

BAE SYSTEMS



2021 Annual Review

BAE Systems Pension Scheme - Airbus Section

Welcome

Welcome to the Trustee's 2021 annual review for the Airbus Section of the BAE Systems Pension Scheme ('the Scheme').

After such a difficult year, it is impossible to introduce our newsletter without mentioning the pandemic. Its impact on the world has been at the forefront of everything in our daily lives, although it does feel like there is light at the end of the tunnel from where we were a year ago. The vaccination programme gives us all hope for a return to a more 'normal' life coming into 2022.

Before touching on the content of this year's newsletter, I am delighted to be able to share with you the news that at the Pensions Age industry awards ceremony on 15 July, the Scheme won Defined Benefit Pension Scheme of the year. This award was received in recognition of the effort and work associated with the Scheme merger which took place in 2019, the formation and transition to our current Trustee Board, together with the swift completion of the actuarial valuation as at 31 October 2019 for the BAE Systems Section of the Scheme. I would like to extend my thanks to all those involved in achieving this. It was a real team effort and a welcome boost to morale after the past year.

The main focus of this edition is the investment update starting on page 8. This update gives an insight into the investment strategy and performance of the Scheme's assets, which have seen a bounce back during the course of the year to above pre-pandemic levels. Against the backdrop of economic recovery, the Chief Investment Officer of BAE Systems Pension Funds Investment Management also looks forward and gives his view on the short and longer term investment outlook, including the vital role that the pensions sector has in tackling climate change. Environmental, Social and Governance (ESG) considerations form a fundamental part of the Trustee's investment decision process. Our article 'Responsible Investing' on page 12 provides you with an insight into this important work and in recognition of this we now have a dedicated Responsible Investment Committee.

As usual there are a number of pensions news articles covering topical issues and developments that may be of interest to you. On page 14 we focus on the growing issue of pension scams, which unfortunately are becoming

increasingly sophisticated and we would like to take this opportunity to urge you to remain vigilant. The impact of falling victim to a scam can be devastating.

Information on how you can find out the value of your pension can be found on page 16. Here, you will obtain information on how you can access your pension details instantly online, or via your Scheme administrator if you would prefer. If you are approaching retirement there are three important areas to be aware of – thieves, tax and transfers - as our article 'Overcoming the risks at retirement' on page 18 explores.

The BAE Systems pensions website (baesystems.com/pensions) continues to be your go to place for the latest Scheme information and I would encourage you to take a look. Along with the documentation you would expect to see on this site you will also find a series of helpful pension guides covering a range of topics from pension scams to the Lifetime Allowance tax limits.

Finally, may I draw your attention to a change to the Trustee Board with the retirement of Mike Byfield, a Member Nominated Director, at the end of March. I would like to extend my thanks to Mike on behalf of the Board for his contribution to running the Scheme over the last six years and extend a very warm welcome to Richard Bestwick as his elected replacement. Richard joined the Board on 1 April.

We hope that you find this newsletter interesting and, as ever, we are keen to hear your thoughts. If you have any comments or suggestions about what we can include in future communications, please get in touch using the contact details on page 24.

Andrew Gallagher
Chair of the Trustee Board



Who's in the Scheme?

At 31 March 2021 the Airbus Section of the Scheme had a total of **12,354 members**.

Active members

3,501

Deferred members

3,427

Pensioners

5,426

Cover image: Zero-emission concept aircraft known as ZEROe. These concepts include turbofan, turboprop, and blended-wing body configurations that are powered by hydrogen propulsion. All ZEROe concepts are hydrogen-hybrid aircraft. Credit: Airbus

Trustee Directors and Advisers

The Scheme's Trustee Directors

Andrew Gallagher Chair
 Tina Bailey
 Martin Brixner
 Richard Bestwick* *Appointed 1 April 2021*
 Mike Byfield* *Retired 31 March 2021*
 Dave Cole*
 Chris Deal*
 Andy Dean* Vice Chair
 David Green
 Duncan McPhee*
 Craig Murray
 Richard Parsons*
 Carol Paul*
 Joseph Reed*
 Gavin Scott
 Ruston Smith Independent Trustee
 Mark Stewart
 Louise Wallwork
 Chris Williams*

* Member Nominated Director (MND)

The Scheme's Advisers

Scheme Secretary

Louisa Richards *Resigned 31 August 2021*
 Julie Cook *Appointed 1 September 2021*

Actuary

Mike Parker FIA
 Hymans Robertson LLP
Resigned 15 March 2021
 Patrick Bloomfield FIA
 Hymans Robertson LLP
Appointed 15 March 2021

Auditor

Grant Thornton UK LLP

Legal Adviser

Travers Smith LLP

Lead Investment Manager

BAE Systems Pension Funds Investment Management Limited (BAPFIM)

Investment Manager for Level 100+ Retirement Accounts

Standard Life plc

Investment Consultant

Hymans Robertson LLP

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Money in and money out

The table below is a summary of how the value of the Scheme's assets changed during the year ended 31 March 2021.

