

Stepped pension

Pension guide – Information for members

If you are an active or deferred member of the **BAE Systems Pension Scheme** with **Level 125-200** or **2000 Plan** benefits, you will be offered a Stepped pension option if you retire more than six months before your State Pension Age (**SPA**) unless on grounds of ill health. This guide provides information about this option.

1. What is the Stepped pension option?

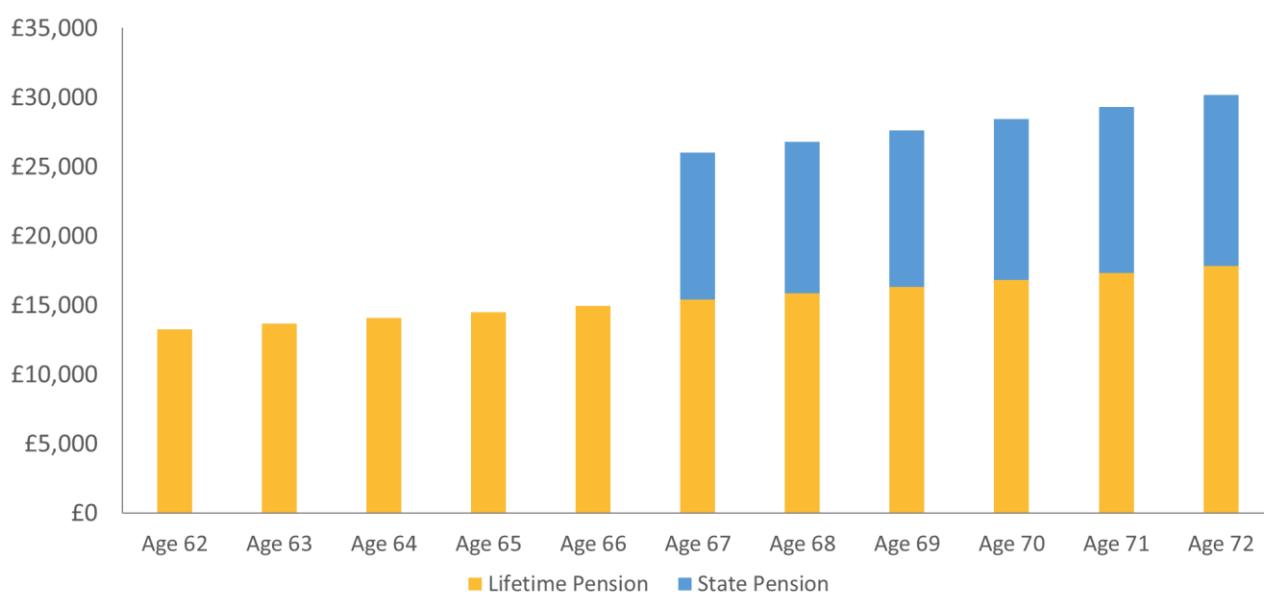
The Stepped pension option allows you to redistribute your Scheme pension, so that your overall income throughout retirement is spread more evenly. It is not an enhancement to your Scheme pension, rather it is just a redistribution of when your Scheme pension is received. It is achieved by you choosing to increase your Scheme pension received in the years up to your SPA, in exchange for reducing your Scheme pension beyond your SPA.

An example of how this works is shown below. In these calculations inflation is assumed to be 3% a year.

Standard option (Option 1 without tax-free cash, or Option 2 with tax-free cash)

Under this option the example member retires at age 62 on a pension of **£13,272 a year**, as a lifetime pension. At SPA, in this case age 67, the member's State Pension starts being paid and the member's total income (assuming the member doesn't have any other pensions) increases to about **£26,022 a year**. This is payable for the rest of the member's lifetime.

This option results in a lower total income before SPA and a higher total income after SPA, as shown by the chart below.

