

# 2020 Annual Review

Royal Ordnance Pension Scheme



# Welcome

Welcome to the Trustee's 2020 annual review of the Royal Ordnance Pension Scheme ('the Scheme').

I know that this newsletter arrives during a most challenging time for us all, given the impact of COVID-19. During the year, the Trustee has been closely monitoring the impact of COVID-19 on the day to day operation of the Scheme, as well as its ongoing governance. Throughout this period the Trustee has worked closely with all its key providers and it is good to be able to report that our Scheme administrators have been able to provide a normal service to our members. We will continue to monitor the position closely. We recognise that it is important that we keep you up to speed with any latest developments, so the BAE Systems pension website ([baesystems.com/pensions](https://baesystems.com/pensions)) will continue to be the place to go to find the very latest news.

The Trustee has continued to meet regularly, albeit virtually rather than in person. We are currently progressing the actuarial valuation of the Scheme as at 31 March 2020. In the following pages you can read a summary of the Annual Report and Accounts for the year ended 31 March 2020 as well as an update on the investment performance of the Scheme's assets. There are a number of pension news articles, covering topical issues and developments that may be of interest to you. I would particularly like to draw your attention to the article on page 9 which focuses on pension scams. It is reported that as a result of COVID-19 pension scams are a growing risk, with fraudsters taking advantage of the situation to lure savers into illegal transfers. Remember that transferring your pension is an irreversible action that will have a lasting impact on your retirement benefits.

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 16.

**Carol Woodley**  
Chair of the Trustee Board



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Front cover image: 7.62mm small arms ammunition manufactured at Rayway Green

## Who is in the Scheme?

At 31 March 2020 the Scheme had a total of **12,528 members**.

In-service members	342
Deferred members	2,879
Pensioners	9,307

Richard Baker was appointed by the Company to the Trustee Board on 1 September 2020. Over an eight year period Richard was previously a Trustee and later the Chair of Trustees for the Alvis Pension Scheme (prior to its merger with the BAE Systems Pension Scheme). Richard is also currently the Chair of Trustees for the Royal Ordnance Senior Staff Pension Scheme.

The Trustee would like to express its gratitude to Craig Fennell for his service to the Scheme over the last two and a half years.

Both Tim Eardley and Nicola Evans' four year term as in-service Member Nominated Directors for the Scheme expired on 31 May 2020. In December 2019 we sought candidates from the in-service Scheme membership for these two positions. Both Tim and Nicola put themselves forward for selection, and with no other candidates coming forward they were re-appointed unopposed. Their terms of office expire on 31 December 2024.

### Trustee Directors and Advisers

#### The Scheme's Trustee Directors

Carol Woodley – *Chair of the Trustee Board*  
 Richard Baker – *appointed 1 September 2020*  
 Tim Eardley\*  
 Gareth Edwards  
 Nicola Evans\*  
 Craig Fennell – *resigned 31 August 2020*  
 Murray Fullerton\*  
 Lorraine Gregson  
 Eifion Pomeroy\*

#### The Scheme's Advisers

**Actuary**  
 Calum Cooper FIA  
 Hymans Robertson LLP  
**Auditor**  
 Grant Thornton UK LLP  
**Legal Adviser**  
 Pinsent Masons LLP  
**Investment Consultant**  
 Hymans Robertson LLP

#### Scheme Secretary

Hayley Clifton – *resigned 6 September 2019*  
 Julie Cook – *appointed 6 September 2019 and resigned 14 August 2020*  
 Louisa Richards – *appointed 14 August 2020*

\* Member Nominated Director

## Valuation update

As I write, we are in the middle of the 2020 actuarial valuation. This is the three yearly exercise to check the Scheme's funding and agree what contributions will be paid. This process is part of ensuring that the Scheme has enough money to pay all of your benefits in the future. The results of this valuation will be communicated to members following the conclusion of the exercise.

As many of you will have seen, the COVID-19 pandemic has caused several difficulties within the global economy. Despite this, the funding position of the Scheme has been resilient throughout the period. This is due to the extensive work the Trustee has carried out over the past few years to manage the risks associated with uncertain financial markets. In particular, the Trustee took the opportunity to review the risk profile of the Scheme's investment strategy and set out a clear long-term plan to continue to reduce risk. More detail will be provided on this following the valuation.