Income and expenditure		(£m)
Fund at 31 March 2020		2,704.6
Total income	186.0	
Total outgoings	(185.4)	
Excess of income over outgoings		0.6
Change in market value of assets		367.1
Fund at 31 March 2021		3,072.3
Net investments	3,060.2	
Net current assets	12.1	
Net assets of the Scheme at 31 March 2021		3,072.3

These figures include Level 100+ Retirement Accounts and Additional Voluntary Contributions.



Funding update

The most recent formal valuation of the Airbus Section of the BAE Systems Pension Scheme ('the Scheme') was carried out as at 31 March 2020. At this date the deficit of the Scheme was £283m, which was equivalent to a funding level of 90%.

Under the recovery plan put in place as part of the 31 March 2020 valuation, it was agreed that the Company would pay a total of £216m of contributions over the period to 30 June 2023. Further employer deficit contributions that were due under the previous recovery plan in the period to 31 March 2021 have also been received. These contributions, along with investment returns achieved by the Scheme's assets and contributions made by employees, are expected to remove the funding deficit by 2024.

I provided the Trustee with an update on the funding position of the Scheme as at 31 March 2021. Strong investment returns have 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 changes in market conditions over the year. As at 31 March 2021 it was estimated that the funding deficit had decreased to £169m, equivalent to a funding level of 95%.

The next formal valuation is due to take place with an effective date of 31 March 2022, following which I will be providing a further update on the funding position of the Scheme.

Patrick Bloomfield FIA
Scheme Actuary
Hymans Robertson LLP



What happened to the funding level in the period to 31 March 2021?

The funding position has improved over the period due to strong returns on the Scheme's assets, although this was offset to an extent by an increase in the Scheme's liabilities.

	31 March 2021	31 March 2020
Assets	£3,072m	£2,705m
Amount needed to provide benefits	£3,241m	£2,988m
(Deficit)	(£169m)	(£283m)
Funding level	95%	90%

Level 100+ Retirement Accounts and Additional Voluntary Contributions (AVCs) are included in the above figures.

In determining the value of the liabilities, I have used the funding method and actuarial assumptions consistent with those set out in the Trustee's Statement of Funding Principles dated 30 June 2021.

What has happened since the last formal actuarial valuation?.

Change in assets

The value of assets has increased over the year, primarily due to contributions paid and strong investment returns.

Asset value at 31 March 2020	£2,705m
Interest on assets	£97m
Contributions paid in	£85m
Benefits paid out	(£143m)
Transfers out of the Scheme	(£11m)
Additional Defined Contribution / AVC benefits	£10m
Asset outperformance over discount rate*	£329m
Asset value at 31 March 2021	£3,072m

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

Change in liabilities

The value of liabilities (the amount needed to provide benefits) has also increased since the previous formal valuation due to a combination of interest, accruing benefits and changes to inflation, although these changes have been offset by benefit payments made by the Scheme.

It is too early to draw conclusions on the impact of COVID-19 on life expectancy, so this will be monitored and looked at in depth at the next valuation. Over the course of the year the Company undertook a restructuring exercise which resulted in a large number of early retirements. The estimated impact of this exercise was allowed for in the 31 March 2020 valuation agreement, and the benefits paid out this year includes the retirement lump sums associated with those early retirements.

Value of liabilities at 31 March 2020	£2,988m
Interest on liabilities	£106m
Cost of benefits accruing	£46m
Change in discount rate**	£8m
Change in expectations for future inflation	£226m
Benefits paid out	(£143m)
Transfers out of the Scheme	(£11m)
Additional Defined Contribution / AVC benefits	£10m
Other actuarial (gains)/losses***	£11m
Value of liabilities at 31 March 2021	£3,241m

** 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.

*** 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.

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 £5,435m (including the expenses of winding up). The Scheme'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 Scheme if it had been wound up on 31 March 2020. The cost of wind up is typically higher than the Scheme's normal funding because an insurance company would charge a premium for taking on the liabilities.

If the Scheme 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 Scheme and provide members with these benefits. PPF compensation is based on members' benefits in the Scheme, but is subject to certain reductions, caps and limits and so is not equal to your full Scheme 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 Scheme funds during the year.

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



Investment update

Investment backdrop – the year to 31 March 2021

Asset returns for the year were strong due to a sharp recovery in equity markets as a result of vaccine progress, massive monetary and fiscal support and the gradual partial reopening of economies led initially by China, but more recently by the US and Europe. Company earnings and dividend forecasts have recovered since lockdown lows, economic growth forecasts are more positive and government support programmes have continued to provide lifelines to businesses and consumers to enable them to cope with cash flow issues. The main focus for financial markets has been virus developments, economic recovery, corporate profitability and the recent rise in inflation. In addition to this, there has also been an increasing focus on the impact of climate change.

