

Working part-time

Pension Guide – Information for members

BAE SYSTEMS

If you are an active member of a BAE Systems pension scheme (either a defined contribution or defined benefit arrangement) and are considering reducing your hours, this guide provides important information about how your BAE Systems pension (and related pension benefits) may be affected. If you are considering a change in role which would result in a lower salary, there is also a Pension Guide, *Changing roles*.

Defined Contribution (DC) members

If you are an active member of the DC Retirement Plan or pay Additional Voluntary Contributions into a Defined Benefit scheme (these are a type of DC benefit) then there is no impact to the benefits that you have built up in your individual Retirement Account (pension pot), prior to any change in your hours. The contributions that both you and the Company pay continue to be invested. As the contributions are calculated as a percentage of your salary, then future contributions will naturally reduce if your hours (and salary) reduce. If you should wish to increase your payments you can increase your contribution rate or make one off payments.

Defined Benefit (DB) members

If you are a member of a BAE Systems DB scheme, 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 reduction in salary will detrimentally affect the value of their pension benefits already earned. This is **not** the case. Pension benefits earned to the date of a change in working hours are protected to ensure that this does not happen. There are two different protection methods that are used to do this and both methods result in the same outcome, i.e. **your past pension is protected**.

Method 1

This method applies to members of the BAE Systems Pension Scheme: Levels 125, 167, 187 and 200. At the point of change, your past pension accrual rate (Total Pension Percentage, 'TPP') is increased to offset the effect of your new lower part-time pensionable salary being applied to your entire service in the Scheme.

Method 2

For this method, at the point of change, the salary used in the calculation continues to reference your full-time equivalent salary, and your future pensionable service (i.e. your service in the Scheme since the change) is reduced to take account of your reduced working hours. This method applies to members of the following schemes:

- ❖ BAE Systems Pension Scheme: Level 100+, Aircrew (pre 2003 joiners), Aircrew 100+ (post 2003 joiners), Passport Benefits, SIPS Benefits (VSEL, Portsmouth and Fleet Support), Alvis Benefits and 2000 Plan Benefits
- ❖ Royal Ordnance Pension Scheme
- ❖ BAE Systems Executive Pension Scheme: Main Edition, 2006 Edition

An example of each method is shown on pages 3 – 7, using two case studies. Please be aware that the benefits for each scheme listed on page 1 will vary. The purpose of the case studies are to help explain the concept of each method. Please see the section 'More Information' below, which explains how you can get an idea as to how working part-time could impact your actual Scheme pension.

It is important to recognise that whilst any pension benefits already accrued are 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. Indeed, as demonstrated by the case studies, working part-time, earning a lower salary, **will affect your future service pension.**

Other benefits that may be impacted with a change in hours / salary

Death benefits

Whether you are a DB or DC member, death in service lump sum benefits are usually a multiple of salary. Please be aware that this benefit will reflect the rate of salary you are in receipt of. Therefore, if your salary reduces to reflect a reduction in working hours or change in role, the death in service lump sum will also be reduced.

For some DB schemes, death in service dependant pension calculations include future service to the scheme's Normal Retirement Age. Future service included in the calculation will assume you would have continued to work part-time, on the part-time salary, until your Normal Retirement Age.

Medical retirement

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

Scheme Maximum

Most BAE Systems DB schemes have maximum benefit accrual limits in place (please refer to the separate Pension Guide, *Scheme Maximum* for more information). If you decide to work on a part-time basis and you are a member of a scheme where the pension at retirement cannot exceed 2/3rds of your Final Pensionable Earnings, then your full-time equivalent salary (rather than your part-time salary) will continue to be used in your pension calculation.

More information

For any active member of a BAE Systems pension scheme, to get an idea of how a change in working hours or pay could affect your pension, please contact your scheme administrator for more information. You can visit the BAE Systems Pension website at baesystems.com/en-pensions/contact-us to get the contact details for your scheme administrator. Any request to work in a part-time capacity will need to be made in accordance with your employer's existing processes and policy for flexible working.

APPENDIX

Case study to demonstrate Protection Method 1: BAE Systems Pension Scheme ('the Scheme'): Level 187 member

Whilst the following case study applies to a Level 187 member, the same principles and method apply equally to L125, 167 and 200 members.

Mark is 57, has 20 years of pensionable service and is considering working on for five years until age 62 on a part-time basis, reducing his hours from 37 hours a week to 25 hours a week. Mark would like to understand what impact this may have on his pension if this change were agreed and he contacts the Scheme administrator for more information.

Assumptions

The information provided to Mark is an illustration only. It is based on the assumptions listed below and as a result is not guaranteed.

