



# Changing Roles

## Pension Guide – Information for members

**BAE SYSTEMS**

### **Objective**

If you are an active member of a BAE Systems pension scheme (providing defined contribution or defined benefits) and are considering a change in your role which attracts a salary reduction, this guide provides important information about how your BAE Systems pension (and related pension benefits) may be affected. A *Working Part-time Pension Guide* covering a move to working part-time within a current role and how this might affect your BAE Systems pension benefits is also available.

### **Changing your role**

If you change your role you will normally remain in the same pension scheme if you continue employment with BAE Systems or one of its subsidiaries. This is subject to the employer being a participating employer of that scheme.

If you are considering moving to a different role within BAE Systems (or to a third party Company who may be a participating company in a BAE Systems pension scheme, e.g. Airbus, MBDA) on a lower salary than you currently receive, then your benefits are likely to change as a result.

If however you are being redeployed at the request of the Company for a specific business reason rather than because of a personal request to move, then depending on which scheme you are in, your pension built up before the change may be protected. Examples of where redeployment might occur include moving to an alternative role at the request of the Business for business specific needs or moving to an alternative role with support from the Business where the individual has been advised they are potentially affected by redundancy. Where an employee accepts an alternative role as part of an Ill Health Capability Procedure redeployment, your pension built up before this change may also be protected.

### **Defined Contribution (DC) Members**

If you are an active member of the BAE Systems DC Retirement Plan or the BAE Systems Executive Pension Scheme – 2012 Retirement Plan, then there will be no impact to the benefits that you have built up in your individual Retirement Account. The contributions that both you and the Company have already paid into the Plan will continue to be invested with their value moving in line with investment performance and taking into account any deductions and charges.

After any change of role, future contributions will continue to be calculated as a percentage of your salary. Hence contributions will naturally reduce if your salary reduces. If you wish to increase your payments into your Plan you can increase your contribution rate or make one off payments via Additional Voluntary Contributions.

**Defined Benefit (DB) Members – Changing role at your request**

If you are considering moving to a different role within BAE Systems and this attracts a lower salary than you currently receive, then your benefits are likely to change as a result but a lot will depend on which scheme you are in. You should be aware of the following:

If you are a DB member you will pay the same member contribution percentage rate but on a lower salary (as will your employer). Also, if the nature of your pay changes, for example you are paid more or less overtime as a result of your change in role and overtime forms part of your scheme’s salary definition, this will affect the future benefits that you earn. For example, if you are a member of the BAE Systems Pension Scheme - Levels 125, 167, 187 or 200, your Contribution Earnings include overtime/shift allowance. Therefore, if your basic salary reduces as a result of a change in role, but you work more overtime, this will allow you to boost your pension benefits.

Your DB pension is typically calculated on a prescribed basis using the following principle:

$$\text{Annual Pension} = \text{Pensionable Service} \times \text{Final Pensionable Salary*} \times \text{Pension accrual rate}$$

\*in addition to Final Pensionable Salary, other terms include Final Basic Salary and Final Pensionable Earnings depending on which scheme you are a member of.

Your Annual Pension will be calculated using an average of pensionable salary earned prior to your leaving or retiring. Your Scheme member booklet explains how your pension is calculated and can be found in your section of the BAE Systems pension website:

[baesystems.com/en-pensions/defined-benefit](https://baesystems.com/en-pensions/defined-benefit).

The timing of your role change in the lead up to leaving and how your final salary is calculated will affect the level of benefits you receive. Definitions do vary across the schemes with some, for example, reflecting your salary over the last 12 months prior to leaving, some reflecting your salary averaged over 36 months prior to leaving, or some reflecting your best average salary over three consecutive years in a ten year period. This is not an exhaustive list so again please refer to your Scheme member booklet. For some schemes the final salary definition that is used in the calculation of your pension will also vary based on when you have earned your benefits, for example for BAE Systems Pension Scheme - Levels 125, 167, 187 or 200 and L100+ members different salary definitions apply to benefits earned before and after 6 April 2006.

For the BAE Systems Pension Scheme - Levels 125, 167, 187 or 200, Contribution Earnings are taken into account each month and they are linked to the accrual rate built up each year. This is known as your Individual Pension Percentage (IPP). Your pension at retirement will therefore reflect your earnings pattern over the whole of your Scheme membership. These IPPs are then added together to give the final pension accrual rate known as the Total Pension Percentage.