**Calum Cooper FIA**  
Hymans Robertson LLP

The funding position of the Scheme has been resilient throughout the recent period of economic uncertainty.

## 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 2020.

Income and expenditure	Period ended 31 March 2020 (£m)
<b>Fund at the beginning of the year</b>	<b>1,554</b>
Total income	50
Total outgoings	(70)
<b>Excess of outgoings over income</b>	<b>(20)</b>
<b>Change in market value of assets</b>	<b>(14)</b>
<b>Fund at the end of the year</b>	<b>1,520</b>
Net investments	1,510
Net current assets	10
<b>Net assets of the Scheme at year end</b>	<b>1,520</b>

# Investment update

## Market background

After a relatively strong start to the year, financial markets were heavily impacted by the COVID-19 pandemic which left the performance of most return-seeking assets in negative territory for the 12 months to 31 March 2020. Government bond yields had been on a downward path for much of 2019, before plunging to record lows in March 2020. Following a relatively benign period, corporate bonds fell amid concerns over an increased likelihood of defaults as a result of the pandemic. The UK commercial property market continued to slow, returning 0.1% over the year.

## Investment strategy

The Trustee's investment strategy aims to ensure the Scheme has sufficient funds to pay benefits when they fall due. The Trustee decides, in consultation with the Company and advisers, how to invest the Scheme's assets. The Statement of Investment Principles sets out the Trustee's chosen investment strategy and the investment objectives for the Scheme. For more information about the Statement of Investment Principles and how to obtain a copy, see page 8.



**Andrew Johnston**  
Hymans Robertson LLP

## Asset allocation

The Trustee invests in a diverse range of assets across different geographic regions. The Scheme's investments include private equities, core and high lease-to-value property, asset backed securities, private lending, corporate bonds and government bonds. The Trustee appoints specialist managers to invest in the different asset classes and holds them to account if they fail to meet the performance objectives set for them.

The Scheme's strategic benchmark is as follows:

	31 March 2020	31 March 2019
Gilts and liability driven investments	50.8%	45.0%
Corporate bonds - BlackRock	22.0%	27.5%
Corporate bonds - PGIM	11.0%	17.5%
Asset backed securities	6.0%	-
Private lending	6.0%	-
Private equity	3.0%	5.0%
Property	1.2%	5.0%
<b>Total (excluding AVCs)</b>	<b>100%</b>	<b>100%</b>

## Asset allocation

The Scheme's liability-driven investment mandate seeks to hold assets that are better matched to the Scheme's liabilities by increasing in value when the cost of providing benefits rises and decreasing in value when this cost falls. Investing in these types of assets provides additional security to members by reducing volatility and protecting the Scheme's funding level. The evolution of the Scheme's asset portfolio, over the year to 31 March 2020, can be seen in the table below:

	Spread of investments at:	
	31 March 2020	31 March 2019
Gilts and liability driven investments	51.2%	48.6%
Corporate bonds - BlackRock	25.2%	31.3%
Corporate bonds - PGIM	11.5%	14.7%
Asset backed securities	5.6%	-
Private lending	2.0%	-
Private equity	3.4%	3.4%
Property	1.2%	1.9%
<b>Total (excluding AVCs)</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Northern Trust Global Services Limited.  
Figures may not sum due to rounding.



The Scheme was slightly overweight to its 'bond-type' assets as at 31 March 2020, compared to the strategic benchmark. The Trustee is in the process of implementing the agreed investment strategy and once complete the Scheme's asset allocation will be more closely aligned to the strategic benchmark.

Recent investment performance has been strong.

### Investment performance

The table below shows the performance of the Scheme's assets against its benchmark for the one year, three years and five years to 31 March 2020.

	1 year %	3 years %pa	5 years %pa
Scheme	3.13	3.57	5.53
Benchmark	1.72	3.47	5.76

Source: Northern Trust Global Services Limited

Recent investment performance has been strong, with the Scheme's assets performing ahead of benchmark over all time periods considered up to 3 years. Asset performance over the 5 year period has been strong in absolute terms, but has slightly lagged the Scheme's benchmark. This has been predominantly driven by underperformance from the Scheme's property and private equity portfolios.