Investment strategy

The Scheme's membership and liabilities are projected to maturity and with the number of members in retirement increasing, the requirement for investment income to pay ongoing pensions is a priority. The Scheme adopts an investment strategy that focuses on meeting the liabilities of the Scheme in full and on time. This approach aims to achieve a return on the assets which, taken together with contributions, is sufficient over time to meet the Scheme's liabilities as and when required.

Under this approach the assets in the Scheme have been divided into three broad categories – Growth, Matching Plus and Matching.

> **Growth assets:** The primary objective of assets in this category is to achieve higher total returns, improve the overall performance of the Scheme's assets, and help reduce the deficit.

> **Matching Plus assets:** These assets are expected to provide long term cash flows as well as manage some of the inflation risk associated with the Scheme's liabilities. They are likely to be held to maturity and are mostly secure cash generative investments that are backed by robust underlying asset values.

> **Matching assets:** The main characteristics for this category are secure returns and cash flows. These assets, on average, have higher credit quality than Matching Plus assets and minimal probability of default.

The Scheme strategy involves reducing the Growth portfolio over time to fund more liability matching assets in the Matching Plus and Matching portfolios. Within the Growth portfolio, the strategy is to increase the percentage of unquoted assets where the risk/return characteristics are relatively attractive.

Asset and investment performance

The Scheme's asset value increased by more than 12% over the course of the year to the end of March 2021. The Scheme's performance portfolio, which makes up over 30% of the Scheme's assets and consists predominately of equities, saw a sharp rise in value. UK equity indices rose by over 27% and overseas equity indices by over 37%. The performance portfolio strongly outperformed the benchmark set for it by the Trustee. This performance was driven by an overweight position in UK small cap* equities, where returns exceeded 60%, and strong relative performances from the Scheme's Japan and Asia managers. The Scheme's internally managed Pan European equity strategy also performed well. This strategy was established at the end of 2020 as a result of the merger of the in-house UK equity and European equity teams.

Other strategies outperformed their respective benchmarks. The Scheme's unquoted growth assets (private equities and alternatives) produced strong returns, particularly on the private equity side. These returns were ahead of the longer term benchmarks set by the Trustee for these strategies. Here the Scheme has a large allocation to venture capital where the underlying portfolio companies benefited from the acceleration of digitalisation due to trends of working from home, increased use of social media and an increased focus on health and well-being. A notable sale for a large premium which benefited the Scheme was in relation to the sale of a stake in Peloton, the home fitness business.

The Matching Plus portfolio exceeded its return targets and met its credit and inflation matching criteria. The Matching portfolio exceeded its discount rate implied target return.

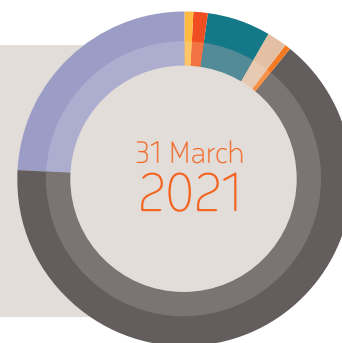
Over time it is planned to continue to reduce allocation in the Scheme from higher returning, but more volatile growth assets towards more robust cash generative, liability matching assets in the Matching Plus

* UK small cap - Generally companies in the bottom 10% by size of the UK market.

portfolio and longer term into the Matching portfolio. The strong recovery in equity markets, combined with a robust Matching Plus deal pipeline should facilitate this strategy.

Asset allocation

The asset allocation of the Scheme is shown below.



	31 March 2021	31 March 2020
UK equities	3.2%	10.2%
Overseas equities	22.7%	13.3%
US high yield bonds	1.5%	1.5%
Unquoted	17.2%	17.8%
Property	2.9%	3.9%
Cash and other assets	0.9%	3.2%
Matching assets	30.4%	31.4%
Matching Plus assets	21.2%	18.7%
Total	100.0%	100.0%

Investment update continued...

The Scheme assets increased by more than 12% over the course of the year.

Investment performance

To 31 March 2021	1 Year (%)	3 Years (% pa)	5 Years (% pa)	10 Years (% pa)
Scheme (total)	12.57	6.30	8.23	7.85
Unquoted (private equity and alternatives)*	12.43	14.69	14.49	12.55
Scheme performance (excluding Unquoted, Matching and Matching Plus assets)	32.07	7.09	8.75	7.99
Performance benchmark**	27.50	7.03	8.80	8.12

* Unquoted assets outperformed their long term targets. Private equity performance is measured against an industry standard Cambridge Associates benchmark. Alternative assets have a 5% real return target.

** The Performance benchmark portfolio excludes the Scheme's Unquoted, Matching and Matching Plus assets as these are either assessed over a much longer period, or are designed to match the Scheme's liabilities and to generate income to pay pensions.

