Welcome to the Trustee’s 2020 annual review for the BAE Systems Section of the BAE Systems Pension Scheme (‘the Scheme’)

This newsletter arrives during a hugely challenging time for us all. The impact of COVID-19 has been wide reaching in terms of the environment we live and work in. The Trustee continues to closely monitor the possible impact on all aspects of running of the Scheme, from its day to day operation and administration to the 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 with the use of technology our Scheme administrators have been able to introduce changes to their processes in order to provide a largely normal service to our members. The Trustee Board has continued to meet regularly, albeit virtually rather than in person. This has allowed the normal business of the Board to continue unaffected.

We recognise that keeping you informed of the latest news and developments is hugely important. With this in mind, we are ensuring that the BAE Systems pension website (baesystems.com/pensions) is kept up to date with the latest information relating to the Scheme.

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. You can also read about the results of the last valuation of the Scheme which took place as at 31 October 2019. Hopefully you will have seen on the BAE Systems pension website that on 17 April 2020 a £1bn payment was received into the Scheme from the Company. This payment represents an acceleration of deficit contributions that would otherwise have been payable in the period 2022 to 2026.

The positive impact that this contribution has made in terms of security for all Scheme members’ benefits is very welcome.

There are a number of pensions 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 14 which focuses on pension scams. It is reported that fraudsters are taking advantage of the pandemic, luring savers into transfers that in many cases are illegal or making promises that they have no intention of honouring. 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 24.

Andrew Gallagher
Chair of the Trustee Board

What is inside

<table>
<thead>
<tr>
<th>Who is in the Scheme?</th>
<th>Trustee Directors and Advisers</th>
<th>Money in and money out</th>
<th>Funding update</th>
<th>Investment update</th>
<th>Pensions news</th>
<th>Getting in touch</th>
</tr>
</thead>
<tbody>
<tr>
<td>p3</td>
<td>p3</td>
<td>p4</td>
<td>p5</td>
<td>p8</td>
<td>p2</td>
<td>p24</td>
</tr>
</tbody>
</table>
Who is in the Scheme?

At 31 March 2020 the Scheme had a total of 171,195 members.

<table>
<thead>
<tr>
<th>Active members</th>
<th>36,268</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred members</td>
<td>49,680</td>
</tr>
<tr>
<td>Pensioners</td>
<td>85,247</td>
</tr>
</tbody>
</table>

The figures above include the members of the DC Retirement Plan which had 16,837 active members and 4,127 deferred members.

This number shows a marked increase on the previous year as a result of the addition of the Alvis Pension Scheme, Shipbuilding Industries Pension Scheme and the BAE Systems 2000 Pension Plan from 1 October 2019.

Trustee Directors and Advisers

The Scheme’s Trustee Directors

- Andrew Gallagher (Chair of the Trustee Board)
  - Tina Bailey (appointed 1 October 2019)
  - Martin Brixner (appointed 11 April 2019)
  - Mike Byfield* (appointed 1 October 2019)
  - Dave Cole* (appointed 1 October 2019)
  - Chris Deal* (appointed 1 October 2019)
  - Andy Dean* (appointed 1 October 2019)
  - David Green (appointed 1 October 2019)
  - Duncan McPhee* (appointed 1 October 2019)
  - Craig Murray (appointed 1 October 2019)
  - Richard Parsons* (appointed 1 October 2019)
  - Carol Paul* (appointed 1 October 2019)
  - Joseph Reed* (appointed 1 October 2019)
  - Gavin Scott
  - Ruston Smith
  - Mark Stewart
  - Louise Wallwork
  - Chris Williams*
  - Caroline Aubin* (resigned 1 October 2019)
  - Pat Caudwell* (resigned 1 October 2019)
  - Andreas Drabert (resigned 5 April 2019)
  - Andy Wishart* (resigned 1 October 2019)

* Member Nominated Director (MND)

The Scheme’s Advisers

- Scheme Secretary
  - Julie Cook
  - (appointed 3 September 2019, resigned 6 October 2020)
  - Louisa Richards
  - (appointed 6 October 2020)

- Actuary
  - Mike Parker FIA
  - Hymans Robertson LLP

- 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 Account and the DC Retirement Plan
  - Standard Life

- Investment Consultant
  - Hymans Robertson LLP
The table below is a summary of how the value of the Scheme’s assets changed during the year ended 31 March 2020.

