

Working part time

Pension guide – Information for employees

If you are an active member of a BAE Systems pension scheme and are considering reducing your hours, this guide provides information about how your pension (and related benefits) may be affected. There is also a separate [Changing roles](#) guide for anyone considering a change in role which includes a salary reduction, which explains how this might affect your BAE Systems pension.

If you joined before April 2012, and joined a pension arrangement, you will be a member of one of the defined benefit (DB) schemes:

- **BAE Systems Pension Scheme** (Level 125-200, Level 100+, 2000 Plan, Alvis, SIPS, Aircrew, Passport)
- **Royal Ordnance Pension Scheme** (Crown Service, 1984)

If you joined since April 2012, you will be a member of a defined contribution (DC) arrangement, which is part of the Mercer Master Trust.

For DC members, the impact is straightforward. Future contributions will reduce if your salary reduces as this is based on a percentage of your salary. This is more complicated for DB members and this guide is therefore primarily aimed at the impact working part time has on the calculation of DB benefits.

1. How does working part time affect my DB pension?

Your benefits will be calculated using an average of salary earned prior to leaving the Scheme (please note that the salary definitions and pension benefits under each scheme do differ). Members are often concerned that a change in hours will detrimentally affect the value of their pension benefits they have already earned. This is not the case. Pension earned up to the date of a change in working hours is protected to ensure this does not happen. There are two different methods that are used to do this and both methods result in the same outcome, i.e. your past pension is protected.

It is important to recognise that whilst your past pension is protected, pension benefits earned from the date that the reduction in working hours occurs will be lower in comparison to continuing to work full time. An example of each method is shown in [Appendix A](#) and [Appendix B](#) by using two case studies.

Method 1: Applies to BAE Systems Pension Scheme Level 125, 167, 187 and 200

At the point of your change in hours, your past pension accrual, known as your Total Pension Percentage (TPP), is increased to offset the effect of your new lower part-time salary being applied to your entire service in the Scheme.

Method 2: Applies to all other DB schemes

For this method, the salary used in the calculation continues to reference your full-time equivalent salary and your future Pensionable Service is reduced to take account of your reduced hours.

2. What other benefits could be impacted by working part time?

It is important to note the following implications of a reduction to your hours and salary.

Death benefits

For all employees, the death in service lump sum is calculated based on a multiple of your salary. Therefore if your salary reduces to reflect a reduction in working hours or change in role, the death in service lump sum will also reduce.

For some of the DB schemes, the death in service dependant's pension calculation includes future service to the scheme's Normal Retirement Age. Future service included in the calculation will assume you continue to work part time until your Normal Retirement Age.

Medical retirement

For some of the DB schemes, medical retirement benefit calculations may include future service to the scheme's Normal Retirement Age. If you are approved for medical retirement by the Trustee of your scheme and future service is included, the calculation will assume you continue to work part time until your Normal Retirement Age.

Scheme Maximum

Most of the DB schemes have a maximum pension limit in place (please refer to the separate [Scheme Maximum](#) guide for more information). If you decide to work part time and you are a member of a scheme where the pension at retirement cannot exceed 2/3rds of your Final Earnings, then your full-time equivalent salary will continue to be used in your pension calculation.

More information

Aptia will not be able to provide any specific 'What if' calculations if you are considering changing your hours, but you can ask them any questions about the calculation, as set out in this guide.

For BAE Systems employees, a request to work part time will need to follow the process for requesting flexible working as set out in the UK Work Life Integration Policy, which is available on the BAE Systems intranet site.

3. I am a Level 100+ member and/or I pay AVCs

If you are a member of the **BAE Systems Additional Retirement Savings Plan (BAESARSP)** as a member of the BAE Systems Pension Scheme with Level 100+ benefits, as the Company contributions paid to the BAESARSP are calculated as a percentage of your salary, future contributions will reduce if your hours (and salary) reduce.

If you have elected to pay Additional Voluntary Contributions (AVCs) it may be that you have asked for the deduction to be a regular fixed amount (in which case nothing will change if your salary changes) or a percentage of your salary (in which case future contributions will reduce if your salary reduces). For more information and details of how you can change your AVCs please read the [Paying Additional Voluntary Contributions](#) guide.

Appendix A – Case study to demonstrate Method 1

Mark is a member with **BAE Systems Pension Scheme – Level 187** benefits and is currently age 57. He has 28 years of Pensionable Service and is considering working for another 5 years (until age 62) on a part-time basis, reducing his hours from 37 hours a week to 25 hours a week. Mark's pension earned at today's date is £18,892 a year. The following shows what he would currently expect to receive at age 62.