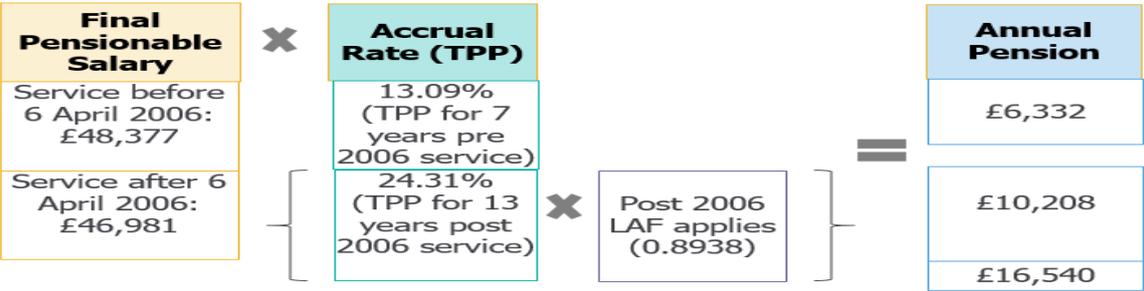
1. He will remain a contributing member of the Scheme until age 62.
2. He will continue to contribute to Level 187 until age 62¹.
3. There will be no changes to the Scheme rules, Scheme structure or legislation, which would affect the Scheme benefits.
4. No basic salary increases are assumed in the example, therefore the figures may be slightly understated in the situation should Mark's salary grow in future. The reverse is true should the salary decrease.
5. The Scheme's Longevity Adjustment Factor (LAF) used in the calculations is for illustrative purposes only and is based on a LAF for a 62 year old (89.38%).
6. As requested, illustrations for part-time working for 25 hours have been provided to Mark. It is assumed these hours remain consistent to age 62.
7. His pension benefits earned to date already take into account any previous changes in working hours. Under the Scheme, if Mark were to retire earlier than age 62 then an early retirement factor would apply to the calculation of his benefits.

For details on the terminology used e.g. different pensionable salary definitions before and after 2006, the definition of a Longevity Adjustment Factor (LAF) which applies to benefits earned from 6 April 2006, how to calculate the Total Pension Percentage (TPP), please refer to the Scheme member booklet available at baesystems.com/pensions. The different pensionable salary definitions before and after 2006, together with the application of the LAF account for why there is a pre and post 2006 element to the calculation of the pension. If you are a current BAE Systems employee you can also access a helpful, short Scheme WebEx recording via the Group Pensions intranet site.

¹ For simplicity a 1.87% Individual Pension Percentage (IPP) is assumed for each year of service Mark has earned in the Scheme, which added together provides the Total Pension Percentages (TPP) referenced. In reality an individual's recorded IPP can vary each year as it is dependent on gross earnings, any overtime worked and a fixed £1,800 offset.

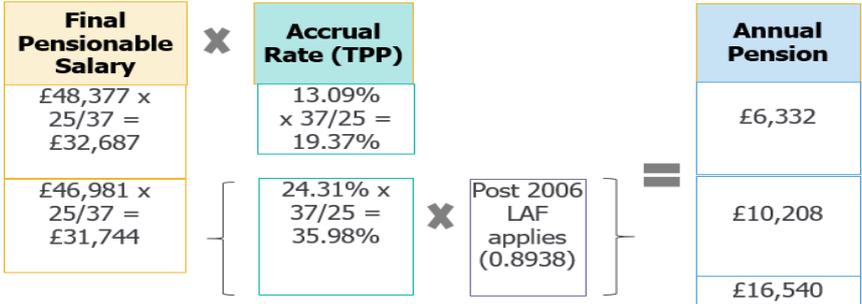
Current position (full-time)

Mark’s current pension at today’s date (age 57) is **£16,540** a year – see calculation below.



Reduction to hours (protecting the current position)

An adjustment is carried out to ensure Mark’s previously earned pension benefits in the Scheme are not affected on account of him reducing his hours. As you will see in the calculation below, his final pensionable salaries reduce as they are now calculated by reference to 25 hours rather than 37 hours, however his Total Pension Percentage (TPP) is prorated up to offset this, so his annual pension is protected and remains the same.



Future position (full and part-time comparison)

Mark understands that working part-time will affect his future service pension. He is provided with two estimates of his benefits to age 62 – (i) assumes he remains full-time for the five years to retirement, and (ii) assumes he changes his hours to part-time (25 hours per week) for the five years to retirement.

(i) Mark continues to work full-time (37 hours) to age 62

Pension accrued to date (age 57):	£16,540
Plus additional pension to 62:	£3,926
$£46,981 \times \{9.35\% \text{ (TPP for 5 years)} \times 0.8938 \text{ (LAF)}\}$	
Total annual pension (age 62 estimate):	£20,466

(ii) Mark works part-time for 5 years (25 hours) between age 57 and 62

Pension accrued to date (age 57):	£16,540
Plus additional pension to 62:	£2,653
$£31,744 \times \{9.35\% \text{ (TPP for 5 years)} \times 0.8938 \text{ (LAF)}\}$	
Total annual pension (age 62 estimate):	£19,193

Case study to demonstrate Protection Method 2: BAE Systems Pension Scheme – Level 100+ ('the Scheme')

As a member of the Level 100+ section of the Scheme, Gemma is accruing a Core Pension, which is a Defined Benefit (DB) pension, and a Retirement Account, which is a Defined Contribution (DC) benefit.

