

Pension Guide – Information for members

This guide outlines the ways in which members of a BAE Systems pension scheme can access the 'pension flexibilities' which were introduced in the UK from April 2015.

Please note that the content of this guide does not constitute advice. If you require advice, (and we recommend you do seek advice) please approach an Independent Financial Adviser ('IFA'). Details of where to find an IFA, and of organisations which can provide assistance to you with queries about the pension flexibilities, are provided under the heading "Help for members" below.

Pension flexibilities

Prior to 6 April 2015, members of Defined Contribution (DC) pension arrangements were limited in what they could do with their DC pots. The majority of members were compelled to purchase a lifetime annuity to provide them with an income in retirement. In 2015 the government lifted some of the restrictions around what members could do with their DC pots, allowing members to access them in different ways. This is what people refer to as 'pension flexibilities' (or sometimes 'pension freedoms').

Options for DC pension savers from age 55

Since 6 April 2015 members have had the choice of accessing their DC pots through a number of different options. The main retirement income options are set out below:

- ❖ Use pension savings to buy a guaranteed income for life – called a lifetime annuity.
- ❖ Use pension savings to provide a flexible retirement income – known as income drawdown.
- ❖ Take a number of cash lump sums from your pension savings – known as uncrystallised funds pension lump sum (UFPLS).
- ❖ Take all of your pension savings in one go (i.e. a single cash lump sum).

DC pension savers can combine the above options.

The features of each option are summarised at a high level in the table overleaf.

It is important to note that not all of these options are offered through any BAE Systems pension scheme. Members may need to transfer their scheme benefits to an external individual pension arrangement in order to access their preferred retirement income options. Please see further detail in the later sections 'Options available for DCRP members', 'Members with Defined Benefits', and 'DB Members with AVCs'.

Feature	Buy a lifetime annuity	Take a flexible retirement income	Take a number of lump sums (UFPLS)	Take DC pot in one go
Amount of tax free cash	Up to 25% of pot	Up to 25% of pot	25% of each withdrawal	25% of pot
Regular income?	Yes	Yes – if you choose too	Not necessarily	No
Guaranteed income for life?	Yes	No	No	No
Requirement to regularly review pension savings in retirement?	No	Yes	Yes	N/A
Possibility of money running out in retirement?	No	Yes	Yes	Yes
Products available which pay higher incomes for certain medical conditions?	Yes	No	N/A	N/A
Possible to change mind and use pension savings differently?	Not currently	Yes	Yes – i.e. savings not cashed can be used to buy a lifetime annuity	No
Will tax rate go up when savings are accessed?	Depends on level of income paid and other income	Depends on level of income paid and other income	Depends on size of cash withdrawals and other income	Depends on the size of the cash withdrawal – but for many likely.
Will tax relief on pension savings be affected?	No (apart from a lifetime annuity which could decrease such as an investment linked annuity)	Yes – Money Purchase Annual Allowance will apply	Yes - Money Purchase Annual Allowance will apply	Yes - Money Purchase Annual Allowance will apply
What happens on death? Tax rules will vary depending on date of death	Depends upon the product selected. If joint life products / guarantee periods have been selected then the associated benefits will be paid to nominated beneficiaries.	Remaining flexible retirement income funds normally fall outside of estate for inheritance tax purposes.	Untouched pension pot normally falls outside of estate for inheritance tax purposes. Note that if the value of pension savings is above £1m when death occurs further tax charges may apply.	Remaining money from (or investments bought with) cash taken from pension pot will form part of estate for inheritance tax.

Options available for BAE Systems DC Retirement Plan (DCRP) members

The only option currently available within the DCRP is for members to use their DC pot to purchase a lifetime annuity, with the option to take up to 25% of their DC pot as a tax free lump sum.

However, members can transfer their DC pot to an external DC pension arrangement of their choice (workplace or personal pension plan) which *may* (there's no legal requirement to do so) facilitate one or more of the additional retirement income options noted in the table above.

