

Scheme Maximum

Pension Guide – Information for members

BAE SYSTEMS

This guide will give Defined Benefit (DB) pension scheme members an understanding of the term Scheme Maximum and how any Scheme Maximum might apply to their scheme benefits.

Background

Prior to 6 April 2006, pensions had been governed by eight different tax regimes, introduced over many years. Each tax regime had different rules about how much could be paid in and what the benefits could be. These Scheme Maximums were determined by HM Revenue & Customs. The set of rules applying to an individual would depend, amongst other things, upon the type of pension scheme they chose to join, and the date they started making contributions to it.

Three Scheme Maximum regimes

There were three Scheme Maximum regimes that applied to DB schemes before 6 April 2006, which applied depending upon when somebody joined a company pension scheme. It should be noted that schemes did not have to offer benefits up to the maximum level – employers were able to determine the structure of the scheme and the level of benefits payable.

There were some basic rules that applied to all occupational schemes such as a maximum death in service lump sum life insurance of four times final salary and a maximum death in service spouse's pension of two-thirds of the member's projected pension.

For DB schemes, the first regime applied to members who joined a company pension scheme **before 17 March 1987**. Broadly for such members:

- ❖ There was no limit to the salary used in pension or tax-free cash calculations.
- ❖ A maximum pension of two-thirds final salary could be paid after ten years' service.
- ❖ A maximum tax-free cash lump sum could be paid after 20 years' service. This was up to 1.5 times final salary.

Changes were made to Scheme Maximums for members who joined a company pension scheme **between 17 March 1987 and 31 May 1989**. For such members:

- ❖ There was no limit to the salary used in a pension calculation.
- ❖ A maximum pension of two-thirds final salary could be paid after 20 years' service.
- ❖ A maximum tax-free cash lump sum could be paid after 20 years' service. This was up to 1.5 times final salary, with the maximum salary being £100,000, producing a maximum tax-free cash lump sum of £150,000.

Finally, further changes were made for members who joined a company pension scheme **after 31 May 1989** which were as follows:

- ❖ There was a limit to the final salary used in any pension calculation known as the Earnings Cap.
- ❖ A maximum pension of two-thirds final salary could be paid after 20 years' service.
- ❖ A maximum tax-free cash lump sum could be paid after 20 years' service. This was up to 1.5 times final salary or 2.25 times the pension.

When the Earnings Cap was introduced in 1989 it was set at a level of £60,000. It was introduced to restrict people (particularly directors of companies) increasing their salary in the last few years before they retired with a view to maximising their pension benefits. The level of the Earnings Cap is no longer published by HM Revenue & Customs but it is set for the BAE Systems schemes which apply it by reference to a notional Earnings Cap which increases by reference to the Consumer Prices Index. For the 2020/21 tax year this notional Earnings Cap is £153,600.

Do Scheme Maximums apply now?

The benefits for members under pension schemes operated by BAE Systems continue to be determined, to some extent, by reference to elements of the pre-6 April 2006 Scheme Maximums. The rules of a pension scheme set out the basis of calculation of a member's benefits and these rules will determine whether such limits, and the extent to which such limits, continue to apply.

Does a Scheme Maximum apply to my pension?

The table below provides of a summary of the schemes operated by BAE Systems and whether any Scheme Maximums prior to April 2006 continue to apply to Scheme benefits now, typically in a simplified form.

Scheme	Scheme Maximum
BAE Systems Pension Scheme - Alvis Benefits	<ul style="list-style-type: none"> ❖ Your pension (excluding any additional voluntary contributions) cannot exceed the greater of either 2/3rds of your final earnings <u>or</u> 1/60th of your final earnings for each year of continuous Company employment. ❖ If you joined the Scheme on, or after, 1 June 1989, the Earnings Cap is applied to the maximum earnings used in any calculation of your contributions and benefits.
BAE Systems Pension Scheme – Levels 125/167/187/200 (Main Edition)	<ul style="list-style-type: none"> ❖ Your pension (excluding any additional voluntary contribution benefits but including previous benefits in other schemes) cannot exceed 2/3rds of your final earnings. ❖ With effect from 6 April each year, the Scheme allows you to change levels, subject to the Scheme Maximum. You will not be allowed to change to levels 187 or 200 if it is expected that it will lead to your benefits at your Normal Retirement Date exceeding the Scheme Maximum. This would be confirmed by the Scheme Administrator at the time of making a request to change level. ❖ If you joined the Scheme on, or after, 1 June 1989, the Earnings Cap is applied to the maximum earnings used in any calculation of your contributions and benefits.
BAE Systems Pension Scheme - 2000 Plan Benefits	<ul style="list-style-type: none"> ❖ Your pension (excluding any additional voluntary contributions) cannot exceed 2/3rds of your final earnings. ❖ If you joined the Scheme on, or after, 1 June 1989, the Earnings Cap is applied to the maximum earnings used in any calculation of your contributions and benefits.