Looking forward

Since the lows of the pandemic last year we have seen a rapid economic recovery powered by policy support. Corporate earnings forecasts have risen strongly and dividend payments have been restored and enhanced. Vaccine rollouts have progressed, particularly in developed economies and despite new emerging virus variants, to date hospitalisations and deaths amongst the vaccinated populations have been contained. This in turn makes the path to reopening economies more likely which combined with pent up demand, high accumulated consumer savings and a pick-up in business investment spend should support further global economic recovery in the short-term (this year and into next).

In the longer term, the huge accumulated debt levels that have been required to support economies and companies during the crisis will likely hold back economic growth and will ultimately need to be addressed through increased taxation or by policies that keep interest and savings rates below inflation.

As far as financial markets are concerned, the rally in equities and low corporate bond yields has reduced their valuation prospects over the long term, with lower returns expected from these asset classes in future. US equities in particular look very expensive relative to their history. More positively, economic growth should continue to support corporate earnings in the short term and outside of the US market, equity market valuations are still consistent with reasonable longer term returns, though doubts about the longer term sustainability of corporate earnings growth could result in financial asset volatility increasing in coming years.

Climate change

Climate change has moved up the agenda across both pension fund and asset management industries, driven by stronger regulatory forces and increased social pressures. The Taskforce on Climate-Related Financial Disclosures (TCFD) has become the standard reporting framework and was recently embedded into UK pension law. TCFD helps integrate climate change as a source of investment risk and opportunity.

Alongside Environmental, Social and Governance (ESG) factors, the consideration of climate change related factors are an important part of trustees' investment duties. It is our belief that these risk factors, alongside other traditional risk factors, can potentially have a material impact on the long-term financial performance of our current and future investments and they have been incorporated within our current investment processes. Specifically, the TCFD framework will provide requirements for the Scheme to measure and report the impact of climate change on the Scheme's assets and liabilities.

In 2021, the Trustee Board set up a Responsible Investment Committee (RIC) composed of Trustee members. Their role is to make recommendations to the Trustee Board on responsible investment including ESG (and climate change) matters. The Committee oversees the responsible investment agenda, where climate change plays a major part. A specialist consultant has been appointed to support the Trustee with the TCFD

disclosures and they are producing a detailed analysis of how climate change may impact the Scheme's assets and liabilities.



David Adam

Chief Investment Officer
BAE Systems Pension Funds
Investment Management
(BAPFIM)

Responsible Investing

What is it?

Responsible Investing has emerged as an industry short hand for a very broad range of matters relating to how a company is governed and its impact on society. Responsible Investing considers Environmental, Social and Governance (ESG) factors. With the environmental changes happening around us, it is up to us as long term investors to make sure we take into account the associated risks and opportunities that these changes may have on our investments.

It is not just the environment we are concerned about, but also the governance of the companies we invest in. We not only ensure that they are aware of our objectives and policies but seek to hold them to account if they do not follow them. We do this by engaging with our investee companies and also actively using our voting rights to have a say in the management of that company.

We also need to be mindful of any social aspects related to the investments we make, such as ensuring we do not invest in companies that exploit their workforce.



Why is it important to take all of these things into account?

Many studies have considered the positive effects of ESG factors on investments and there is an increasing recognition of these as financially material factors in trustee decision-making processes.



- > Firms positive on material sustainability issues significantly outperform. (Harvard Business School, Khan, Serafeim, Yoon, 2015)
- > Oxford University's Meta Study of 190 highest quality academic studies, 88% indicated operational performance of firms was improved by robust ESG practices. (Feiner, Clark, Viehs, 2015)



- > Employee satisfaction is positively correlated with shareholder returns. (Edmans, 2011)
- > Corporate bonds with higher ESG ratings have slightly lower spreads and have outperformed peers with lower ratings over the past 8 years. (Barclays, 2015)



- > Incentives aligned to long-term decision making increases firm value and operating performance. (Flammer, Bansal, 2016)
- > Active ownership and positive engagements improves company operating performance and stock return. (Dimson, Karakas, Li, 2012)

What are we doing about it?

1. We have already invested in many ESG friendly companies. Examples include wind farms providing alternative green energy for us to use and investments in Housing Associations providing affordable living accommodation.
2. The Trustee Board has established a Responsible Investment Committee to oversee and making recommendations to the full Trustee Board in this area.
3. We have developed a set of Responsible Investment principles to follow.
4. We are working on a report to detail the carbon intensity of our current investments and making plans as to how to reduce this number over time until we reach a position of net zero carbon emissions for investments.
5. We are also considering various scenarios regarding climate change and calculating how these may affect both our investments and liabilities in the future.

Statement of Investment Principles and Implementation Statement

The Statement of Investment Principles details the policies which control how a pension scheme invests. It sets out the Trustee's chosen investment strategy and the investment objectives for the Scheme.

In line with a recent legislative change the Trustee has prepared its first Implementation Statement. The aim of the Implementation Statement is to explain how the Trustee has invested the Scheme's assets in line with the Statement of Investment Principles during the Scheme year. The Trustee's Implementation Statement which forms part of the Scheme's Report and Accounts, together with the Statement of Investment Principles can be found in the Disclosure of Information section of the BAE Systems pensions website at: baesystems.com/disclosableinformation

Responsible Investing is a strategy and practice to incorporate environmental, social and governance factors in investment decisions and active ownership.

