Your benefits

Your guide to the BAE Systems Pension Scheme
Additional Voluntary Contributions (AVCs) are voluntary payments made in addition to your contributions to the Scheme. They are invested to provide you with extra benefits at retirement. AVCs currently qualify for income tax relief at your highest rate although some restrictions apply to high earners (see page 15 for further information).

Annual Earnings are your Contribution Earnings for the last complete tax year, without the £1,800 deduction. This is subject to not exceeding the Scheme Cap.

Base Pension Level is either 1.25%, 1.67%, 1.87% or 2.00% and is the basis upon which your pension builds up each year. The rate, together with your Contribution Earnings and Basic Salary, determines the value of the Individual Pension Percentage you accrue each year.

Basic Salary is your annual rate of basic pay received from your employer. This is subject to not exceeding the Scheme Cap.

Company is BAE Systems plc and any other employer who participates in the Scheme.

Contribution Earnings are your gross taxable earnings, excluding travel, any subsistence and other temporary allowances, such as bonuses, redundancy payments and the cash equivalents of benefits in kind received from the Company in any Scheme Year, less a fixed deduction equivalent to £1,800 a year. This is subject to not exceeding the Scheme Cap.

Earnings Related Pension is your entitlement to a pension based on your Total Pension Percentage and Final Basic Salary.

Final Basic Salary is:
- For service to 5 April 2006 – is your Basic Salary averaged over the 12 months ending on the last day of the calendar month in which you leave service or die (whichever occurs first). This is subject to not exceeding the Scheme Cap.
- For service on or after 6 April 2006 – is your Basic Salary averaged over the 36 months ending on the last day of the calendar month in which you leave service or die (whichever occurs first). This is also subject to not exceeding the Scheme Cap.

GMP Age is currently 65 for men and 60 for women.

Individual Pension Account is the value derived from your basic contributions, plus a fixed annual addition of 3% of your Contribution Earnings. The balance of your account at the beginning of each Scheme Year is revalued at the end of that Scheme Year in line with the Scheme’s investment return (whether positive or negative) over the calendar year ending during that Scheme Year.

Individual Pension Percentage is an amount calculated at the end of each Scheme Year and on your retirement based on your Contribution Earnings, Basic Salary and Base Pension Level.

Longevity Adjustment Factor is an adjustment figure dependent on age, which is applied to the Scheme Pension amount earned after 5 April 2006. It will adjust the pension earned to reflect changes in life expectancies. Improved life expectancy may mean that future pensions are expected to be paid for longer and the Longevity Adjustment Factor will reduce your pension earned after 5 April 2006 to take account of this. The Scheme Actuary will set the amount of this Longevity Adjustment Factor each year. There are different Longevity Adjustment Factors which apply to benefits on normal retirement, ill-health retirement and to benefits payable following death before retirement.

Normal Retirement Date is the first of the month coincident with or immediately after your 65th birthday.

Pension Rate is the cost of purchasing £1 of annual pension. The rates are based on your sex, your age and the investment conditions at the time of purchase.

Pensionable Service is the number of years and complete months during which you have contributed to the Scheme.

Scheme is the BAE Systems Pension Scheme Levels 125, 167, 187 and 200.

Scheme Cap is the maximum earnings used in any calculation of your contributions and benefits. As at April 2017 the figure is £143,400 and it will normally be increased each year. This applies if you joined the Scheme on or after 1 June 1989.

Scheme Maximum refers to the limits which were HM Revenue & Customs requirements up to April 2006 and which continue to apply to Scheme benefits in a simplified form.

Scheme Pension is the greater of your Earnings Related Pension and the pension which could be provided from your Individual Pension Account.

Scheme Year is from 6 April to the following 5 April.

Total Pension Percentage is the sum of your Individual Pension Percentages.
# Summary of Scheme benefits

## When you retire

<table>
<thead>
<tr>
<th>Option</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>A pension for life</td>
<td></td>
</tr>
<tr>
<td>or</td>
<td>A reduced pension for life plus a tax free cash sum</td>
</tr>
</tbody>
</table>

## Death benefits

### In service

- Spouse's pension payable for life
- Lump sum

### In retirement

- Spouse's pension payable for life
- If within five years of retirement, balance of pension paid as lump sum
- Lump sum

### In deferment

- Spouse's pension payable for life

## If you leave

<table>
<thead>
<tr>
<th>Option</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred benefits</td>
<td></td>
</tr>
<tr>
<td>or</td>
<td>A transfer to another scheme</td>
</tr>
</tbody>
</table>

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Further Information

Visit: [www.baesystemspensions.com](http://www.baesystemspensions.com)

Pensions Service Centre:

**0800 917 9568**

Overseas:

**+44 (0)121 415 0891**

Email: [farnborough.pensions@equiniti.com](mailto:farnborough.pensions@equiniti.com)
A guide to your benefits

The BAE Systems Pension Scheme is a valuable part of your remuneration package from the Company. The Scheme provides you with a range of benefits to support you and your family both now and in the future.