It is important to note that members who wish to purchase an annuity do not have to buy it from the DCRP's existing provider (currently Standard Life). In fact, many members may be able to secure a better deal by shopping around (see information about the Hargreaves Lansdown Retirement Service in the section 'Help for members' below).

Members with Defined Benefits ('DB')

The pension flexibilities relate to DC savings (such as the DCRP or Additional Voluntary Contributions). This means that members' DB benefits remain unaffected by the new options for taking benefits at retirement.

However, DB members may, subject to certain restrictions, opt out of the schemes and transfer their DB benefits into an external personal pension arrangement in order to access the pension flexibilities. This is because, upon transfer out, the DB benefits are converted into a DC pot under the receiving pension arrangement.

It is important that members are aware that by opting out and transferring out their DB pension they are giving up a valuable benefit and it is an irreversible decision. Also, any such considerations would usually only be expected to happen at the point the member leaves BAE Systems' employment. For employees a transfer out would mean giving up not just a valuable accrued benefit but also future years' DB accrual.

It is a statutory requirement that members who make a DB to DC transfer take appropriate advice from an authorised advisor before the Trustee can pay the transfer value (unless the value of the transfer is less than £30,000). It is not possible for DB members who have AVCs to transfer their DB benefits only out of the Schemes.

More information can be found in the separate [*Transferring out of a defined benefit pension scheme Pension Guide*](#).

DB Members with Additional Voluntary Contributions (AVCs)

In practice many members use their AVCs to fund part or all of their tax free cash lump sum. Outside of this members have the option to use their AVCs to purchase a lifetime annuity to provide them with an income in retirement.

Subject to some restrictions, members can separately transfer their AVCs to another external DC pension arrangement of their choice to access the suite of pension flexibilities. This is known as a partial transfer. The restrictions are as follows:

- ❖ Previous transfers in cannot form part of a partial transfer.

- ❖ 2000 Plan Benefit members who transfer out their Selected Benefits Scheme (SBS) fund will not be permitted to recommence payments to the SBS at a later date.

Help for members

- ❖ Pension Wise is a free and impartial service which has been set up by the Government to help DC savers understand their options and what they can do with their DC savings. The service is available to those age 50 and over.

To book a telephone or face-to-face appointment members may call **0800 138 3944** or if you're outside the UK, call **+44 20 3733 3495**.

Or visit the Pension Wise section at moneyhelper.org.uk/en

- ❖ **MoneyHelper** provides impartial guidance that's backed by government to make your money and pension choices clearer. It also recommends further, trusted support if you need it. Visit: moneyhelper.org.uk/en.
- ❖ Hargreaves Lansdown has been appointed to provide a Retirement Service for members with DC and AVC benefits, to help them make an informed choice about their retirement options. The service is provided on a non-advised basis. Members can find out more at retirementservice.co.uk/baesystems.

It is important that members take independent financial advice from an authorised adviser to determine the options which are most suitable in their circumstances. More information can be found in the separate ***Independent Financial Advice Pension Guide***.

The Money Purchase Annual Allowance

The Money Purchase Annual Allowance (MPAA) applies to anyone who is deemed to have 'flexibly accessed' any personal or workplace DC pension arrangement after April 2015. 'Flexibly access' includes taking a cash lump sum greater than 25% of the DC pot, taking income from a flexible retirement income product or from a lifetime annuity which could decrease such as an investment linked annuity. It does not apply to members who have only used some or all of their pension pot to buy a lifetime annuity, with or without having taken a tax-free cash sum of up to 25% of the DC pot.

Where flexible access has occurred, from that point onwards, the individual is only permitted to contribute (including any employer pension contribution) £4,000 per annum (as opposed to the standard £40,000 Annual Allowance) to one or more DC pension arrangements. Members who exceed the MPAA will be subject to a tax charge which claws back any tax relief which was given at source.