Pensions news

Pension scams

We covered pension scams in last year's newsletter, but we make no apologies for raising it again this year as there continues to be an increasing threat from scammers who employ a number of methods to try to access individuals' pension savings. These scams can have a devastating impact on their victims.

Action Fraud, the UK's national reporting centre for fraud and cybercrime, reported that savers lost £1.8m to pension fraud in the first quarter of 2021, which is a 45% increase over the same period in 2020. You need to be vigilant to ensure you do not get scammed and to protect the pension benefits you have worked for.



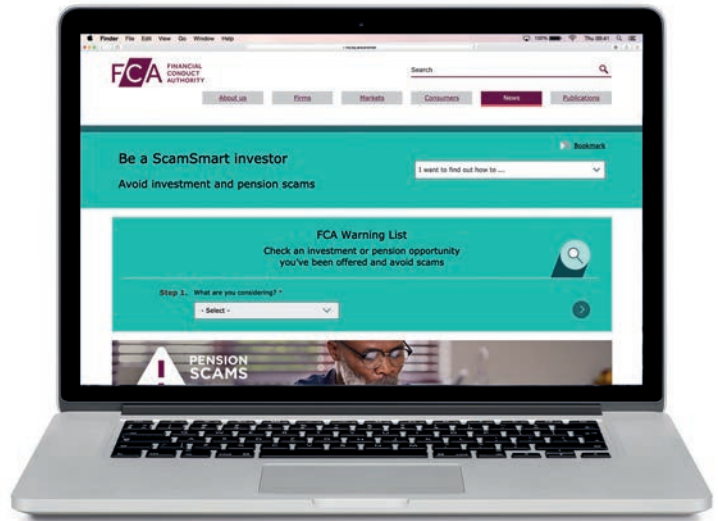
Scams come in a range of forms and are becoming more and more sophisticated. In order to protect your pension savings please ensure you take the following steps to help keep your benefits safe:

- > Be wary of unsolicited emails, texts or phone calls. Scammers will often say they are from banks or government bodies such as the Department of Work and Pension (DWP) to gain your trust. If this happens to you, ask where they are from and then call them back using the number on the official website.
- > Avoid investment deals claiming guaranteed returns or unregulated investments such as overseas investments, renewable energy bonds, parking and storage. If it sounds too good to be true then it probably is.
- > Never be pressured or rushed into signing up to deals or policies. Some scammers will insist on you signing up instantly, sometimes sending a courier to get an immediate signature. Always take stock, check the details and never agree to anything on the initial call no matter what clever tactics the scammer employs to influence you. Legitimate callers will understand your caution.
- > Avoid anyone claiming to 'unlock' your pension early (there are very few circumstances where you can take your pension benefits before the age of 55). These are often referred to as pension liberation scams. There are usually major tax implications of taking benefits prior to age 55 not least a tax charge of 55% being applied to your pension savings, which most people are unaware of. The unfortunate end result of such a scam is that not only do the individual's pension savings disappear, but they are then left with a hefty tax bill to pay as well.

For further information read the pension scams guide on the BAE Systems pensions website at: baesystems.com/en-pensions/more-info/pension-guides

The Financial Conduct Authority (FCA) keeps a list of known companies that are operating without authorisation and should therefore be avoided. The list can be found on their website at: fca.org.uk/scamsmart

If you think you have been scammed or have your suspicions about a communication you have received get in touch with Action Fraud on 0300 123 2040.



Help is at hand: Although you need to be vigilant, your Scheme administrator has robust processes in place to help guard against potential scams. A common area involves pension transfers, for which there are comprehensive processes in place before any transfer of benefits is finalised, with the aim of ensuring the receiving arrangement is genuine. Before processing a transfer, your Scheme administrator may contact you directly, rather than your adviser, to ask further questions.

Pensions news continued...

Do you know the value of your pension benefits?

In order to plan for your retirement it is important that you have a clear understanding of the total value of your pension benefits. Only then can you decide whether you are on course to have your desired level of income in retirement, and if not you are then in a position to do something about it. There are a number of ways you can find out what your current level of pension provision is.

Online portals

The Scheme administrator provides an online system which should allow you to run your own pension estimate and run modelling tools based on different scenarios.

Access the Equiniti MyPension portal, which can be found at: mybaespension.equiniti.com

If you have a Level 100+ Retirement Account or have any Additional Voluntary Contributions (AVCs) invested with the Trustee's provider, Standard Life, current fund values can be obtained by logging onto the Standard Life online portal at standardlife.co.uk/online or by downloading the Standard Life mobile phone app.

Scheme administrator request

If you are unable to run your own pension estimate online, you can contact your Scheme administrator to obtain an up to date value of your Scheme benefits. Contact details can be found on page 24.