	Final Basic Salary		TPP		LAF		Annual pension
Pre-2006	£40,000	X	18.7% (10 years' IPP)			=	£7,480 (pre-2006)
2006 to today	£38,000	X	33.6% (18 years' IPP)	X	0.8938	=	£11,412 (post-2006)
							£18,892 (total pension today)
Today to age 62	£38,000	X	9.35% (5 years' IPP)	X	0.8938	=	£3,176 (post-2006)
							£22,068 (total projected pension)

Reduction to hours

If the Company agrees to Mark's change of hours, an adjustment is carried out to ensure Mark's previously earned pension is not affected. As shown in the calculation below, his Final Basic Salaries are reduced as they are now calculated using his new part-time salary. However his Total Pension Percentage (TPP) is proportionately increased to offset this, so the pension he has already built up is protected and is unchanged. The highlighted boxes show what's changed from the previous page.

	Final Basic Salary		TPP		LAF		Annual pension
Pre-2006	$£40,000 \times 25/37 =$ £27,027	X	$18.7\% \times 37/25 =$ 27.676% (10 years' IPP)			=	£7,480 (pre-2006)
2006 to today	$£38,000 \times 25/37 =$ £25,676	X	$33.6\% \times 37/25 =$ 49.728% (18 years' IPP)	X	0.8938	=	£11,412 (post-2006)
							£18,892 (total pension today)
Today to age 62	£25,676	X	9.35% (5 years' IPP)	X	0.8938	=	£2,146 (post-2006)
							£21,038 (total projected pension)

Appendix B – Case study to demonstrate Method 2

Gemma is a member with **BAE Systems Pension Scheme – Level 100+** benefits and is currently aged 60. She has 20 years of Pensionable Service and is considering working for another 5 years (until age 65) on a part-time basis, reducing her hours from 37 hours a week to 18.5 hours a week. Gemma’s pension earned at today’s date is £6,955 a year. The following shows what she would currently expect to receive at age 65.

	Final Basic Salary		Pensionable Service		Accrual rate		LAF		Annual pension
Pre-2006	£40,000	X	2 years	X	1%			=	£800 (pre-2006)
2006 to today	£38,000	X	18 years	X	1%	X	0.8998	=	£6,155 (post-2006)
									£6,955 (total pension today)
Today to age 65	£38,000	X	5 years	X	1%	X	0.8998	=	£1,710 (post-2006)
									£8,665 (total projected pension)

Reduction to hours

If the Company agrees to Gemma’s change of hours, no adjustment is needed to protect Gemma’s previously earned pension. As shown in the calculation below, the Final Basic Salaries used in the calculation continue to be based on her full-time equivalent salary. However future Pensionable Service is reduced by the percentage change in working hours (in this case 50%). The highlighted boxes show what’s changed from the previous page.

	Final Basic Salary		Pensionable Service		Accrual rate		LAF		Annual pension
Pre-2006	£40,000	X	2 years	X	1%			=	£800 (pre-2006)
2006 to today	£38,000	X	18 years	X	1%	X	0.8998	=	£6,155 (post-2006)
									£6,955 (total pension today)
Today to age 65	£38,000	X	5 years x 18.5/37 = 2.5 years	X	1%	X	0.8998	=	£855 (post-2006)
									£7,810 (total projected pension)

As Gemma is in the Level 100+ scheme, she also receives a Company contribution into the Mercer Master Trust. The Company’s contribution is calculated using her basic salary, so as this has reduced by 50% then the amount being paid into her DC pot is 50% less. The current value of her DC pot is not protected in the same way as her DB pension and is dependent on how the investments perform, meaning the value can go up or down.

Notes on case study examples

The above examples are purely illustrative. The benefits for each scheme will vary and the example calculations have been greatly simplified and are designed to explain the concept of each method.

No salary increases have been assumed in the examples for the future period until retirement. Also, the calculation has been simplified to use consistent salary amounts, however in practice the Final Basic Salaries are an average (for pre-2006 service this is a 12-month average and for post-2006 service it is a 36-month average), which has been ignored for the purpose of estimating the projected pension amounts.

The Longevity Adjustment Factors used in each calculation are for illustrative purposes only.

In these examples no early retirement reduction would be applied to these members' benefits, though if these members retired earlier than shown in these examples, an early retirement factor would be applied to their pension.

For more details on the terminology used in the examples, e.g. Final Basic Salary (and the different definitions for service before and after April 2006), Pensionable Service, Accrual rate, the Longevity Adjustment Factor (LAF), Individual Pension Percentage (IPP) and Total Pension Percentage (TPP), please refer to your [Member Booklet](#)