# Pensions news

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## Statement of Investment Principles

A Statement of Investment Principles (SIP) is a written statement which sets out the Trustee's investment policy for the Scheme. When preparing the SIP the Trustee consults BAE Systems plc (the Principal Employer for the Scheme), and obtains written investment advice from the Scheme's Investment Adviser, Hymans Robertson.

The Trustee does not expect to revise the SIP frequently as it covers broad principles, however it is reviewed at least every three years or immediately if there are relevant, material changes to the Scheme and/or Principal Employer or indeed any changes in legislation.

As a member you have always been able to request a copy of the SIP from the Scheme administrator and typically you have been reminded of this in prior issues of this newsletter. From 1 October 2020 there has been a requirement for the Trustee to publish the SIP on a publically available, free to access website and as a result a copy of the SIP has now been posted to the BAE Systems pension website at [baesystems.com/disclosableinformation](https://baesystems.com/disclosableinformation). A paper copy of the SIP can still be requested from your Scheme administrator (see contact details on page 16) if you cannot access it online or if you would prefer a copy to be sent to you.

As a member you have always been able to request a copy of the SIP from the Scheme administrator.

## Do you need help to navigate your finances in light of COVID-19?

The COVID-19 lockdown measures have affected millions of people. What this means for your finances will be very personal to you. With recent market volatility you should consider carefully any decisions that you make regarding your investments, having regard to both the short-term and long-term. If you are looking for some financial guidance but do not know where to start, you will not be alone.

The Money and Pensions Service (MaPS) is a public body, sponsored by the Department for Work and Pensions, with a joint commitment to ensure that people throughout the UK have guidance and access to the information they need to make effective financial decisions over their lifetime. MaPS's vision is "Everyone making the most of their money and pensions."

MaPS has launched the Money Navigator Tool designed to help people navigate their finances in light of COVID-19 and avoid financial issues potentially worsening into the future. The tool can be found at: [moneyadvice.service.org.uk/en/tools/money-navigator-tool](https://moneyadvice.service.org.uk/en/tools/money-navigator-tool)

The Money Navigator Tool asks a short series of questions about your financial situation, before providing guidance that is personalised to your own situation and needs. If you are concerned about your finances in light of COVID-19 you are encouraged to visit the MaPS website.



## Avoid pension scams

In these uncertain times, scammers are increasingly targeting pension savings, luring individuals to transfer their benefits by making promises of investment security or high returns that will never come to fruition. Action Fraud, the cyber-crime and fraud reporting centre has reported an increase in scams relating to COVID-19. Indeed we have recently been made aware of a couple of instances where BAE Systems pensioners have been cold called only for the caller to hang up when questioned further. Owing to the sophisticated nature of many of these scams it is possible for anyone to become a victim. It is therefore more important than ever that you are aware of the warning signs.

Scammers will either invest the proceeds in unusually high risk investments or just steal the money and disappear. Add to this the fact that the victim could also be left with a substantial tax bill from HM Revenue and Customs, for example if money is taken before age 55, you can see how the impact can be devastating. In addition, with pensions typically being a long term investment it is possible that those who transfer their benefits may not realise something is wrong for a number of years.

The Pensions Regulator's website contains information on how to protect yourself from scammers in their leaflet called "Don't let a scammer enjoy your retirement". You can find this at: [thepensionsregulator.gov.uk/en/pension-scams](https://thepensionsregulator.gov.uk/en/pension-scams).

The Financial Conduct Authority's website also provides information on what you should do if you receive unsolicited contact ([fca.org.uk/scamsmart](https://fca.org.uk/scamsmart)). It contains helpful information about how to spot a pension or investment scam, with a section on the new scams that have emerged relating to COVID-19.

## Warning signs of a pension scam

Scammers often cold call people which is illegal, and is a likely sign of a scam. Other common signs of pension scams include:

- > phrases such as free pension review, pension liberation, loan, loophole, savings advance, one-off investment, cashback
- > guarantees of higher returns using unusually high risk and unregulated investments, especially overseas
- > releasing cash from a pension before the age of 55, with no mention of the associated HM Revenue and Customs tax charge
- > time limited offers to get the best deal
- > complicated investment structures

So...