Annual benefit statements

Active members of the Scheme receive an annual benefit statement. It provides a snapshot of your pension at 5 April, showing both the pension built up to date and also the pension projected to retirement. Active member statements are posted out in August each year and are also available on MyPension.

Do you have any benefits elsewhere?

To get the full picture in terms of your future pension provision it is important that you contact the administrators of any other schemes you have been a member of to get an up to date value of your pension benefits. You may have left a previous scheme some time ago and be surprised at how your pension has increased in value in the intervening years. If you have lost track of where to obtain details of a previous pension, you can use the Government pension tracing service at: gov.uk/find-pension-contact-details

Do you know the value of your State pension?

The State pension still forms a large proportion of most individuals' retirement provision, however it is surprising how many people have no idea how much they will be entitled to. Recent research from Just Group has found that 37% of retired or semi-retired adults did not check their State pension forecast before retiring. According to the findings, amongst those who did check, 14% said their forecast was less than they had expected. You can request a State Pension Statement from the Department of Work and Pensions at: gov.uk/check-state-pension



Remember: There is a limit on the total amount of pension savings that you can build up over your lifetime (excluding the State pension) across all schemes you are a member of without paying extra tax. This is known as the Lifetime Allowance. The Lifetime Allowance for most people is £1,073,100 in the 2021/22 tax year and it is expected to be fixed at this rate until 2025/26.

You can request a State Pension Statement from the Department of Work and Pensions at: gov.uk/check-state-pension



Do you know that you have the ability to defer your State pension?

It has recently been reported that 25% of over 65s are unaware that they could receive a higher State pension if they decided to defer receiving it. With many people now deciding to work past their State pension age this can be a valid option.

You do not have to do anything in order to defer your State pension as it will be automatically deferred until you claim it. In deferral your State pension will increase by 1% for every nine weeks you delay claiming. This works out at just under 5.8% for every full year. The additional amount will be paid with your State pension when you eventually choose to claim it and whilst it is taxable it will receive any annual increases that have been granted to the rest of the State pension.

Please note that there are certain scenarios where you **cannot** build up extra State pension such as if you receive certain State benefits or tax credits. Deferring can also affect how much you can receive in benefits. For further information visit the Government website at: gov.uk/state-pension

Pensions news continued...

Overcoming the risks at retirement

There are three important areas that pension scheme trustees are often concerned about as members approach retirement. These can be summarised as the three Ts:

- > Thieves
- > Tax
- > Transfers

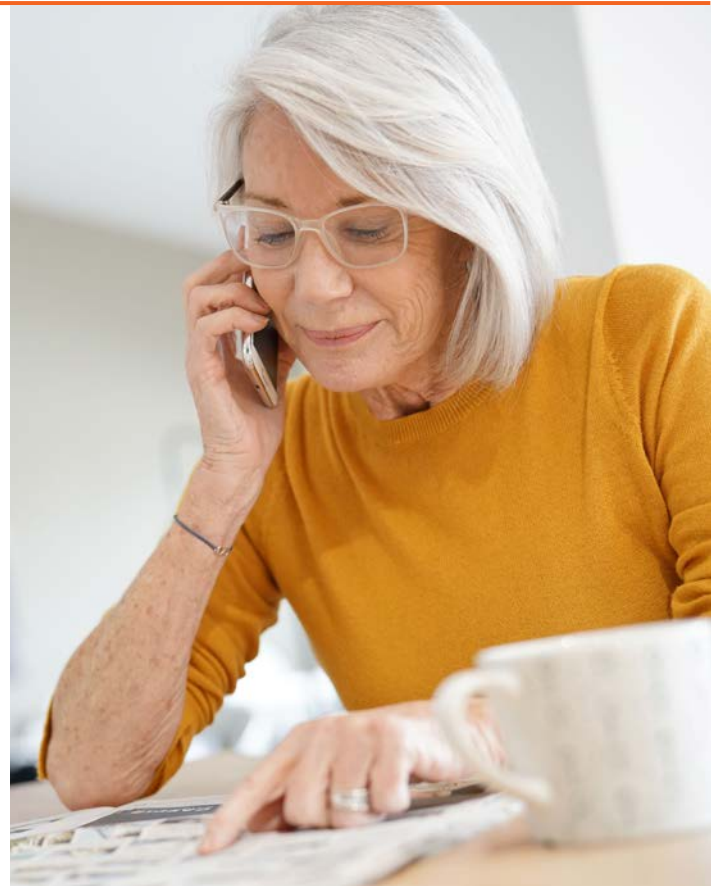
Thieves

No, not in terms of burglary or having your car stolen, but the more sophisticated scammers who operate more and more within financial services (you should also refer to the article on page 14 of this newsletter).

To help ensure you don't lose your retirement savings, it is recommended you read some of the articles written about scams so you are forewarned of the methods used by scammers.

