you can make to a DC arrangement in the future and receive tax relief (known as the Money Purchase Annual Allowance). For more information about the Annual Allowance please refer to the separate [Annual Allowance](#) guide.

5. When can I receive my benefits?

The minimum retirement age is currently age 55, however this is due to increase to age 57 from 6 April 2028.

Some members have a Protected Pension Age (**PPA**) which means they can take their pension benefits earlier than the minimum age. This does not apply to the separate MMT arrangement, however if MMT savings are transferred to the DB scheme then they can be taken at the younger PPA of the DB scheme. Please refer to your [Member Booklet](#) which has more information.

6. What else should I consider?

The online Retirement Illustrator available on [OneView](#) provides an estimate, based on current legislation and relevant assumptions (such as factors), which can be used to help you assess if taking tax-free cash at retirement would be the right decision for you and your personal circumstances.

Taking a tax-free cash lump sum on retirement is an irreversible decision once it has been paid and that decision will reduce the amount of pension you receive over the rest of your lifetime. It is strongly recommended that you seek guidance or take regulated financial advice before making a decision on your retirement. You can visit moneyhelper.org.uk or unbiased.co.uk to find out how to contact an independent financial adviser near you.

7. Transferring out

As an alternative to taking your benefits through your DB scheme, you may choose to take a transfer payment to another pension arrangement. If you wish to transfer your benefits the first step is to obtain your Cash Equivalent Transfer Value (**CETV**). This is the cash value the Scheme will offer you in exchange for you giving up all your DB pension rights.

You must have left Pensionable Service and be at least one year before your Normal Retirement Date to be eligible to receive a statutory CETV.

Please refer to your [Member Booklet](#) which has more information.

If you have DC savings in the MMT then you will need to contact Scottish Widows to transfer these benefits. Please go to scottishwidows.co.uk/save/baesarsp for more information.

Appendix – Example tax-free cash sum calculations

DB benefits only

The calculation is quite complicated and uses the scheme's commutation factor (CF) to work out how much pension a year you would need to exchange for a tax-free cash sum.

The maximum tax-free cash in a DB scheme is calculated as:

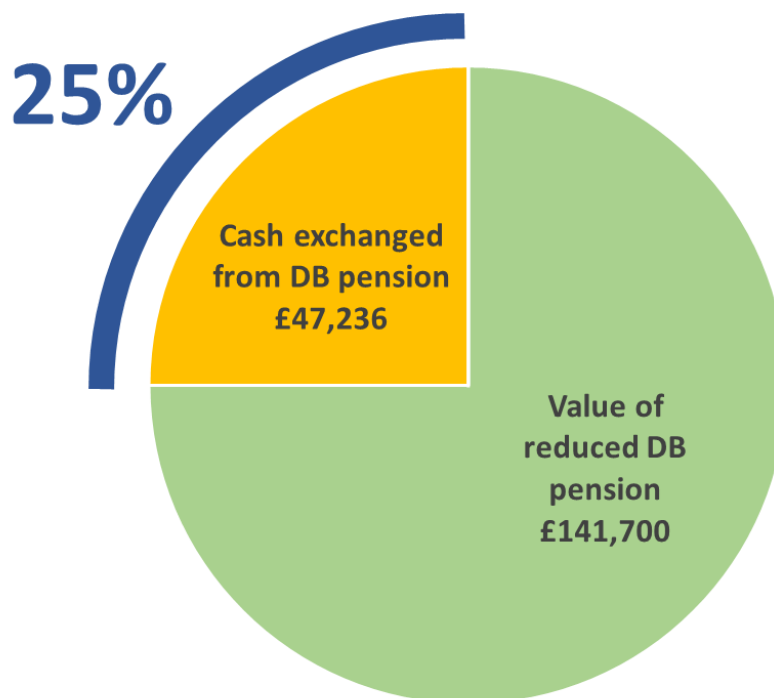
$$\frac{\text{Full Pension} \times \text{CF} \times 20}{(20 + (3 \times \text{CF}))}$$

Using an example of a member who is age 62, with a full pension of **£10,000 a year**, the example commutation factor of 16.207 would result in the following:

- Tax-free cash: $\text{£}10,000 \times 16.207 \times 20 / (20 + (3 \times 16.207)) = \text{£}47,236$
- Reduced pension: $\text{£}10,000 - (\text{£}47,236 / 16.207) = \text{£}7,085 \text{ a year}$

These calculations have been rounded to whole pounds for ease of reading.