This Guide will provide you with information about the Scheme, therefore it is important that you take time to read it and understand fully the benefits available to you. The Scheme is the BAE Systems Pension Scheme Levels 125, 167, 187 and 200.

This Guide features certain terms and expressions which have specific meanings within the Scheme. These are shown in italics which indicates that there is an explanation of their meaning on the ‘Technical terms used’ page.

The BAE Systems Pension Scheme is a flexible scheme, allowing you to choose the level of your contributions appropriate to your changing needs. You have a choice of four levels which are explained on page 6 of this booklet.

The Scheme also provides valuable benefits if you retire on ill-health grounds and to your dependants if you die.

Until 5 April 2016, members of the Scheme were contracted-out of the State Second Pension (S2P), which was formerly known as the State Earnings Related Pension Scheme (SERPS). As a result of changes to the State Pension from 6 April 2016, the ability to contract-out has ceased.

This Guide is intended as a source of information on the provisions of the Scheme. It is subject to changes in the future as required by HM Revenue & Customs and to the Rules of the Scheme that set out the legal basis for the Trustees’ administration of the Scheme and which override any provisions of this booklet with which they are inconsistent. Copies of the Rules are available from the Pensions Service Centre. 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.

Further Information
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Since 5 April 2003 the Scheme has no longer been offered to new members, although some employees at that date had a right to join between 6 April 2003 and December 2006.

Contributing members continue to earn benefits from the Scheme in accordance with this booklet and the Rules in force.

Opting out

Membership of the Scheme is not a compulsory part of employment with the Company. As a member of the Scheme, you can opt out at any time.

You will be required to give the Trustees and the Company two months’ written notice of your intention to leave the Scheme. At the end of the pay period in which your two month notice period expires, you will be treated under the Scheme as if you had left service.

The decision to opt out is yours alone but you should give careful consideration before doing this and you may wish to consult with an Independent Financial Adviser who may charge a fee for this service. For more information, visit www.unbiased.co.uk

If you decide to opt out:

> You will lose the benefit of the Company’s commitment to meet the balance of the cost of future pension provision under the Scheme.
> You will lose the protection provided by the Scheme to you and your family in the event of your death in service.
> You will lose the protection provided by the Scheme to you and your family in the event of your early retirement from the Company on account of ill-health.
> You will lose the opportunity to earn a pension linked to your future earnings and service.

If you subsequently change your mind please note that re-entry into the Scheme is not allowed.
Making contributions to the Scheme

Your contributions

Your rate of contributions is determined according to the Base Pension Level you choose:

<table>
<thead>
<tr>
<th>Level</th>
<th>Contribution Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>125</td>
<td>7.29%</td>
</tr>
<tr>
<td>167</td>
<td>9.29%</td>
</tr>
<tr>
<td>187</td>
<td>11.29%</td>
</tr>
<tr>
<td>200</td>
<td>12.59%</td>
</tr>
</tbody>
</table>

* Under the Scheme Maximum overall expected benefits (excluding those arising from Additional Voluntary Contributions) must not exceed 2/3rds of your final earnings (see note on page 7). You will not be allowed to change to Level 187 or Level 200 if that would lead to your benefits at your Normal Retirement Date exceeding the Scheme Maximum.

Changing your Base Pension Level

The Scheme is flexible and allows you to change your Level as your needs change. You have the option to change it on an annual basis effective from 6 April subject to the Scheme Maximum. To do this you must fill in an Application to Change Levels form, which is available from the Pensions Service Centre and www.baesystemspensions.com and return it before a specified date in mid-February of any year.

SMART Pensions arrangement

Provided that you are employed by companies wholly owned by BAE Systems plc or participating companies, all contributions to the Scheme will be made under the SMART Pensions Arrangement, unless you choose to opt out of SMART. Full details of the SMART Pensions Arrangement can be found in a separate SMART Pensions booklet.

Income tax relief

Your contributions are deducted from your pay before tax is calculated; therefore, you automatically receive income tax relief at your highest rate, although some restrictions apply to high earners (see page 15 for further information).

Company contributions

The rate of Company contributions required is determined by the Trustees in consultation with the Company and with advice from the Scheme Actuary, who carries out regular reviews of the financial position of the Scheme.

Investment returns

These are the income and capital gains (or losses) obtained from the investments held by the Trustees of the Scheme. The investment returns achieved by the Scheme qualify for certain tax concessions.

How the contributions are used

Your contributions, together with those from the Company, are credited to the fund and are invested by the Trustees. The proceeds are used to provide benefits for members in accordance with the Rules of the Scheme.

Paying Additional Voluntary Contributions (AVCs)

Under the terms of the Scheme, you may increase your benefits by paying Additional Voluntary Contributions (AVCs). Contributions are deducted from pay before tax is calculated so you automatically receive tax relief at your highest rate although some restrictions apply to high earners (see page 15 for further information). AVCs might be of particular interest to those members who join the Scheme later in their working life, or who are considering the possibility of retiring early. A separate booklet giving more details about AVCs is available from www.baesystemspensions.com or from the Pensions Service Centre.