- > reject unexpected pension offers
- > check who you are dealing with before considering making any change to your pension arrangements
- > do not be rushed or pressured into making any decision
- > consider getting impartial information and advice

Scammers are increasingly targeting pension savings. Be ScamSmart. Visit: [fca.org.uk/scamsmart](https://fca.org.uk/scamsmart)

## Pensions news continued...

### MyPension

MyPension is a secure pensions website provided by the Scheme administrator, Equiniti, that allows you to access your pension details 24/7 without the need to contact the Scheme administrator. The website is easy to use and can be accessed via your phone, tablet or PC. To increase the security of using MyPension you can set up a second layer of security (called Two Factor Authentication). In addition to your standard user name and password, a code can be generated via an app from your smart phone.

#### How do you access or register to use MyPension?

You can access MyPension via the BAE Systems pension website at: [baesystems.com/mypension](http://baesystems.com/mypension)

If you have never registered to use MyPension before please contact Member Web Services on: **0371 384 2682**, or **+44 121 415 0816** if calling from overseas. You will then be sent full details of how to register for the website. You will also need to know your Member Number (which is shown on your annual benefit statement or it can be obtained from Equiniti), National Insurance Number and date of birth to complete the registration process.

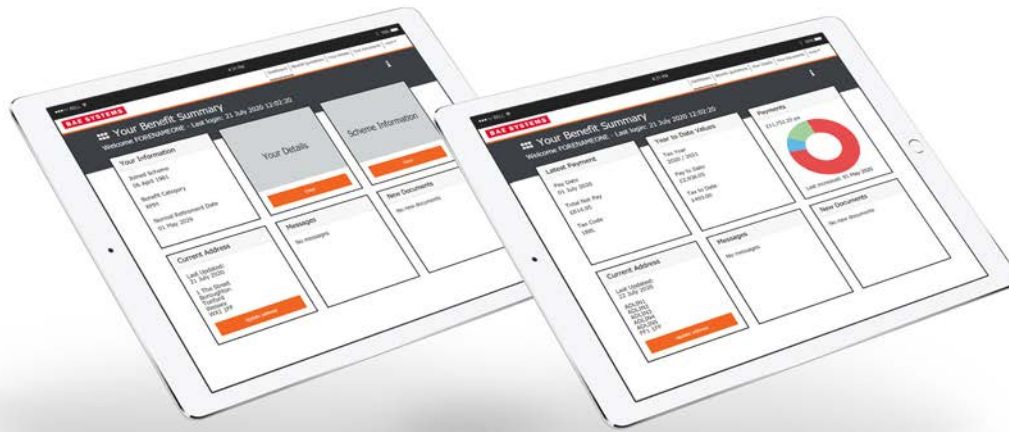
### MyPension

#### Forgotten your username or password?

Then please contact the Pension Service Centre on: **0345 180 1401** and they will arrange for it to be reset.



You can access MyPension via the BAE Systems pension website at: [baesystems.com/mypension](http://baesystems.com/mypension)



As an active member you will be able to:

- > View the current value of your retirement benefits
- > Provide yourself with a pension estimate
- > Model your benefits at your chosen retirement age to see the impact increasing your contributions will have on your retirement fund
- > View important documents such as historical benefit statements

As a deferred member you will be able to:

- > Provide yourself with pension estimates
- > View important documents such as historical benefit statements
- > Update your contact details

As a pensioner member you will be able to:

- > View your payslips
- > View your P60s
- > View your latest payment details
- > Update your contact details

If you have never used MyPension before you are encouraged to register and start enjoying access to your pension information 24/7.

## Pensions news continued...

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### New dedicated Standard Life Additional Voluntary Contribution website launched

All members in pensionable service are able to pay Additional Voluntary Contributions (AVCs) on a money purchase basis. Money purchase AVCs are invested with Standard Life and by paying AVCs you will be able to increase your benefits under the Scheme. AVCs are deducted from your pay before tax is calculated so you automatically receive tax relief at your highest rate, although some restrictions apply to high earners. AVCs might be of particular interest if you joined the Scheme later in your working life, or you are considering the possibility of retiring early. You can start, increase, decrease or stop paying AVCs at any time.

