

Funding Update 2020

Royal Ordnance Pension Scheme

Welcome to the Trustee's 2020 funding update for the Royal Ordnance Pension Scheme ('the Scheme').

The Scheme Actuary, Calum Cooper from Hymans Robertson LLP, carries out a valuation every three years to compare the assets of the Scheme to its liabilities (the amount needed to provide members' benefits). One of the aims of the valuation is to help determine the level of contributions the Company needs to pay into the Scheme. The most recent formal valuation of the Scheme was carried out as at 31 March 2020 and was completed in June 2021.

Whilst we normally aim to complete formal valuations more rapidly, we took time to ensure that the impact on financial markets of the emerging pandemic and the Government's decision on the future of RPI as a measure of inflation were fully considered when reaching our agreement with the Company. Notwithstanding the materially negative impact on financial markets at 31 March 2020, there was a surplus in the Scheme of £12m, i.e. the value of assets was expected to be sufficient to pay all benefits accrued (assessed on a prudent basis). This position is equivalent to a funding level of 101%. The resilience of the funding level against the difficult financial conditions caused by the pandemic reflects sound decisions the Trustee has made over the past three years to protect the Scheme against key financial risks.

As part of the valuation the Trustee has agreed with the Company an increased level of contributions to meet the cost of providing future service benefits for active members who continue to build up benefits in the Scheme. From 1 July 2021 this rate will increase from 40% to 54% of Pensionable Earnings for those members who participate in SMART Pensions*, and from 31% to 44% of Pensionable Earnings for those members who do not participate in SMART Pensions.

The Scheme Actuary will provide the Trustee with an update on the funding position of the Scheme as at 31 March 2021 and information on this will be provided in the Scheme's Annual Review newsletter later in the year.

* SMART Pensions is a salary sacrifice arrangement that results in employees and the Company paying lower National Insurance contributions.



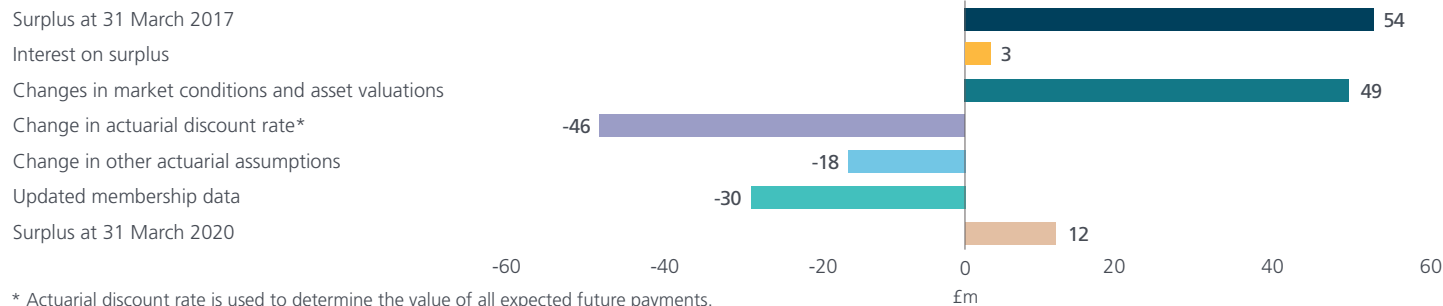
Carol Woodley
Chair of the Trustee Board

Results of the actuarial valuation as at 31 March 2020

£m	31 March 2017 valuation	31 March 2018 update	31 March 2019 update	31 March 2020 valuation
Assets	1,600	1,578	1,617	1,556
Amount needed to provide benefits	1,546	1,494	1,529	1,544
Surplus	54	84	88	12
Funding level	103%	106%	106%	101%

Since the last valuation of the Scheme, there have been changes to Scheme membership, the value of its investments, the economic environment in which the Scheme operates and the valuation assumptions. These factors have resulted in the surplus of £12m at this valuation (which reduced from £54m at the previous valuation in 2017).

The table below provides further information on the reduction in the funding position since the actuarial valuation in 2017.



The above table shows the key factors influencing the reduction in surplus from £54m in 2017 to £12m in 2020. This has primarily been driven by the Trustee's decision to strengthen the actuarial assumptions, which leads to an increase in the liabilities. These changes in assumptions reflect the Trustee's cautious approach to assessing the impact of the 2020 Government consultation on the future of RPI as a measure of inflation, which effectively lowered the expected return on inflation linked assets. Note that the Trustee expects a further impact to be reflected at the next valuation due to the evolving market reaction to the Government consultation.

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 March 2020 valuation, the Scheme Actuary estimated the cost of securing all members' benefits with an insurance company to be around £1,928m (after allowing for expenses). The Scheme's assets at that time were valued at £1,505m, resulting in a shortfall of £423m. This is approximately the amount the Scheme employers would have needed to pay into the Scheme if it had been wound up on 31 March 2020.

Please note that there is a difference in the calculation of liabilities 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 at this time. There is also a difference in the valuation of the assets compared to the table on the previous page. This is due to different values being placed on the insurance contracts the Scheme currently holds to protect it against future changes in life expectancy.

In the event of the Scheme having to be wound up, and the Scheme having 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

Other confirmations

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.

Where can I get more information on the valuation?

Documents that provide further information on the actuarial valuation as at 31 March 2020 are listed below. If you would like a copy of these, or have any other questions please get in touch with the Pensions Service Centre.

- > **Actuarial valuation report** includes details of the Scheme's financial position at 31 March 2020.
- > **Statement of Funding Principles** sets out the Trustee's policies on how it funds the Scheme with the aim of paying all the benefits that have been promised to members.
- > **Schedule of Contributions** shows how much money is being paid into the Scheme to cover the cost of benefits which are accruing for active members.

Information resources

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

You can also find a copy of the Scheme's Statement of Investment Principles (SIP), which sets out the investment policy for the Scheme, together with the Implementation Statement, which sets out how the SIP has been implemented.

Equiniti's online service, MyPension at mybaespension.equiniti.com allows active and deferred members to run pension estimates and check their membership details. Pensioner members can access annual increase letters, payslips and P60s.

For those members who have paid Additional Voluntary Contributions (AVCs) to Standard Life, a one stop shop for all the information you need to manage your AVCs can be found at: standardlifepensions.com/bspp/rops.page

Contact us

The Equiniti Pensions Service Centre is available if you have got any questions regarding the Scheme or your pension benefits.

- > Call the pensions helpline: 0800 917 9568
- > Email: fulwood.pensions@equiniti.com
- > Active and deferred members write to:
Pensions Service Centre, PO Box 1194, Crawley, West Sussex, RH10 0FZ
- > Pensioner members write to:
Pensions Service Centre, Freeport RSTA-GHHR-EEAK,
PO Box 1197, Crawley, West Sussex, RH10 0GD

Please remember to let the Equiniti Pensions Service Centre know if you change your name, contact details or address.