- > A useful pension scams guide can be found on the BAE Systems pensions website. Visit: baesystems.com/en-pensions/more-info/pension-guides
- > The Financial Conduct Authority (FCA) has a tool called Scamsmart which helps you check if a deal or investment opportunity being proposed is a scam. Visit fca.org.uk/scamsmart

Additionally, whilst your Scheme administrator is unable to offer financial advice, they will always be on hand to help with any questions you may have.



Tax

The pension flexibilities introduced in 2015 were designed to give you more options at retirement. This means it is more important than ever that you are as well informed as you can be while saving for retirement and you consider carefully your options to avoid paying more tax than is necessary.

- > The **Annual Allowance** is the maximum amount of pension savings you can build up in each tax year with the benefit of tax relief. For most people, for the 2021/22 tax year the Annual Allowance is £40,000 (but see below). This is a single limit which applies to your pension benefits across all schemes of which you are a member. Since 6 April 2016, the Annual Allowance has been subject to tapering for ‘high earners’ with the minimum Annual Allowance for 2021/22 being £4,000. It is possible you could be affected by this if your total taxable income from employment and income you receive from any other sources exceeds £200,000 a year.
- > The **Lifetime Allowance** limits the total amount you can build up in pension benefits over your lifetime (excluding your State pension) without paying extra tax. Again, this is a single limit which applies to your pension benefits across all schemes of which you are member. The Lifetime Allowance for most people is £1,073,100 in the 2021/22 tax year and it is expected to be fixed at this rate until 2025/26.
- > The **Money Purchase Annual Allowance** restricts the amount you can pay into any defined contribution pension scheme to £4,000 a year if you have accessed benefits from a defined contribution arrangement after April 2015 in one of the ways permitted by the new pension flexibilities introduced at that time. It may also affect the Annual Allowance subsequently applicable to any benefits you have in defined benefit pension schemes.
- > In general, once in receipt of your pension, your pension income will be taxed at your own marginal rate of income tax.

- > Ordinarily, up to 25% of the value of your pension can be taken as a tax-free cash lump sum, and anything over that amount will usually be subject to tax.

These are just a few points to think about. But, as tax can be a complex subject, you may wish to find more in-depth help on the new MoneyHelper website at: moneyhelper.org.uk/en/pensions-and-retirement/tax-and-pensions

The Trustee also strongly recommends that you seek independent financial advice to help in assessing your own tax circumstances and before making any decisions about your pension benefits.

Transfers

You have the option to transfer your pension benefits to another arrangement prior to taking them from the Scheme. This may be to access more options at retirement than are offered by the Scheme.

A decision to transfer your benefits out of the Scheme must be carefully considered, as your defined benefit pension is a valuable benefit which provides you with a high degree of certainty of income in retirement. You will need to consult with an approved financial adviser if the value of your benefits in the Scheme is greater than £30,000 and there are normally restrictions on transferring if you are within one year of, or above, your normal retirement date. Even if the value of your benefits in the Scheme is below £30,000 and you wish to consider a transfer, the Trustee would still strongly recommend that you consult an independent financial adviser, even if this may not be a statutory requirement.

For more information refer to the pension guides on the BAE Systems pensions website covering pension flexibilities and transferring out of a defined benefit pension scheme at: baesystems.com/en-pensions/more-info/pension-guides

For more information on pension transfers, also refer to the following section within the MoneyHelper website: moneyhelper.org.uk/en/pensions-and-retirement/building-your-retirement-pot/uk-pension-transfers

Pensions news continued...

Launch of MoneyHelper

June 2021 saw the launch of MoneyHelper, a Government service offering free and impartial guidance to make your money and pension choices clearer. It combines three legacy government-backed financial guidance providers - the Money Advice Service, The Pensions Advisory Service and Pension Wise. This consolidation has resulted in a one-stop-shop which is intended to cut through the complexity of the financial choices open to us all.

MoneyHelper provides guidance on a wide range of financial matters including:

- > Benefits – what are you entitled to and how to claim them
- > Everyday money – banking, types of credit, insurance and budgeting
- > Family & care – extra financial support for the ill or disabled
- > Homes – buying or renting a home
- > Money troubles – dealing with debt, scams
- > Pensions & retirement – pensions basics, the State pension, auto enrolment
- > Savings – how to save, investing and the types of savings
- > Work – self-employment, losing your job

In particular, the Pensions & Retirement section has a number of features that you may find useful such as the pensions calculator that gives an estimate of your likely pension income in retirement. You can also find details of how to book an appointment with Pension Wise, the Government service that offers free, impartial guidance relating to defined contribution pensions.



You can find further details at moneyhelper.org.uk

Committee elections

The BAE Systems Pension Scheme Consultative Committee represents active and deferred members to promote a better understanding of the workings of the Scheme and pensions in general and ensures that any issues or concerns that arise are dealt with appropriately and promptly. Member Nominated Directors of the Trustee Board are elected from this Committee, with a recent example of this being the appointment of Richard Bestwick to the Board on 1 April 2021.