This calculation is based on the principles of the prescribed calculation set out above but because of the way this section is structured the final benefit is:

$$\text{Annual Pension} = \text{Final Basic Salary} \times \text{Total Pension Percentage}$$

As salary (in the form of Contribution Earnings) is referenced in the on-going build-up of benefits then there is automatically a degree of protection for past service which is afforded under the pension accrual rate. However, for service to 5 April 2006 your Basic Salary averaged over the 12 months ending on the last day of the calendar month in which you leave service is used in the calculation of Final Basic Salary. This is then multiplied by the Total Pension Percentage to calculate your annual pension. For service after 6 April 2006 Basic Salary is averaged over the 36 months ending on the last day of the calendar month in which you leave service.

For all other BAE Systems DB schemes, the pension accrual rate is fixed (expressed as a percentage or fraction e.g. 1% or 1/100<sup>th</sup>) each year and monthly contributions are paid by you and your employer to fund your prescribed level of pension. In this regard the only salary taken into account in the calculation of your benefits on leaving or retirement is your final salary.

### **Defined Benefit (DB) Members – Changing role at the request of the Company**

If your salary is reduced because of a change in role through redeployment which is at the request of the Company and you are a member of the following Schemes then your past service will be protected.

- ❖ BAE Systems Pension Scheme – Levels 125, 167, 187 or 200 Benefits
- ❖ BAE Systems Pension Scheme – Level 100+ Benefits
- ❖ BAE Systems Pension Scheme – Aircrew Benefits
- ❖ BAE Systems Pension Scheme – Passport Benefits
- ❖ BAE Systems Executive Pension Scheme (where the member has underlying benefits in the BAE Systems Pension Scheme – Levels 125, 167, 187 and 200 or Level 100+ Benefits)

For these Schemes, if your basic salary is permanently reduced due to you being redeployed in a different job/role, the pension accrued in respect of pensionable service up to the end of the scheme year in which the redeployment took place is protected from this reduction in basic salary. This is done by setting a notional salary which is used to calculate the pension arising for service up to the redeployment date until such time as your actual salary catches up with the notional salary. This notional salary is calculated as if the reduction had not occurred and it is increased for the purpose of calculating final salary from the end of the scheme year in which the reduction took place until the date when your pensionable service ended.

It is important to recognise that the decision as to whether you have been redeployed in a different job/role, together with the associated protection of your past service benefits rests with BAE Systems plc alone. In practical terms your line manager and HR will work together to ensure that this is considered and inform you of the outcome. Once this process has been completed your scheme administrator will write to you to confirm that your membership record has been updated to recognise the redeployment and that your pension earned in respect of pensionable service up to the end of the scheme year in which the redeployment took place is protected from the reduction in basic salary in accordance with the scheme rules.

For members of the other BAE Systems pension schemes there is no such provision within the rules for this protection to apply.

## **Other benefits that may be impacted with a change salary**

### **Death benefits**

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

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

### **Medical retirement**

For some DB schemes, medical retirement benefit calculations include prospective service to the scheme's Normal Retirement Age. If you are awarded a medical retirement by the Trustee of your scheme, where applicable, future service included in the calculation will assume you would have continued to work based on your new salary until your Normal Retirement Age.

### **Scheme Maximum**

Most BAE Systems DB schemes have maximum benefit accrual limits in place (please refer to the separate ***Scheme Maximum Pension Guide*** for more information). The maximum available benefits to you will reflect the service and salary applied in your previous role and that applied in your new role during your membership of the scheme. If you reduce your salary it is less likely you will reach the Scheme Maximum (although still possible depending on your past pension earned). Conversely, if you were to increase rather than reduce your salary, then you should consider any maximum benefit accrual limit that your scheme may have in place.

### **More information**

If you wish to get an idea of how a change in role (and pay) could affect your pension specifically, please contact your pension scheme administrator for more information. Visit the BAE Systems pension website to obtain the contact details for your scheme administrator: [baesystems.com/en-pensions/contact-us](https://baesystems.com/en-pensions/contact-us).

If you are considering requesting a change to your role this will need to be done under the existing processes for requesting flexible working set out in the UK Work Life Integration Policy, which can be obtained from HR. This policy applies to all employees of BAE Systems plc and its wholly owned subsidiaries operating in the UK with the exception of employees working within the following business unit: Applied Intelligence. This policy also applies to employees of the following subsidiaries of BAE Systems plc: BAE Systems SDT (UK) Limited and SMSCMC (UK) Limited.