

Funding Update 2020

BAE Systems Pension Scheme – Airbus Section

Welcome to the Trustee's 2020 funding update of the Airbus Section of the BAE Systems Pension Scheme ('the Section' of 'the Scheme').

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

While we would normally aim to complete the valuation more rapidly, we took time to ensure that as much as possible the impact of the pandemic on financial market conditions was reflected in our agreement with Airbus.

It is good to be able to report that the latest valuation as at 31 March 2020 showed a slight improvement in the funding position compared to the valuation that was undertaken as at 31 March 2017. At 31 March 2020 there was a deficit in the Section of £283m which was equivalent to a funding level of 90%. This compared to a deficit at 31 March 2017 of £298m and a funding level of 89%.

To eliminate the funding shortfall identified in this actuarial valuation, Airbus has agreed to pay contributions towards the deficit as follows:

- > £173m to be paid before 30 June 2022; plus
- > £43m to be paid before 30 June 2023.

These contributions, along with investment returns achieved by the Section's assets and contributions expected to be paid by members over the period, are expected to remove the funding deficit by 2024.

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

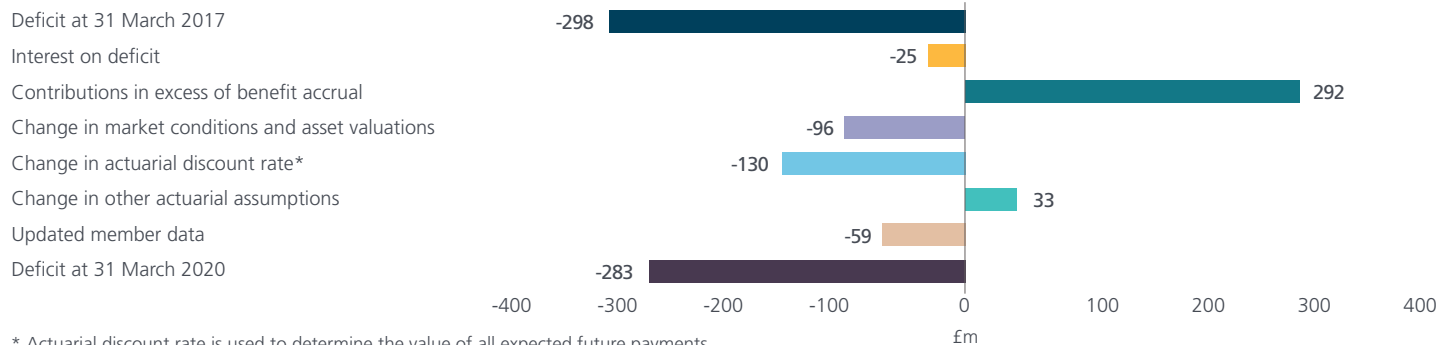


Patrick Bloomfield FIA
Scheme Actuary
Hymans Robertson LLP

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	2,364	2,354	2,713	2,705
Amount needed to provide benefits	2,662	2,735	2,870	2,988
Deficit	(298)	(381)	(157)	(283)
Funding level	89%	86%	95%	90%

Since the last valuation of the Section, there have been changes to the Section membership, the value of its investments, the economic environment in which the Section operates and the valuation assumptions. These factors have resulted in the deficit of £283m at this valuation (which has reduced from £298m at the previous valuation in 2017). The table below provides further information on the change in the funding position since the actuarial valuation in 2017.



* Actuarial discount rate is used to determine the value of all expected future payments.

As can be seen from the table above, the main influence on funding is that the excess contributions paid by Airbus over the period since the previous valuation have been offset by changes in market conditions and the actuarial discount rate. The impact of the COVID-19 pandemic was an important consideration for this valuation and it is reflected in the changes to the Section's discount rate. These factors have served to increase the assets and the liabilities respectively, leading to a small improvement in the funding level.

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

Whilst there is no intention to wind up the Section, it is a statutory requirement to provide members with information on the Section'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 £5,435m (including the expenses of winding up). The Section's assets at that time were valued at £2,705m, resulting in a shortfall of £2,730m. This is approximately the amount Airbus would have needed to pay into the Section if it had been wound up on 31 March 2020. The cost of wind up is typically higher than the Section's normal funding because an insurance company would charge a premium for taking on the liabilities.

If the Section was wound up and it did not have enough assets to provide members with at least the same level of benefits that the Pension Protection Fund (PPF) would provide, then the PPF would be likely to take on the Section and provide members with these benefits. PPF compensation is based on members' benefits in the Section, but is subject to certain reductions, caps and limits and so is not equal to your full Section benefits. More information is available on the PPF's website at:

> pensionprotectionfund.org.uk

Other confirmations

There have been no payments to Airbus out of Section funds during the year.

The Pensions Regulator has not exercised any of its statutory powers in relation to the Section.

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 Section's financial position at 31 March 2020.
- > **Recovery Plan** sets out the duration and level of deficit recovery contributions that are required. The Recovery Plan is projected to end on 30 June 2024.
- > **Statement of Funding Principles** sets out the Trustee's policies on how it funds the Section 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 Section to cover the cost of benefits which are accruing for active members.

You can also find a copy of the Section's **Statement of Investment Principles**, which sets out the investment policy for the Section, at baesystems.com/disclosableinformation

Information resources

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

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/ps.page

Contact us

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

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