Scheme	Scheme Maximum
Royal Ordnance Pension Scheme	<ul style="list-style-type: none"> ❖ Your pension (excluding any additional voluntary contributions) cannot exceed 2/3^{rds} of your final earnings. ❖ Pensionable Service in the Scheme cannot exceed 45 years. If you have transferred-in benefits from elsewhere into the Scheme, this will also be included. ❖ If you joined the Scheme on, or after, 1 June 1989, the Earnings Cap is applied to the maximum earnings used in any calculation of your contributions and benefits.
BAE System Executive Pension Scheme	<ul style="list-style-type: none"> ❖ Under the Main Edition of the Scheme, your pension at retirement cannot exceed 2/3^{rds} of your Final Pensionable Earnings. ❖ Under the 2006 Edition of the Executive Scheme, an Earnings Cap is applied to the maximum earnings used in any calculation of your contributions and benefits (under the Main Edition and 2012 Retirement Plan of the Scheme no Earnings Cap applies).
BAE Systems Pension Scheme SIPS (VSEL, Fleet Support, Portsmouth) Benefits	<ul style="list-style-type: none"> ❖ If you joined the Scheme on, or after, 1 June 1989, your Final Pensionable Pay will be limited to the Earnings Cap. In addition Pay, for the purpose of the calculation of any lump sum death in service benefits will also be limited to the Earnings Cap. ❖ If you joined the Scheme before 1 June 1989 and you stay in service after your Normal Retirement Date you may choose to start receiving your pension at any time from your Normal Retirement Date up to your date of leaving.

What happens if I know my pension exceeds a Scheme Maximum?

If any pension payable to you exceeds the Scheme Maximum your pension will be scaled back so that the Scheme Maximum is not exceeded. By reviewing your annual benefit statement you will be able to ascertain whether this is likely to apply to you. If applicable, the total pension accrued figures will be restricted by an estimate of the Scheme Maximum and this will be confirmed in your annual benefit statement. If you are looking to make any decisions about your Scheme benefits it is recommended that you contact the Scheme administrator and they will be able to carry out a more accurate calculation of the Scheme Maximum that applies to you.

In the event that your benefits exceed the Scheme Maximum and you are still accruing benefits, you may wish to take some financial advice to help you consider what options are available to you and what will best suit your personal circumstances. Whilst you might consider opting-out of the Scheme it is important to remember that if you chose to do so:

- ❖ You will lose the opportunity to earn a pension linked to your future earnings. The final pensionable salary used in the calculation of your eventual pension will be based on your salary on leaving the scheme, not on leaving employment with the Company.
- ❖ You will lose the protection provided by the Scheme to you and your family in the event of your death in service. You will become a deferred member of the Scheme and will be entitled to death benefits associated with this status, rather than that of an in-service active Scheme member. Please refer to your Scheme member booklet for more information about these differences.
- ❖ You will lose the protection provided by the Scheme to you and your family in the event of your early retirement from the Company because of ill health.

- ❖ If you subsequently change your mind please note that re-entry into the Scheme is not allowed.
- ❖ You will be able to join the BAE Systems DC Retirement Plan if you decide to opt out of your DB Scheme.

Further Information

For further information on Scheme Maximums and more generally on your Scheme please refer to the Scheme booklet, or you can contact the Scheme Administrator. Contact details for your Scheme Administrator can be found at: baesystems.com/en-pensions/contact-us