<table>
<thead>
<tr>
<th>Income and expenditure</th>
<th>Period ended 31 March 2020 (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund at the beginning of the year</td>
<td>13,810</td>
</tr>
<tr>
<td>Total income</td>
<td>7,779*</td>
</tr>
<tr>
<td>Total outgoings</td>
<td>(894)</td>
</tr>
<tr>
<td>Excess of income over outgoings</td>
<td>6,885</td>
</tr>
<tr>
<td>Change in market value of assets</td>
<td>(1,050)</td>
</tr>
<tr>
<td>Fund at the end of the year</td>
<td>19,645</td>
</tr>
<tr>
<td>Net investments</td>
<td>19,608</td>
</tr>
<tr>
<td>Net current assets</td>
<td>37</td>
</tr>
<tr>
<td><strong>Net assets of the Scheme at year end</strong></td>
<td><strong>19,645</strong></td>
</tr>
</tbody>
</table>

*Includes a group transfer of £7,016m in relation to the merger of the BAE Systems 2000 Pension Plan, Alvis Pension Scheme and Shipbuilding Industries Pension Scheme with the BAE Systems Section of the Scheme on 1 October 2019.

These figures exclude the DC Retirement Plan, but include AVCs and Level 100+ Retirement Accounts.

The Company agreed to an accelerated contribution of £1bn, along with further planned cash contributions in 2020 and 2021.
Funding update

The most recent formal valuation of the Scheme was carried out as at 31 October 2019 and was completed in February 2020. This was in advance of the original scheduled 31 March 2020 valuation date following a request by the Company.

Bringing forward the valuation date and carrying out the valuation within a shorter timeframe than usual enabled the Trustee to agree a significant acceleration in cash contributions with the Company. Specifically, the Company agreed to an accelerated contribution of £1bn, along with the planned cash contributions in 2020 and 2021 under the Recovery Plan. As at 31 October 2019 these contributions, along with the investment returns achieved by the Scheme’s assets, were expected to remove the funding deficit by 2026.

In this update I am pleased to report the results of the valuation at 31 October 2019. At this date the deficit of the Scheme was £1,933m, equivalent to a funding level of 91%. This is an improvement compared to the funding level of 87% at 31 March 2019. Further details on how the funding has developed over this period can be found over the page. Please note that these figures do not take account of the additional contribution of £1bn paid into the fund by the Company in April this year.

Since the last update the Scheme has grown in size due to the merger of the Scheme with the BAE Systems 2000 Pension Plan, the Alvis Pension Scheme and the Shipbuilding Industries Pension Scheme (SIPS). This increased both the assets and the liabilities of the Scheme but had no immediate impact on the funding level. Full details on the merger were included in the previous newsletter.

This funding update highlights the positive developments in the Scheme’s funding position to 31 October 2019. However as many of you will have seen, the COVID-19 pandemic has caused several difficulties within the global economy. In line with best practice on pension scheme risk management, the Trustee’s funding strategy has been designed in order to reduce the negative impact of uncertain financial markets. The Trustee continues to track the success of this strategy by regularly assessing the funding position of the Scheme. An update on the funding position at 30 September 2020 will be provided to you in the next newsletter.

Mike Parker FIA
Scheme Actuary
Hymans Robertson LLP
What happened to the funding level in the period to 31 October 2019?

The merger of the Scheme with the BAE Systems 2000 Pension Plan, the Alvis Pension Scheme and SIPS resulted in a substantial increase in both the assets and liabilities of the Scheme but had no immediate impact on the funding level. Over the 7 months from 31 March 2019 to 31 October 2019, the funding level improved. This was due to a combination of positive asset returns and a reduction in the liabilities due to the actuarial assumptions.

The DC Retirement Plan, Additional Voluntary Contributions and Level 100+ Retirement Accounts are excluded from the above figures.

How has the value of assets changed since the last update?

The value of assets increased over the year from £13,427m to £20,576m. This increase was primarily due to the transfer in of assets as a result of the merger, however the assets within the Scheme have also performed well during the period.

<table>
<thead>
<tr>
<th></th>
<th>31 October 2019</th>
<th>31 March 2019</th>
<th>31 March 2018</th>
<th>31 March 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>£20,576m</td>
<td>£13,427m</td>
<td>£12,731m</td>
<td>£12,767m</td>
</tr>
<tr>
<td>Amount needed to provide benefits</td>
<td>£22,509m</td>
<td>£15,366m</td>
<td>£14,825m</td>
<td>£14,458m</td>
</tr>
<tr>
<td>(Deficit)</td>
<td>(£1,933m)</td>
<td>(£1,939m)</td>
<td>(£2,094m)</td>
<td>(£1,691m)</td>
</tr>
</tbody>
</table>

The assets within the Scheme have performed well during the period.
How has the value of liabilities changed since the last update?