Temporary absence

If you are temporarily absent from work, your membership of the Scheme will continue for as long as you pay contributions into the Scheme. If you take paid absence from work, you will continue to pay contributions and this period will count in full towards your pension.

If you stop paying contributions to the Scheme, your Pensionable Service will cease. On recommencing contributions, your Pensionable Service before and after the break will be treated as continuous.

If you are absent because of sickness or injury and you stop paying contributions, we will continue to treat you as remaining in Pensionable Service for up to one year from the date you were first absent, or longer if the Company and Trustees agree. If you are absent as a result of maternity, adoption or paternity leave, you will be treated as still in service for as long as you have a statutory or contractual right to return to work. You will pay contributions on any amount of pay (including any statutory maternity, adoption or paternity pay) made while you remain employed by the Company.

If however you are absent as a result of parental leave you will be treated as if you have left service unless you return to work at the end of that period of leave. In this case, your periods of service before and after that leave will be treated as continuous but will exclude the period of parental leave itself. A period of parental leave will only be treated as service if, on your return to work, you pay the shortfall of contributions in respect of that period as if you had been working normally.

The Scheme allows you to change your Level each April
How to calculate your pension

Your Individual Pension Percentage builds up each Scheme Year up to the date you leave and will vary from year to year according to the level of contributions you choose and your earnings during that year. Your pension at retirement will therefore reflect your earnings pattern over the whole of your Scheme membership. An example of how it is calculated is shown below:

**Step 1**
Calculate your Individual Pension Percentage for each Scheme Year

- **Annual Individual Pension Percentage**
  - Contribution Earnings in the Scheme Year
  - Basic Salary at start of Scheme Year

- **Base Pension Level**
  - Level 125: Base Pension Level of 1.25% a year
  - Level 167: Base Pension Level of 1.67% a year
  - Level 187: Base Pension Level of 1.87% a year
  - Level 200: Base Pension Level of 2.00% a year

**Step 2**
Calculate your Total Pension Percentage

- **Total Pension Percentage**
  - The sum of your Annual Individual Pension Percentages for each Scheme Year you have completed

**Step 3**
Calculate your Pension

- **Earnings Related Pension**
  - **Pension A**
    - Total Pension Percentage for service to 5 April 2006
    - Final Basic Salary (12 months average)
  - **Pension B**
    - Total Pension Percentage for service from 6 April 2006
    - Final Basic Salary (36 months average)
    - Longevity Adjustment Factor*

**Note**
Your Contribution Earnings, Basic Salary and Final Basic Salary in the calculations will be restricted to the Scheme Cap if appropriate. Under the Scheme Maximum your benefits (excluding AVC benefits but including previous benefits in other schemes) must not exceed 2/3rds of your final earnings. Your final earnings can include other taxable benefits, such as overtime or shift payments and may therefore be greater than your Final Basic Salary.

* Pension B is adjusted by the Longevity Adjustment Factor which will vary from time to time and will be calculated at the same time as your pension.

Further Information
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How to calculate your pension

Value for money guarantee

The Scheme gives you the security of a pension which is linked to your earnings record over your Pensionable Service. However, depending on such factors as your age, length of service and the Scheme’s investment performance, you may receive a bigger pension through your Individual Pension Account – this is called your ‘Value for Money Guarantee’.

You pay contributions as described on page 6, but your Individual Pension Account is calculated using only part of these contributions. This part is referred to as your basic contributions. Your basic contributions are determined according to the Base Pension Level you choose:

| Level 125 | 3% of Contribution Earnings |
| Level 167 | 5% of Contribution Earnings |
| Level 187 | 7% of Contribution Earnings |
| Level 200 | 8.3% of Contribution Earnings |

Benefits from Additional Voluntary Contributions (AVCs)

These can normally be taken as a tax free cash sum at retirement. Alternatively the fund can be converted into pension using a Pension Rate set by the Trustees on the advice of the Scheme Actuary or, you may purchase an annuity from an external provider.

Contracted Out Underpin

The Contracted Out Underpins relate to the basis on which the Scheme was contracted out of the S2P (State Second Pension), formerly known as SERPS (State Earnings Related Pension Scheme).

Guaranteed Minimum Pension

As the Scheme was contracted-out, the Scheme must provide a minimum level of benefit in respect of your Pensionable Service up to 5 April 1997, which is known as the Guaranteed Minimum Pension (GMP). Although contracting-out has been abolished from 6 April 2016, existing contracted-out benefits like GMP are to remain protected.

A number of restrictions apply to the GMP. In particular, it is not payable before GMP Age.

Once your GMP is in payment (which will be from your GMP Age), the Scheme increases any GMP earned after 6th April 1988 in line with the Consumer Prices Index, subject to a maximum of 3% a year. Any GMP earned before 6 April 1988 does not increase.

Protected Rights

With effect from 6 April 1997, GMPs ceased to build up. For service after this date until 6 April 2012, the Scheme was contracted out on a money purchase basis. This simply meant that there was an extra underpin in operation for service during this period. This is separate from the ‘Value for Money Guarantee’.