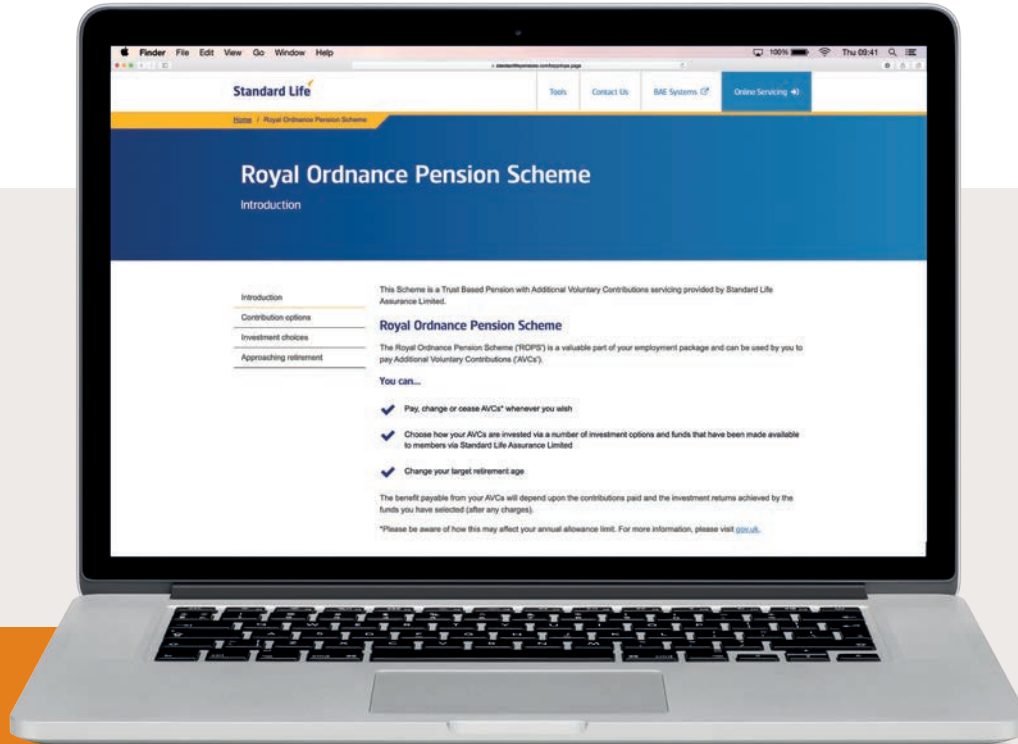
In June this year a dedicated AVC website was launched in conjunction with Standard Life. This website is available to all members who are paying, have paid or are interested in paying money purchase AVCs. The website can be found at:

[standardlifepensions.com/bspp/rops.page](http://standardlifepensions.com/bspp/rops.page)

Through the Standard Life website you will have at your fingertips all the information you need on AVCs. This includes fund fact sheets and investment guides as well as various tools which will allow you to check your financial health. By using the tools you will be able to explore your retirement income options and see if your pension savings are on track.

From the website you can also access Standard Life's Online Servicing portal to manage your own AVCs online. If you have not yet used Online Servicing, registration is simple and there are step by step instructions to take you through the process. Once logged in you will be able to see your current AVC fund value and you are able to review and change the funds you invest in as well as your Target Retirement Age. Your Target Retirement Age is the age at which you are planning to take your pension benefits. If your AVCs are invested in one of the Scheme's Lifestyle Investment Profiles it is important that your Target Retirement Age accurately reflects your retirement plans. This is because in the ten years prior to your Target Retirement Age, the Lifestyle Investment Profiles gradually move your AVCs into funds that are tailored for how you plan to take your retirement income (e.g. cash, annuity). Therefore any change to your Target Retirement Age should be made to tie in with your retirement plans.

Do take some time to explore this new website and remember to add the link as one of your 'favourites'.



standardlifepensions.com/bspp/rops.page

## Pensions news continued...

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### Scheme website

For all members of the Scheme, useful pension information can be found on the BAE Systems pensions website at [baesystems.com/pensions](https://baesystems.com/pensions). Add this link to your 'favourites' for ease of access going forward.

As well as a dedicated page for the Scheme, the BAE Systems pensions website is the go-to place for the latest Scheme and general pension news. During the early months of the COVID-19 pandemic regular updates were posted to the website. When a news item is posted to the website there is a direct link to that news item on the landing page so please do check back regularly. The link will stay on the landing page for one month after which you will be able to find prior updates in the 'More Info – News' section of the website.

