

Funding Update 2020

BAE Systems Pension Scheme -
BAE Systems Section



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to 15 March 2021
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from 15 March 2021
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Welcome to the Trustee's 2020 funding update of the BAE Systems Section of the BAE Systems Pension Scheme.

The most recent formal valuation of the BAE Systems Section of the BAE Systems Pension Scheme ('the Scheme') was carried out as at 31 October 2019. At this date the deficit of the Scheme was £1,933m which was equivalent to a funding level of 91%.

Under the recovery plan put in place as part of the 31 October 2019 valuation, it was agreed that the Company would make a one-off payment of £1bn. This represented an acceleration of deficit contributions that would otherwise have been payable in the period to 2026 under the pre-merger recovery plans of the four schemes which merged in 2019 (i.e. the BAE Systems Pension Scheme, the Alvis Pension Scheme, the BAE Systems 2000 Pension Plan and the Shipbuilding Industries Pension Scheme). The one-off payment was received on 17 April 2020 and further employer deficit contributions that were due under the recovery plan in the period to 31 March 2020 and 31 March 2021 have been received. These contributions, along with investment returns achieved by the Scheme's assets, are expected to remove the funding deficit by 2026.

Prior to his retirement from Hymans Robertson LLP at the end of March 2021, Mike Parker, in his role as Scheme Actuary, provided the Trustee with an update on the funding position of the Scheme as at 30 September 2020. With contributions received exceeding benefit payments this led to an increase in the value of the Scheme's assets over the year, although this was offset to an extent by an increase in the value of the Scheme's liabilities (the amount needed to provide all benefits in future), due to the impact of challenging market conditions during 2020. As at 30 September 2020 it was estimated that the funding deficit had decreased to £1,552m and the funding level had increased to 93%.

Patrick Bloomfield, who was previously the Plan Actuary for the BAE Systems 2000 Pension Plan, was appointed as the Scheme Actuary to replace Mike from 15 March 2021. Patrick will provide the next update on the funding position of the Scheme as at 30 September 2021, with the next formal valuation being due with an effective date no later than 31 October 2022.

What happened to the funding level in the period to 30 September 2020?

The funding level improved over the period driven by the £1bn Company contribution received in April 2020, although this was offset to an extent by an increase in the Scheme's liabilities.

	30 September 2020	31 October 2019
Assets	£21,720m	£20,576m
Amount needed to provide benefits	£23,272m	£22,509m
(Deficit)	(£1,552m)	(£1,933m)
Funding level	93%	91%

The DC Retirement Plan, Additional Voluntary Contributions and Level 100+ Retirement Accounts are excluded from the above figures (Level 100+ Core Pension Benefits are included).

What has happened since the last formal actuarial valuation?

Change in assets

The value of assets has increased since the 2019 valuation, primarily due to asset returns and contributions received exceeding benefit payments.

Asset value at 31 October 2019	£20,576m
Interest on assets	£602m
Contributions paid in	£1,419m
Benefits paid out	(£883m)
Asset outperformance over discount rate*	£6m
Asset value at 30 September 2020	£21,720m

* The additional returns achieved on the Scheme's assets over the period compared to the returns expected at the beginning of the period.

The value of assets increased over the period from £20,576m to £21,720m with an improved funding level of 93%.

Change in liabilities

The value of liabilities (the amount needed to provide benefits) has also increased since the 2019 valuation due to a combination of interest, accruing benefits and changes to the discount rate, although these changes have been offset by benefit payments assumed to have been paid out of the Scheme.

Value of liabilities at 31 October 2019	£22,509m
Interest on liabilities	£639m
Cost of benefits accruing	£225m
Change in discount rate**	£578m
Change in expectations of future inflation	£16m
Benefits expected to be paid out over the period at outset, and other actuarial (gains)/losses***	(£695m)
Value of liabilities at 30 September 2020	£23,272m

** The discount rate is used to determine the value of all expected future payments, and is linked to the latest market information on expected future asset returns. This item shows the impact of the change in the discount rate over the period - expected future asset returns dropped during 2020, increasing the expected cost of meeting future payments.