This underpin is called your Protected Rights fund and comprises:

- The saving in National Insurance contributions (made by you and the Company) as a result of you being contracted out of S2P.
- An additional National Insurance rebate from the Department for Work and Pensions, dependent on your age.
- The investment returns made on these amounts.

From 6 April 2012, the Scheme was contracted-out on a ‘Reference Scheme Test’ basis. The Scheme was required to satisfy a ‘Reference Scheme’ test, namely that it provides benefits broadly equal to or above a specified minimum level. This ceased to apply when contracting-out was abolished from 6 April 2016.

When you retire, the value of your Individual Pension Account will be converted to pension using the Pension Rate and compared with your Earnings Related Pension. Your pension will be the higher of the two and both are subject to HM Revenue & Customs restrictions (see page 13) and the Scheme Maximum.
When you reach retirement

Retiring from Pensionable Service at Normal Retirement Date

Your pension will be calculated as shown on pages 7 to 8. If you transferred benefits into the Scheme from a previous pension arrangement, you will receive an additional yearly amount on top of your pension earned whilst in the Scheme.

Retiring early from Pensionable Service except on medical grounds

You may be permitted to retire at any time after age 55 and receive an immediate pension, subject to the consent of the Trustees and the Company.

Your pension will be reduced by an early retirement factor to account for the extra years over which your pension will be paid. The early retirement reduction factors are agreed between the Company and the Trustees on advice from the Scheme Actuary. They are reviewed periodically and may change from time to time.

Stepped pension option

If you retire before State Pension Age (except on medical grounds) you can choose a Stepped Pension Option with the consent of the Trustees. This allows you to receive an increased level of pension up to your State Pension Age in force at the time of your retirement and a correspondingly reduced level afterwards.

Additional death benefit

If you joined the Scheme before 1 October 1991, you continue to be covered for a death benefit lump sum of 3 x Annual Earnings in the last Scheme Year before retirement up to your Normal Retirement Date. This benefit is reduced by any lump sum payable on death within five years of retiring (see page 12).

Retiring from Pensionable Service after Normal Retirement Date

If you continue contributing to the Scheme, your pension will be calculated as shown on pages 7 to 8 at your actual retirement date, but with the Longevity Adjustment Factor applied as at Normal Retirement Date. You will continue to be covered for the Scheme’s death in service benefits until you retire.

How your pension will be paid to you

Your monthly pension will be paid in advance on the first working day of each calendar month direct to your bank or building society account. These pension payments are treated as earned income and are subject to tax under the PAYE system, using a tax code provided by HM Revenue & Customs.

Tax free cash sum

You may usually exchange part of your pension for a tax free cash sum on retirement. The amount of the cash sum depends on your circumstances but is typically about 25% of the total value of your pension, subject to the consent of the Trustees. The rates used to calculate the value of your pension are determined by the Trustees on advice from the Scheme Actuary and may change from time to time.

Your pension will be paid direct to your bank or building society.
When you reach retirement

Retiring early from Pensionable Service on medical grounds

If you cannot work due to ill-health, you may retire at any age with an immediate pension, subject to certain conditions and with the consent of the Trustees and the Company.

There are two levels of benefits payable, depending upon the severity of your illness.

Chronic ill-health is defined as a physical or mental condition which, in the opinion of the Trustees, permanently prevents you from undertaking any regular work for the Company or any other employer.

Incapacity is defined as a physical or mental condition which, in the opinion of the Trustees, permanently prevents you from carrying out the primary duties of your occupation.

The basis of the calculation of the medical retirement pensions are illustrated in the following diagrams:

Chronic ill-health Pension =

\[ \text{Scheme Pension. This will be calculated as shown on pages 7 to 8.} \]

If you have completed less than 10 years Pensionable Service: 50% of your prospective pension* OR

If you have completed 10 or more years Pensionable Service: 66.67% of your prospective pension*

Incapacity Pension =

\[ \text{Scheme Pension. This will be calculated as shown on pages 7 to 8 and will be reduced by an early retirement factor unless the Trustees and the Company agree otherwise.} \]

Notes

If you retire from Pensionable Service, you must also leave the service of the Company.

If you are a member admitted on the basis of restricted terms, your pension payable on retirement due to chronic ill-health may be based on your pension earned to date only, with no account being taken of any prospective pension. If you are affected by restricted terms this will have been notified to you.

The Trustees have the power to reduce or suspend a chronic ill-health or incapacity pension if, in their opinion, this is justified by a subsequent change in your circumstances.

Additional death benefit

If you retire on medical grounds, as described previously, after 1 December 2006, the death benefit lump sum payable if you die before your Normal Retirement Date will be 3 x Annual Earnings in the last Scheme Year before retirement. This benefit is reduced by any lump sum payable on death within five years of retiring (see page 12).

Further Information

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When you reach retirement

Pension increases
Your pension (excluding the GMP) will normally be increased on 1 May each year. Proportionate increases are given in the first Scheme Year of retirement to any pension beginning after 1 May. The increases are calculated as follows:

Pre-GMP Age
Your pension earned before 6 April 1997 will be increased annually by either 4% a year or, if less, in line with the increase in the Retail Prices Index (RPI) since the pension started.