Over the summer, Pension Guides have been added to the 'More Info' section of the website. The aim of these guides is to provide you with further information on topics of general interest. The guides cover such matters as working part-time, transferring your benefits out of the Scheme, the State pension and pension flexibilities.

From the pensions website you can log into MyPension to view your own pension information online whenever you want to and there is a link to the new Standard Life website. You will also find all the contact details you need for Equiniti, the Scheme administrator.



For useful pension information go to [baesystems.com/pensions](https://baesystems.com/pensions). Add this link to your 'favourites'.

## Pension allowances and the Budget 2020

The **Annual Allowance (AA)** is a yearly limit set by HM Revenue & Customs on the amount of pension savings that benefit from tax relief, whilst the **Lifetime Allowance (LTA)** is a restriction on the total amount of pension savings, which you can build up in a tax-favoured environment in your lifetime without incurring an additional tax charge. For 2020/21 the standard AA is set at £40,000 (but see below in relation to higher earners) whilst the standard LTA is set at £1,073,100.

The AA for defined benefit members relates to the increase in the value of your benefits each year (under all schemes). Broadly speaking the difference in your pension from one year to the next is multiplied by 16 and this figure is compared to the AA. To this you would need to add the value of any defined contribution payments that have been made, such as Additional Voluntary Contributions (AVCs). Carry forward allows you to make use of any AA that you may not have used during the three previous tax years, provided that you were a member of a registered pension scheme.

When calculating the LTA, broadly speaking, your total defined benefit pensions are multiplied by 20 with the resulting figure being compared to the LTA. To this you would also need to add other fund values relating to other defined contribution benefits or AVCs. The vast majority of members do not exceed these limits.

The **Tapered Annual Allowance (TAA)** came into force from 6 April 2016 for high earners. The Budget which took place on 11 March 2020 saw changes to the TAA. From 2020/21, the TAA reduces the AA by £1 for every £2 of your “adjusted income” over £240,000 a year, and will reduce your AA to a minimum of £4,000 if your adjusted income is £312,000 a year or more. Your “adjusted income” is all of your pre-pension contribution earnings, including savings and pension income plus the value of your employer’s pension contributions. The TAA will not apply if your total income excluding pension contributions is less than £200,000.

There is also a **Money Purchase Annual Allowance (MPAA)** which applies once you have flexibly accessed a defined contribution pension. This might include taking all your defined contribution pension as a single lump sum or taking income from a flexible retirement income product. The MPAA restricts the amount that you can save into a defined contribution arrangement each year, and is currently set at £4,000. The £4,000 limit includes contributions made by you, any tax relief you receive, and any employer contributions. It is also not possible to bring forward any unused AA i.e. carry forward from previous tax years to increase this amount, as you are able to do with the £40,000 AA and the TAA.

If you believe that you might be affected by any of these allowances more information can be found at: [gov.uk/tax-on-your-private-pension](https://gov.uk/tax-on-your-private-pension).

The Pensions Advisory Service has also produced a Spotlight publication on both the AA and the LTA which can be found at: [pensionsadvisoryservice.org.uk/publications/category/spotlights](https://pensionsadvisoryservice.org.uk/publications/category/spotlights).

## Getting in touch

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### Need some help understanding your pension?

The Pensions Service Centre is available if you have got any questions or you need to update your contact details:

- > Freephone: 0800 917 9568
- > If calling from overseas: +44 121 415 0891
- > Email: [fulwood.pensions@equiniti.com](mailto:fulwood.pensions@equiniti.com)

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

- > Royal Ordnance Pension Scheme, Pensions Service Centre, PO Box 1194, Crawley, West Sussex, RH10 0FZ

and for pensioner members is:

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

### MyPension

You can log into the MyPension service at:

- > [baesystems.com/mypension](https://baesystems.com/mypension)

If you cannot access this service, please contact Member Web Services on:

- > 0371 384 2682
- > If calling from overseas: +44 121 415 0816

### Standard Life

You can access the Standard Life website at:

- > [standardlifepensions.com/bspp/rops.page](https://standardlifepensions.com/bspp/rops.page)

Read more information on the pensions website: [baesystems.com/pensions](https://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 any provisions of this newsletter 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.