Gemma is 60, has 14 years of pensionable service and is considering working on for five years on a part-time basis, reducing her full-time hours from 37 hours a week to 18.5 hours a week (a 50% reduction in working hours). Gemma would like to understand what impact this may have on her Core Pension and Retirement Account and as a result she contacted her Scheme administrator for more information. Gemma appreciates that she would need to approach her line manager to actually agree any change to her working hours.

Assumptions

The information provided to Gemma is an illustration. It is based on the assumptions listed below and as a result is not guaranteed.

1. She will remain a contributing member of the Scheme until age 65.
2. There will be no changes to the Scheme rules, Scheme structure or legislation, which would affect the Scheme's benefits.
3. No basic salary increases are assumed.
4. The Longevity Adjustment Factor (LAF) used in the calculations is for illustrative purposes only and is based on a LAF for a 65 year old (89.98%).
5. As requested, the illustration for part-time working for 18.5 hours has been provided. It is assumed that these hours would remain consistent throughout her employment to Normal Retirement Age.
6. Her pension benefits earned to date already take into account any previous changes in working hours.
7. Under the Scheme, if Gemma were to retire earlier than the Scheme's Normal Retirement Date of age 65 then an early retirement factor would apply to the calculation of her benefits.

For details on the terminology used e.g. Core Pension, Retirement Account, Longevity Adjustment Factor (LAF) which applies to benefits earned from 6 April 2006, please refer to the Scheme member booklet available at baesystems.com/pensions. The application of the LAF accounts for why there is a pre and post 2006 element to the calculation of the pension.

Current position (full-time)

Gemma’s Core Pension (DB benefit) earned at today’s date (age 60) is **£3,399** a year – see calculation below.

Final Basic Salary		Pensionable Service		Accrual Rate		Core Annual Pension
Service before 6 April 2006: £25,000	×	1 year	×	1%	=	£250
Service after 6 April 2006: £25,000		14 years		1% with LAF applied (0.8998)		£3,149
						£3,399

Core Pension - Reduction to hours (protecting the current position)

No adjustment is needed to protect Gemma’s previously earned Core Pension benefits in the Scheme. As you will see in the calculation below, the Final Basic Salary used in the calculation of her Core Pension continues to reference her full-time equivalent salary, however her future pensionable service is reduced by her percentage change in working hours (50%) to take account of her reduced working hours.

Core Pension - Future position (full and part-time comparison)

Gemma understands that working part-time will affect her future service pension. She is provided with two estimates of her benefits to age 65 – (i) assumes she remains full-time to age 65, and (ii) assumes she changes her hours to part-time (18.5 hours per week) for five years to age 65.

(i) Gemma continues to work full-time (37 hours) to age 65

Core Pension accrued to date (age 60) £3,399
 Plus additional pension to 65 (extra 5 years): £1,125
 £25,000 x 5 years x 1% x 0.8998 (LAF)

Core annual pension (age 65 estimate): £4,524

(ii) Gemma works part-time for 5 years (18.5 hours) between age 60 and 65

Core Pension accrued to date (age 60): £3,399
 Plus additional pension to 65 (extra 5 years): £562
 £25,000 x (5 years x 50%) x 1% x 0.8998 (LAF)

Core annual pension (age 65 estimate): £3,961

Retirement Account – Future position (full and part-time comparison)

Gemma’s DC Retirement Account is currently valued at £7,200 and she recognises that the Company’s annual 2% contribution is calculated on her basic salary so the amount of the contribution would reduce by 50% if she were to reduce her working hours to 18.5 a week. Gemma understands that the illustration below takes no account of future investment returns. As with all Defined Contribution arrangements, the value of her DC Retirement Account is not protected like her Core Pension and is dependent on how the funds she invests in perform, the value of which can go up or down.

On retirement Gemma will be able to use her DC Retirement Account to provide benefits in one or more of the following forms:

- ❖ a pension payable to her for her lifetime;
- ❖ a lump sum payable when her pension starts;
- ❖ benefits payable on her death.

Unless Gemma decides otherwise, her Retirement Account will be payable as a lump sum when her Core Pension starts (in so far as HM Revenue and Customs limits allow).

(i) Gemma continues to work full-time (37 hours to age 65)

Value of Retirement Account to date (age 60):	£7,500
Additional Company contributions to 65 (extra 5 years):	£2,500
£25,000 x 5 years x 2%	

Retirement Account (age 65 estimate): £10,000

£10,000 converted into annual pension (estimate) £365

(ii) Gemma works part-time for 5 years (18.5 hours) between age 60 and 65

Value of Retirement Account to date (age 60):	£7,500
Additional Company contributions to 65 (extra 5 years):	£1,250
£12,500 (50% of £25,000) x 5 years x 2%	

Retirement Account (age 65 estimate): £8,750

8,750 converted into annual pension (estimate) £319

(The Retirement Account pension estimates quoted above assume that increases in payment will be awarded in line with inflation each year subject to a maximum of 2.5%, the pension is guaranteed for 5 years and no spouse’s pension would become payable on Gemma’s death. This is for illustrative purposes only and is not therefore guaranteed to apply either now or in the future).