Your pension earned on or after 6 April 1997 and up to 5 April 2006 will be increased annually by the rise in the RPI subject to a maximum increase of 5% a year.

Your pension earned on or after 6 April 2006 will be increased annually by the rise in the RPI subject to a maximum increase of 2.5% a year.

Once your GMP is in payment, the Scheme increases any GMP earned after 6 April 1988 in line with the Consumer Prices Index, subject to a maximum increase of 3% a year. Any GMP earned before 6 April 1988 does not increase.

Additional increases to pensions in payment may be awarded if the Company requests the Trustees to do so. The Company will then need to pay any additional contributions which the Trustees consider prudent (after the Trustees have sought actuarial advice).

Post-GMP Age
Your pension earned before 6 April 1997 will be increased annually by either 4% a year or, if less, in line with the increase in the Retail Prices Index (RPI) since the pension started.

Your pension earned on or after 6 April 1997 and up to 5 April 2006 will be increased annually by the rise in the RPI subject to a maximum increase of 5% a year.

Your pension earned on or after 6 April 2006 will be increased annually by the rise in the RPI subject to a maximum increase of 2.5% a year.

Transferring benefits
Since 6 April 2015, members with money purchase or defined contribution savings have been able to access more of their pension benefits as cash from age 55. These options are not available for your benefits in the Scheme, so you will need to transfer your Scheme benefits to a defined contribution pension arrangement offering the new flexibilities in order to access them in this way. Please be aware that different tax charges may apply and it is likely that the external provider will require you to pay charges.

Any transfer request made within a year before your Normal Retirement Date for the cash equivalent of your Scheme benefits (this excludes your AVCs) is subject to the Trustees’ approval.

If you wish to consider this option you should contact the Pensions Service Centre for further details.

Protecting your pension
From 6 April 2015, if the cash equivalent of your Scheme Pension is greater than £30,000 and you wish to transfer to a defined contribution arrangement, you must first get appropriate financial advice from a Financial Conduct Authority (FCA) authorised adviser to understand the financial and tax implications of the transfer. Your adviser will be required to provide you with written confirmation that you have received appropriate advice concerning the possible transfer to another arrangement. You will need to provide this to the Trustees of the Scheme before the transfer can take place.

Whilst it is not a requirement for transfers of less than £30,000, we recommend that you get independent financial advice before transferring your Scheme benefits.
Death benefits

Death in service
If you die while still a contributing member, the following benefits will be paid:

A lump sum death benefit equal to three times your Annual Earnings at your date of death.

A lump sum equal to the contributions paid by you into the Scheme.

A spouse’s or civil partner’s pension equal to the greater of:

50% × Total Pension Percentage × Final Basic Salary

20% × Contribution Earnings over the last complete Scheme Year

Death in retirement
If you die while receiving a pension from the Scheme the following benefits will be paid:

A lump sum death benefit equal to the contributions paid by you into the Scheme.

A spouse’s or civil partner’s pension

This will be equal to 50% of your pension at your date of death, ignoring any reduction to take account of the fact that you chose to exchange part of your pension for a cash sum or the effect of choosing a Stepped Pension.

The five year payment guarantee
If you die whilst receiving a pension from the Scheme within the first five years after your retirement, a lump sum equal to the unpaid balance of five years’ pension payments (at the rate applicable at the date of death disregarding future increases) will be paid at the Trustees’ discretion.*

Lump sum equal to the greater of:

50% × Total Pension Percentage × Final Basic Salary

20% × Contribution Earnings over the last complete Scheme Year

Additional death benefit
If you die before reaching your Normal Retirement Age, there may be an additional death benefit payable. Further details are shown on page 5 and page 10.

Restricted terms
If you are a member admitted on the basis of restricted terms, the amount of lump sum death benefit may be restricted. If you are affected by restricted terms you will have been notified of this.

Death with deferred benefits
If you die after leaving the Scheme and are entitled to a deferred pension (see page 14), the following payments will be made:

Your spouse’s or civil partner’s pension

This will be equal to 50% of your pension at your date of death, ignoring any reduction to take account of the fact that you chose to exchange part of your pension for a cash sum or the effect of choosing a Stepped Pension.

The unpaid balance of five years’ pension payments had you chosen the early payment option immediately before your death.

Payment of lump sum death benefits
The lump sum death benefit will be paid to, or for the benefit of, your dependants, relatives or nominees, chosen at the Trustees’ discretion. This generally enables payment to be made quickly and normally without liability to Inheritance Tax.

Lump sum death benefits will be paid at the Trustees’ discretion to:

Dependants

Beneficiaries or nominees

Relatives

* This benefit is not payable if you retire on grounds of chronic ill-health and subsequently die before your Normal Retirement Date.

Payment of lump sum death benefits
The lump sum death benefit will be paid to, or for the benefit of, your dependants, relatives or nominees, chosen at the Trustees’ discretion. This generally enables payment to be made quickly and normally without liability to Inheritance Tax.