Under legislation, HMRC values the reduced pension using a fixed multiple of 20, no matter the member's age. HMRC values the lump sum at the amount that would be paid. In this example the value of the tax-free cash is £47,236 and HMRC's value of the reduced pension is £141,700 (calculated as £7,085 x 20).



DB and DC benefits combined

The calculation is complicated, and the example below assumes the DC fund value is less than the maximum tax-free cash the member could receive.

The maximum tax-free cash for a member with both DB and DC benefits is calculated as:

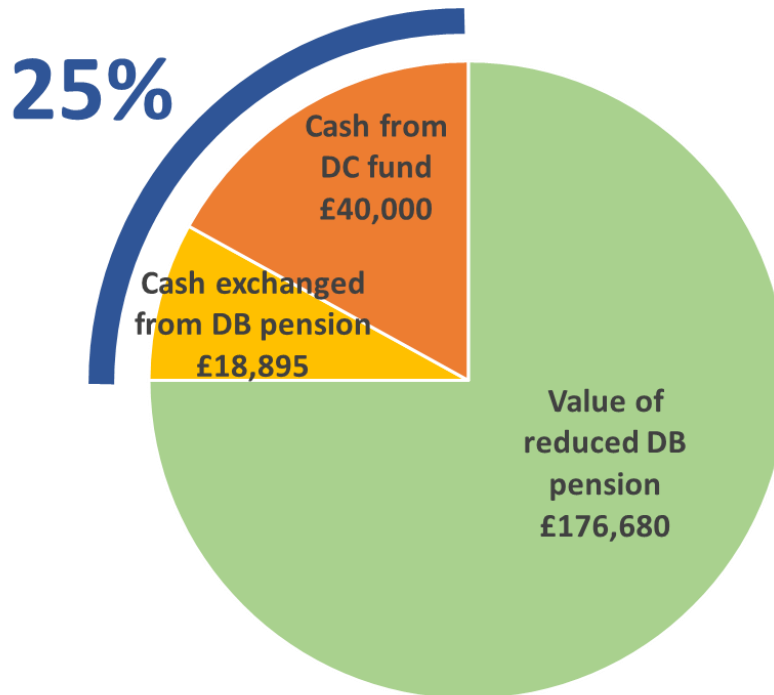
$$\frac{(\text{Full Pension} \times \text{CF} + \text{DC fund}) \times 20}{(20 + (3 \times \text{CF}))}$$

Using an example of a member who is age 62, with a DC fund of **£40,000** and a full pension of **£10,000 a year**, the example factor would result in the following:

- Tax-free cash: $(£10,000 \times 16.207 + £40,000) \times 20 / (20 + (3 \times 16.207)) = \mathbf{£58,895}$ (£40,000 from the DC fund and £18,895 to be exchanged from the DB pension)
- Reduced pension: $£10,000 - (£18,895 / 16.207) = \mathbf{£8,834 \text{ a year}}$

These calculations have been rounded to whole pounds for ease of reading.

In this example the value of the tax-free cash is £58,895 and HMRC's value of the reduced pension is £176,680 (calculated as £8,834 x 20).



DB and DC benefits taken separately

It is possible to take your DC savings separately from your DB pension, either by not switching back your MMT savings and taking these savings earlier or later than your DB pension, or if you transfer your DC savings to another arrangement.

In this example, if the member switched back their MMT savings at retirement, their benefits would be:

- Tax-free cash sum of **£58,895** and a pension of **£8,834 a year** (as per the example above)

If they did not switch back their MMT savings their benefits would be:

- Tax-free cash sum of **£47,236** and a pension of **£7,085 a year** from the DB scheme (as per the example above); **plus**
- £40,000 to take from their MMT savings – **£10,000** of this can be taken tax-free, meaning they would have received a total of **£57,236** as tax-free cash in total (**£47,236 + £10,000**), with the remaining **£30,000** being either taken as a one-off cash sum, drawn down over a number of payments, or used to buy a lifetime annuity, which would all be subject to income tax at the member's appropriate rate.