Representatives from the Committee carry out an important role within the pension consultative process. Representatives:

- > provide a formal channel through which pension matters can be raised;
- > improve pension communication links between members, the Company, the Trustee and Scheme administrator;
- > answer questions from members about the Scheme and signpost them to correct sources of pension information.

Member Representatives on the Consultative Committee are elected from and by the active members of the Scheme who work at the site that they represent. The Committee brings together 37 active Member Representatives of the Scheme from different sites across the UK, plus a pensioner member, who meet on a quarterly basis.

If you would like to consider being a Member Representative, the next set of formal elections will commence in the first quarter of next year, with an election leaflet being sent to all active members inviting them to stand as a candidate.

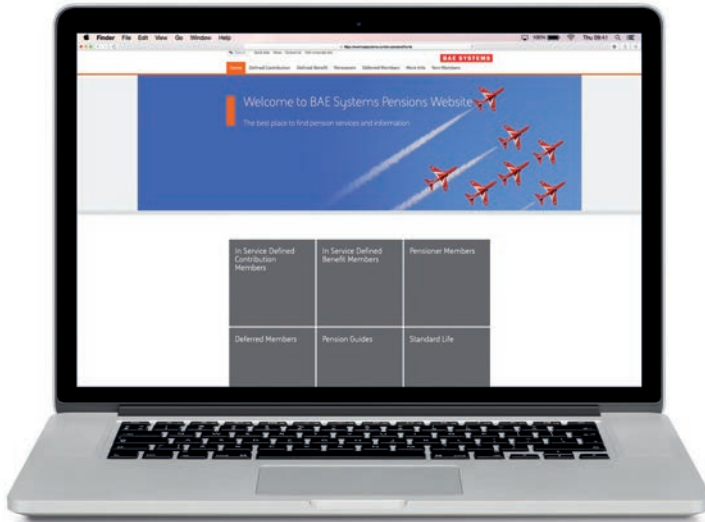


In addition to the Consultative Committee there is also the Joint Pensioners Committee (JPC), which represents all pensioners of the Scheme. Pensioner Representatives who sit on the JPC play an important role in the consultative process between the Company, the Trustee and the membership. The JPC examines and presents the views of pensioners on matters of general pensions interest or concern for those in receipt of a pension.

Pensions website

The BAE Systems pensions website is the central hub for the latest Scheme information and general pensions news. It can be found at baesystems.com/pensions. Why not add this link to your 'favourites'?


Over the year the pension guides section has been expanded to include more topics. The aim of these guides is to provide you with further information on subjects of general interest relating to our pension schemes and the wider pensions environment, using as little jargon as possible. Guides are written and added where a need for quick and accessible information is identified following member feedback, which often comes via the Scheme Consultative Committee.



There is a wide range of topics covering:

- > What scheme am I in?
- > Working part-time
- > Changing roles
- > Scheme Maximum
- > Paying severance into a pension scheme
- > Pension scams
- > Independent Financial Advice
- > Pension flexibilities
- > Stepped pension
- > Gender identity policy
- > Pensions and divorce
- > Triggering the Annual Allowance
- > Lifetime Allowance
- > Receiving your Company pension
- > Being a deferred member
- > Transferring out of a defined benefit pension scheme
- > State pension

If you can think of any topics for new pension guides please get in contact with your Member Representative who can then raise it via the Consultative Committee. To find out details of your local Member Representative, please refer to the More Info>Governance and Scheme Management section on the BAE Systems pensions website.

A photograph of a middle-aged man with a grey beard and hair, wearing a light blue button-down shirt. He is looking intently at a laptop screen. The background shows a window with dark curtains and a brick wall. A dark teal semi-transparent box is overlaid at the bottom of the image, containing white text.

If you can think of any topics for new pension guides please get in contact with your Member Representative who can then raise it via the Consultative Committee.

Getting in touch

The Equiniti Pensions Service Centre is available to answer any questions you may have. You can contact them by:

- > Freephone: **0800 917 9568**
- > Email: **farnborough.pensions@equiniti.com**

If you want to write to Equiniti their address for in-service and deferred members is:

- > BAE Systems Pension Scheme, Pensions Service Centre, PO Box 1193, Crawley, West Sussex, RH10 0FY

and for pensioner members is:

- > BAE Systems Pension Scheme, Pensions Service Centre, Freepost RSTA-GHHR-EEAK, PO Box 1197, Crawley, West Sussex, RH10 0GD

MyPension

You can log into the MyPension service at:

- > **mybaespension.equiniti.com**

If you have a Level 100+ Retirement Account or have paid Additional Voluntary Contributions to Standard Life you can access the Standard Life website at:

- > **standardlifepensions.com/bspp/ps.page**

Read more information on the pensions website: baesystems.com/pensions

This newsletter provides some information on the Scheme. However, it is the Rules of the Scheme that set out the legal basis for the Trustee's administration of the Scheme and which override anything in this newsletter with which they are inconsistent. Copies of the Rules are available from the Scheme administrators. 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.