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Lump sum death benefits will be paid at the Trustees’ discretion to:

Dependants

Beneficiaries or nominees

Relatives

* This benefit is not payable if you retire on grounds of chronic ill-health and subsequently die before your Normal Retirement Date.
Payment of spouse’s, civil partner’s and dependant’s pension

The pension is paid to your spouse or civil partner from the date of your death. The pension is payable for life and will commence on the first day of the month following the date of death.

In certain circumstances, the Trustees may, at their discretion, pay the pension to another person. However any benefits in respect of a Guaranteed Minimum Pension or pension resulting from a Protected Rights fund will still be paid to a spouse or civil partner.

If you had been married or in a civil partnership for less than six months, the Trustees have discretion to decide whether your spouse or civil partner should receive the pension.

The Trustees have discretion to reduce the spouse’s pension if the marriage or civil partnership had broken down and you were no longer living together.

Expression of Wish Form

You can help the Trustees decide who will receive the lump sum benefits payable on your death by completing an Expression of Wish Form. The Trustees will consider your wishes but are not legally bound by them.

You can obtain an Expression of Wish Form from: www.baesystemspensions.com

The completed form should be returned to the Pensions Service Centre. You should complete a new Expression of Wish Form if your wishes or circumstances change.

Please note that this form can only be considered by the Trustees if it is held by the Pensions Service Centre.

An expression of wish form can help decide who receives the benefits

Further Information

Visit: www.baesystemspensions.com
Pensions Service Centre: 0800 917 9568
Overseas: +44 (0)121 415 0891
Email: farnborough.pensions@equiniti.com
Leaving the Scheme

If you leave the Company before you reach retirement, your membership of the Scheme will cease. You can also choose to cease your membership of the Scheme whilst you are still an employee of the Company by 'opting out' (see page 5).

You will be entitled to a deferred pension payable when you reach Normal Retirement Date or you may transfer its value to another pension arrangement.

Your deferred pension

Your deferred pension will initially be based on your Total Pension Percentage and Final Basic Salary, restricted to the Scheme Cap if appropriate, on the date you leave the Scheme. At your Normal Retirement Date the amount will be compared with the pension derived from your Individual Pension Percentage and whichever method produces the higher figure will apply (see page 8). You will also have the option to exchange part of your pension for a tax free cash sum when you reach retirement.

A Guaranteed Minimum Pension entitlement will be subject to fixed rate revaluation, for those who left after 5 April 2017 currently 3.5% per year of deferment for pension relating to a maximum of 5% a year compound over your period of deferment for pension relating to service up to 6 April 2009 and 2.5% a year for service after 6 April 2009.

Certificate of Deferred Benefits

When you leave the Scheme, you will be given a Certificate of Deferred Benefits and it is important that you keep this safe. It is also important that you keep the Pensions Service Centre informed of any change of address to ensure that you can be traced when your benefits become due.

Early payment of your deferred pension

Early payment option

Your deferred pension can be paid any time after the first day of the month following your 50th birthday. If you take your pension early it will be reduced to allow for the extra years over which your pension will be paid. The level of reduction will be agreed between the Trustees and the Company, who will be advised by the Scheme Actuary.

Discretionary option

The Trustees have the discretion to apply more favourable terms if you are able to satisfy the Trustees that due to your state of health, you are unable to resume any remunerative employment with any employer. You may apply for ill-health retirement at any time before your Normal Retirement Date.

Late payment of your deferred pension

If the Trustees agree, you may be able to elect to receive the pension starting later than your Normal Retirement Date but not later than your 75th birthday. Your pension will increase in line with the Consumer Prices Index (CPI) up to a maximum of 5% a year compound over your period of deferment for pension relating to service up to 6 April 2009 and 2.5% a year for service after 6 April 2009.

Transferring out

As an alternative to leaving your deferred benefits in the Scheme, you may choose to take a transfer payment to either your new employer's scheme or to another pension arrangement. This can be requested at any time up to a year before your Normal Retirement Date and will be the cash equivalent of your benefits (including death benefits but excluding any allowances for discretionary benefits).

The amount of your transfer payment will never be less than the balance of your Individual Pension Account. This is your 'Value for Money Guarantee'.

Since 6 April 2015, members with money purchase or defined contribution savings have been able to access more of their pension benefits as cash from age 55. These options are not available for your benefits in the Scheme, so you will need to transfer your Scheme benefits to a defined contribution pension arrangement offering the new flexibilities in order to access them in this way. Please be aware that different tax charges may apply and it is likely that the external provider will require you to pay charges.

Protecting your pension

From 6 April 2015, if the cash equivalent of your Scheme Pension is greater than £30,000 and you wish to transfer to a defined contribution arrangement, you must first get appropriate financial advice from a Financial Conduct Authority (FCA) authorised adviser to understand the financial and tax implications of the transfer. Your adviser will be required to provide you with written confirmation that you have received appropriate advice concerning the possible transfer to another arrangement.

You will need to provide this to the Trustees of the Scheme before the transfer can take place. Whilst it is not a requirement for transfers of less than £30,000, we recommend that you get independent financial advice before transferring your Scheme benefits.