*** Other actuarial (gains)/losses reflects the impact of the many other items that lead to changes in the valuation of liabilities, primarily where we now know that actual events have differed from assumptions made in the past.

Funding position

The net effect of the changes in the assets and liabilities is that the funding shortfall has fallen from £1,933m at the 31 October 2019 valuation to £1,552m at 30 September 2020 – equivalent to an increase in the funding level from 91% to 93%. The Scheme Actuary will provide the next update on the funding position of the Scheme as at 30 September 2021.

What would happen if the Scheme had to be wound up?

Whilst there is no intention to wind up the Scheme, it is a statutory requirement to provide members with information on the Scheme's position if that were to happen.

As part of the 31 October 2019 valuation, the Scheme Actuary estimated the cost of securing all members' benefits with an insurance company to be around £34,932m (after allowing for expenses). The Scheme's assets at that time were valued at £20,582m, resulting in a shortfall of £14,350m. This is approximately the amount the Scheme employers would have needed to pay into the Scheme if it had been wound up on 31 October 2019. Please note that there is a difference for the calculation of assets for wind-up purposes compared to funding purposes – the cost of wind-up is typically higher because an insurance company would charge a premium for taking on the liabilities.

In the event of the Scheme having to be wound up and the Scheme had insufficient assets to provide a certain minimum level of benefits for members, compensation should be provided by the Pension Protection Fund (PPF). PPF compensation is subject to certain caps and limits, and is not equal to your full Scheme benefits.

Further information and guidance is available on the PPF's website at:

> pensionprotectionfund.org.uk

There have been no payments to the Scheme employers out of Scheme funds during the year, except to reimburse administration and investment expenses.

The Pensions Regulator has not had to exercise any of its statutory powers in relation to the Scheme.

Information resources

The BAE Systems pensions website at baesystems.com/pensions is the best place to find detailed information on the BAE Systems Pension Scheme. This includes Scheme booklets and pension guides covering such matters as receiving your company pension, independent financial advice, pension flexibilities, the State pension and much more.

For all members (other than SIPS Benefits members) Equiniti's online service, MyPension at mybaespension.equiniti.com allows you to run instant retirement quotes, use the modeller to plan for your retirement and check your membership details. For SIPS Benefits members, Capita's online service, Hartlink at hartlinkonline.co.uk allows you to run instant retirement quotes, use the modeller to plan for your retirement and check your membership details.

For Level 100+ members, and those members who have paid Additional Voluntary Contributions to Standard Life, a one stop shop for all the information you need to manage your Defined Contribution Account can be found at: standardlifepensions.com/bspp/index.page

Remember there are also many independent sources of information that you can draw upon including:

moneyadvice.service.org.uk which has been set up by the Government to provide free and impartial money advice.

pensionsadvisory.service.org.uk which provides free, independent and impartial pension guidance. The Pensions Advisory Service works to make pensions accessible and understandable for everyone.

pensionwise.gov.uk provides free and impartial government guidance about your defined contribution pension options. This guidance is available to those aged 50 and over.

From early June, The Money Advice Service, The Pensions Advisory Service and Pension Wise will all come under MoneyHelper. MoneyHelper will be the easy way to get free, trusted help for your money and pension choices.

Contact us

For all members (except those with SIPS benefits) the Equiniti Pensions Service Centre is available if you have got any questions regarding the Scheme or your BAE Systems pension benefits.

- > Call the pensions helpline: 0800 917 9568
- > Email: farnborough.pensions@equiniti.com
- > Write to: Pensions Service Centre, PO Box 1193
Crawley, West Sussex, RH10 0FY

Members with SIPS Benefits can contact Capita with any questions:

- > Call the pensions helpline: 0345 601 0607
 - > Email: member.enquiries@sips-pensions.co.uk
 - > Write to: Capita, PO Box 555, Stead House, Darlington, DL1 9YT
- Please remember to contact us using the above details if you change your address.

This communication is intended as a source of information regarding the Scheme. The Rules of the Scheme set out the legal basis for the Trustee's administration of the Scheme and will override this communication in the event of any inconsistencies. References to external websites are given for information only. No responsibility is accepted for the content or accuracy of the information provided through these sites.