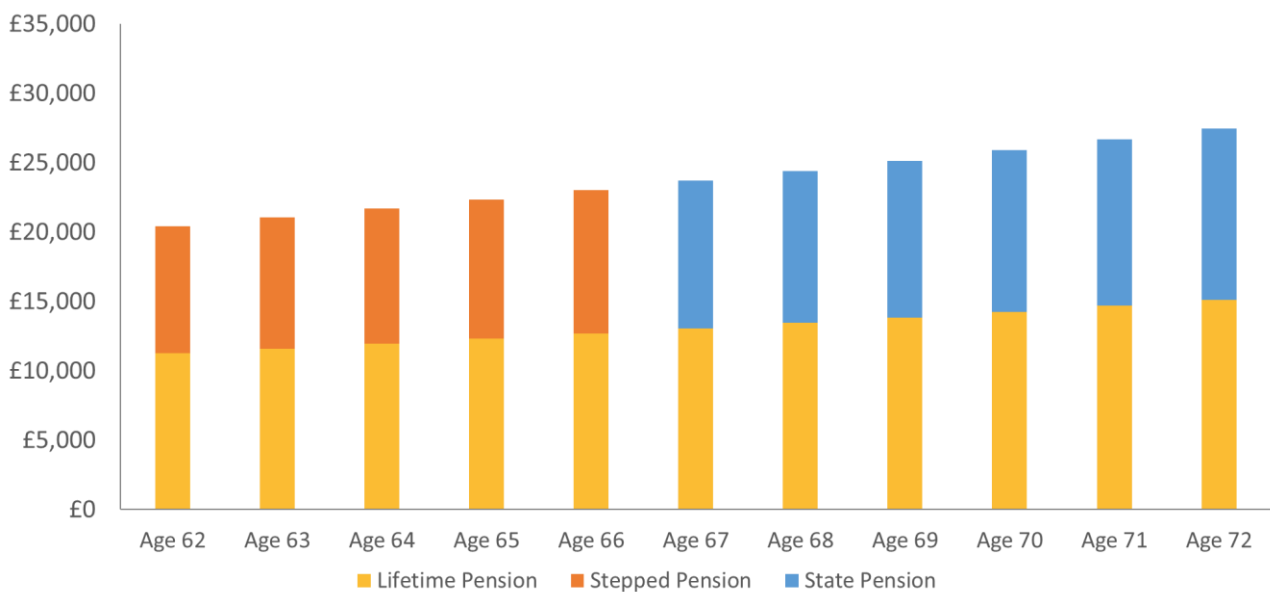


Stepped pension option (Option 3 without tax-free cash, or Option 4 with tax-free cash)

Under this option the example member retires at age 62 and chooses to receive a Stepped pension. The member gives up £2,019 a year of their lifetime pension in exchange for a temporary Stepped pension paid until their SPA. The member's Scheme pension at retirement is increased to **£20,428 a year**. This is made up of £11,253 a year lifetime pension (£13,272 minus £2,019) plus £9,175 a year temporary pension (which is the current amount of the Basic State Pension). This will increase each year with inflation until the member's SPA.

At SPA the member's State Pension starts being paid and the temporary pension from the Scheme stops. The member's total income from age 67 will be about **£23,682 a year**, payable for the rest of the member's lifetime.

After SPA the member will receive a lower pension compared to the standard option as the member received a higher pension from the Scheme between age 62 and 67. As shown by the chart below, this provides a smoother total income.



So by taking the Stepped pension option, the member would receive about **£7,157 a year more** between age 62 and age 67 (£20,428 a year versus £13,272 a year, ignoring increases between 62 and 67) but then about **£2,340 a year less** from age 67 for the rest of their lifetime (based on £2,019 a year at retirement, increased from 62 to 67 by inflation, assumed in this example to be 3% a year).

2. How much is my State Pension and when will I receive it?

You can check your State Pension online and obtain a forecast of how much you could get by visiting [gov.uk/check-state-pension](https://www.gov.uk/check-state-pension)

Please note that the calculation of the temporary Stepped pension before your SPA is not based on your actual State Pension. It is based on the Basic State Pension (BSP) at the date of your retirement. You can find the BSP at [gov.uk/state-pension/how-much-you-get](https://www.gov.uk/state-pension/how-much-you-get) (the BSP for the 2025/26 tax year is £176.45 a week, or £9,175 a year).

SPA is currently age 66, but this will increase to age 67 between 2026 and 2028. It is due to increase to age 68 between 2044 and 2046, though this is under review and could be brought forward.

3. How is the Stepped pension calculated?

The Scheme uses a Stepped pension factor to work out how much of your lifetime pension you need to exchange to receive a Stepped pension.

Based on the example shown above, the full calculation would be as follows.

£9,145 (current BSP) x 0.78 (Stepped pension factor) = £7,157
£13,272 (full standard pension) + £7,157 = **£20,428 a year before SPA**
£9,145 (current BSP) x (1 – 0.78) = £2,019
£13,272 (full standard pension) – £2,019 = **£11,253 a year after SPA**

The amount of lifetime pension that you would need to give up for a Stepped pension depends on your age at retirement, and is also different for men and women. 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 Stepped pension 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.

4. Could my State Pension be different to my Stepped pension?

Yes. Your State Pension is likely to be different to the Stepped pension you receive from the Scheme for the following reasons:

- The Stepped pension is based on the amount of the BSP in force at your date of retirement. This is likely to be different to your actual State Pension, for example if you qualify for the new State Pension (which is £230.25 a week for 2025/26).
- The Stepped pension will increase in payment in line with the Scheme's rules, which is broadly in line with the rise in the Retail Prices Index (RPI) subject to certain caps. This is likely to be different to increases applied to your State Pension, which is currently increased under the government's "triple lock" where the State Pension increases by the greater of prices (measured against the rise in the Consumer Prices Index (CPI) rather than RPI), earnings, or 2.5%.
- The date your Stepped pension is due to stop being paid by the Scheme is based on the SPA in force at the date of your retirement. Any later increases that the government might introduce to your SPA would not be taken into account. As a result, there is the potential for there to be a gap between when your Stepped pension ceases and when your State Pension starts.

5. Does the Stepped pension option affect the pension payable to my spouse or civil partner on my death?

No. Any pension payable to your spouse or civil partner in the event of your death will ignore the effect of you having chosen the Stepped pension option.

6. If I choose the Stepped pension option, will this impact my Annual Allowance usage?

Yes. The Stepped pension option will increase your pension at the point of retirement (including if you are a deferred member) thereby increasing your Annual Allowance usage. **It will be important that you consider this prior to choosing this option if you believe you could be affected.** Aptia can provide a quotation of the estimated pension input that would arise from selecting this option.

For more information about the Annual Allowance, including a worked example of a retirement with a Stepped pension, please read the [Annual Allowance](#) guide.

7. What else should I consider?

The online Retirement Illustrator available on [OneView](#) provides an estimate of the Stepped pension options available to you, based on current factors, which can be used to help you assess if taking this option at retirement would be the right decision for you and your personal circumstances.

Taking a Stepped pension at 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.