Any transfer request made within a year before your Normal Pension Age for the cash equivalent of your Scheme benefits (this excludes your AVCS) is subject to the Trustees' approval.

If you wish to consider this option you should contact the Pensions Service Centre for further details.
The BAE Systems Pension Scheme is a registered scheme. This means that certain tax concessions apply subject to certain restrictions.

**Tax free cash lump sums**
The Scheme allows you to take a part of your pension as a tax free cash sum at retirement. The maximum is calculated at retirement but will be approximately 25% of the value of your pension benefits.

**Lifetime Allowance**
If the value of benefits in registered schemes that you may accumulate in your lifetime exceeds the Lifetime Allowance, the excess benefits will be taxable at a special rate of tax. From the 2016/2017 tax year, the Lifetime Allowance is £1 million. This is broadly equivalent to a pension of about £50,000 a year. From the start of the 2018/2019 tax year, the Lifetime Allowance will increase by Consumer Price Inflation each year.

**Annual Allowance**
The Annual Allowance is a threshold for how much total retirement benefit you can build up each year across all registered pension schemes, before incurring additional tax charges. Any excess pension savings above the Annual Allowance are subject to a tax charge, which will be collected through the self-assessment process. From 6 April 2016 the threshold is £40,000 for individuals with taxable income less than £110,000.

**Tapered Annual Allowance:** For members who have a total taxable income of more than £150,000, the Annual Allowance will reduce by £1 for every additional £2 of taxable income above £150,000. The maximum reduction will be £30,000, so anyone with an income of £210,000 or more will have an Annual Allowance of £10,000.

The tests against the income components to use, adds complexity to the process of assessing an individual’s exposure to the Annual Allowance and you need to be aware that individuals with taxable income over £110,000 may be affected. The income components include personal sources of income (such as investment income or income from a buy-to-let property), together with employment-related income and a measure of the increase in pension savings over the tax year.

**Money Purchase Annual Allowance:** Where members choose to transfer their AVC benefits to another scheme and subsequently access those defined contribution benefits through the new pension flexibility rules, a Money Purchase Annual Allowance (MPAA) will be applied to the amount of money you can then save to any other defined contribution arrangement. In other words, only contributions paid into a defined contribution arrangement up to the MPAA (currently £10,000) will benefit from tax relief. If you pay into a defined contribution arrangement and are subject to the MPAA, then you can accrue defined benefits up to the Annual Allowance less any defined contribution payments up to the MPAA.

Please be aware that in any tax year you cannot claim tax relief on your contributions to pension schemes in excess of your annual earnings. Your contributions include AVCs but not contributions made by the company under SMART.

If you believe you may be affected by the restrictions set out above, you should seek independent financial advice. Further information on all these restrictions is available through the HMRC Pensions Tax Manual (www.gov.uk/hmrc-internal-manuals/pensions-tax-manual). An Independent Financial Adviser may charge a fee for their service. Please visit www.unbiased.co.uk for more details.

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**Further Information**
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Pensions Service Centre: 0800 917 9568
Overseas: +44 (0)121 415 0891
Email: farnborough.pensions@equiniti.com
Further Information

> Technical terms used
> Summary of Scheme benefits
> A guide to your benefits
> Membership of the Scheme
> Making contributions to the Scheme
> How to calculate your pension
> When you reach retirement
> Death benefits
> Leaving the Scheme
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Navigation

16 Your guide to the BAE Systems Pension Scheme

General information

Transferring benefits from other schemes

If you were a member of a previous employer’s scheme or have a personal pension, it may be possible to arrange for a transfer payment to be made to the Scheme although, please note that contracted-out benefits cannot be transferred in. The value of any transferred-in benefits will be paid to the AVC provider and the choice of investment funds is set out in the AVC Guide. If you wish to consider this option you should contact the Pensions Service Centre for more details.

AVC transfers

Members can choose to transfer the value of their AVCs out, even while they remain in active service. These arrangements are not a statutory requirement, but have been introduced to offer greater flexibility to members in their retirement planning. Members can transfer to any registered external pension arrangement. If you exercise this option no further AVCs will be allowed in the future to the Scheme.

Financial advice

The Company, its employees and the Trustees are not authorised under the Financial Services and Markets Act 2000 as amended by the Financial (Banking Reform) Services Act 2013. This means that they cannot give investment advice or any advice regarding your membership of the Scheme. The information in this guide is intended to help you make your own decision. However, if you are in any doubt, you should consult an Independent Financial Adviser who may charge a fee for this service.

Assignment of benefits

You must not attempt to assign your benefits to obtain cash payments or as security for loans. Under the Scheme Rules, there could be no legal claim on the Scheme by anyone other than the person to whom the benefits are transferred under the Scheme Rules. Your benefits would cease to be payable and would come under the control of the Trustees for payment at their discretion.

Amendments to the Scheme

The Company intends to maintain the Scheme for the future, but in the unlikely event of it being discontinued, the Trustees would use the assets of the Scheme to provide benefits for the members in accordance with the Scheme Rules.

Financial advice

Increased or additional benefits may be provided from the Scheme at the discretion of the Company, subject to the Company paying any additional contributions that the Trustees may require after taking actuarial advice.

Internal Dispute Resolution (IDR)

If you have a query about the Scheme, the Pensions Service Centre will normally be able to resolve it. However, if you are dissatisfied with the response you receive, the Trustees have in place a formal Internal Dispute Resolution (IDR) procedure for resolving complaints or disputes. The procedure provides a formal system for lodging a complaint, to which a response must normally be made within two months. You may then appeal to the Trustees and this second stage must normally also be dealt with within two months. You may obtain a copy of the full IDR procedure from:

- The Pensions Director, BAE Systems plc, PO Box 87, Warwick House, Farnborough Aerospace Centre, Farnborough, Hampshire, GU14 6YU
- TPAS and the Pensions Ombudsman may be contacted at:
  - 11 Belgrave Road, London, SW1V 1RB
  - 0300 123 1047 (TPAS)
  - 0207 630 2200 (Pensions Ombudsman)

If you are dissatisfied with the outcome of the IDR process, the following external organisations are available to investigate complaints (see next column).
General information

The Pensions Regulator

The Pensions Regulator is the regulator of work based pension schemes in the UK. Created under the Pensions Act 2004, its aims include protecting members’ benefits and promoting good administration. The Pensions Regulator is able to intervene in the running of schemes where trustees, employers or professional advisers have failed in their duties. The Pensions Regulator can be contacted at:

- The Pensions Regulator, Napier House, Trafalgar Place, Brighton, BN1 4DQ
- www.thepensionsregulator.gov.uk

Pension Tracing Service

Information about the Scheme (including the address at which the Trustees may be contacted) has been given to the Department for Work and Pensions. The Department acts as a central tracing agency to help individuals keep track of the deferred benefit entitlements they have in previous employers’ schemes. If you have difficulty finding where pensions you have earned in the past are located, the service can be accessed by contacting the Pension Tracing Service at:

- The Pension Service 9, Mail Handling Site A, Wolverhampton, WV98 1LU
- 0345 600 2537
- www.gov.uk/find-pension-contact-details

Pension Protection Fund

Introduced by the Pensions Act 2004, this fund has been set up to protect pension benefits for members of company defined benefit pension schemes where the employer has become insolvent and the scheme is unable to meet its obligations. It is funded by a substantial levy on all defined benefit schemes and should help provide peace of mind for many people saving for retirement in such schemes.

- www.pensionprotectionfund.org.uk

Pension Wise

The Government established Pension Wise to give everyone with defined contribution pension savings (including AVCs) access to free and impartial guidance about the options that they have when using those savings. If you have paid AVCs into the Scheme you consent that your personal and sensitive personal data may be processed, where required by law or under contract, to other third parties including, but not limited to insurance companies, the Company, any possible purchaser of the Company or its business and any trustees, administrators or advisers of any other pension arrangement where a transfer of your pension rights is being made or considered.

- www.pensionwise.gov.uk

More details will be provided to you about this service at retirement.

Duty Protection

The Trustees are registered with the Information Commissioners Office for the processing of your personal data for purposes connected with their trusteeship of the Scheme. In order to administer the Scheme, personal data about you and your relatives and dependants will be processed by the Trustees and the Scheme's administrators, which includes third parties who provide ancillary services such as printing and storing of your personal data, and advisers.

By joining the Scheme you consent that your personal and sensitive personal data may be processed, where required by law or under contract, to other third parties including, but not limited to insurance companies, the Company, any possible purchaser of the Company or its business and any trustees, administrators or advisers of any other pension arrangement where a transfer of your pension rights is being made or considered.

In certain circumstances it may be necessary to transfer your personal/sensitive personal data to third parties located outside of the European Economic Area. Should this occur the Trustees will ensure that this is done under contract with the necessary safeguards in place to guarantee you the same rights as you would be afforded within your own country of residence.

Further information

Each year you will receive a benefit statement. Once in any 12 month period you are entitled to request an estimate of the cash equivalent of your benefits (including death benefits, but excluding any allowance for discretionary benefits), which can be transferred to another scheme. You should receive this statement within three months of your written request. The amount on the statement will not be guaranteed.

The Trustees prepare a report of the Scheme for each Scheme Year which includes the Scheme’s audited accounts, a statement from the Actuary, and a review of the year from the investment managers. You will receive a summary of this information. You can apply to the address below to see the full report.

If you require any further information on the Scheme or on pension matters in general, visit:

- www.baesystemspensions.com

You can log onto ‘My Pension’ for details of your own personal benefits in the Scheme. You can also ring the Pensions Service Centre on: 0800 917 9568 (+44 (0)121 415 0891 overseas)

Or e-mail: farnborough.pensions@equiniti.com

Alternatively write to:
Pensions Service Centre, PO Box 1193, Crawley, West Sussex, RH10 0FY

Further Information

Visit: www.baesystemspensions.com

Pensions Service Centre: 0800 917 9568
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Email: farnborough.pensions@equiniti.com

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