The value of liabilities (the amount needed to provide benefits) also increased over the year from £15,366m to £22,509m. Again, this was primarily caused by the transfer in of liabilities as a result of the merger.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liability value at 31 March 2019</td>
<td>£15,366m</td>
</tr>
<tr>
<td>Interest on liabilities</td>
<td>£238m</td>
</tr>
<tr>
<td>Cost of benefits accruing</td>
<td>£121m</td>
</tr>
<tr>
<td>Change in asset-led discount rate**</td>
<td>£835m</td>
</tr>
<tr>
<td>Change in inflation</td>
<td>(£790m)</td>
</tr>
<tr>
<td>Benefit payments</td>
<td>(£598m)</td>
</tr>
<tr>
<td>Other actuarial (gains) / losses ***</td>
<td>(£124m)</td>
</tr>
<tr>
<td>Additional liabilities due to merger</td>
<td>£7,461m</td>
</tr>
</tbody>
</table>

** The discount rate is used to determine the value of all expected future payments. This item shows the impact of the change in the discount rate over the period.

*** The impact of the many other items that lead to changes in the valuation of liabilities, ranging from additional members leaving the scheme to updated actuarial valuation assumptions.

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 October 2019 valuation, the Scheme Actuary estimated the cost of securing all members’ benefits with an insurance company to be around £34,932m (after allowing for expenses). The Scheme’s assets at that time were valued at £20,582m, resulting in a shortfall of £14,350m. This is approximately the amount the BAE Systems group employers would have needed to pay into the Scheme if it had been wound up on 31 October 2019. Please note that there is a small valuation difference for the calculation of assets for solvency purposes compared to funding purposes.

In the event of the Scheme having to be wound up if the BAE Systems group employers became insolvent and the Scheme had insufficient assets to provide a certain minimum level of benefits for members, compensation should be provided by the Pension Protection Fund (“PPF”).

Further information and guidance is available on the PPF’s website at: [pensionprotectionfund.org.uk](http://pensionprotectionfund.org.uk)

There have been no payments to the BAE Systems group employers out of Scheme funds during the year, except to reimburse administration and investment expenses. The Pensions Regulator has not had to exercise any of its statutory powers in relation to the Scheme.
Investment backdrop – the year to 31 March 2020

Asset returns for the year under review were extremely varied. Returns for the first nine months of the period were positive for most asset classes, but the final quarter saw the outbreak of the COVID-19 pandemic. The pandemic prompted economic lockdowns and sharp falls in business and consumer confidence, sending the world economy into its worst downturn since the global financial crisis and leading to negative asset returns. Even ahead of the pandemic, some economic and financial leading economic indicators, particularly for manufacturing sectors, were starting to weaken indicating more challenging times ahead.

Investment strategy

The Scheme’s membership and liabilities are projected to maturity and with the number of members being retired or approaching retirement increasing, the requirement for investment income to pay ongoing pensions is becoming an increasing priority.

The Scheme has therefore adopted 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 in conjunction with contributions, is sufficient over time to meet the Scheme’s liabilities as they fall due.

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 Scheme 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 characteristic for this category is secure return and cash flows. These assets are investment grade* and, on average, have higher credit quality than Matching Plus assets and minimal probability of default.

  The main 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

Reflecting the difficult economic and financial backdrop, particularly in the final quarter, the Scheme assets fell slightly (by approximately 0.6%) over the course of the year under review.

The Scheme’s Growth portfolio, was most impacted by the pandemic. In the quarter to 31 March 2020, equity markets were exceptionally weak, with UK equity indices falling by more than 24%. Other markets were more resilient, but still showed double digit losses. The growth performance portfolio (now approximately 24% of Scheme assets) which is a subset of the Growth portfolio underperformed the benchmark as a result of poor relative performance from the Scheme’s Japanese, Asia ex Japan and Global managers. UK small caps**, where the Scheme is overweight, also lagged the large cap index and one of the Scheme’s two property managers underperformed the property benchmark.

By contrast, the balance of the Scheme’s assets outperformed their respective benchmarks. The Scheme’s private equity portfolio and alternative assets (the Unquoted portfolio) produced strong returns, whilst the Matching Plus portfolio exceeded its return targets and met its credit and inflation matching criteria. The Matching portfolio also met its credit criteria and comfortably exceeded its discount rate implied target return.

The Trustee will keep its investment strategy under review with assistance from its advisers, and over time, it is planned that the Scheme will continue to reduce its allocation to riskier Growth assets (predominantly listed equities) and reallocate towards safer assets, primarily in the Matching Plus portfolio.
Asset allocation

The asset allocation of the Scheme is shown below:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Mar 2020</th>
<th>Mar 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK Equities</td>
<td>7.9%</td>
<td>17.9%</td>
</tr>
<tr>
<td>Overseas Equities</td>
<td>11.0%</td>
<td>13.3%</td>
</tr>
<tr>
<td>High Yield Bonds</td>
<td>1.1%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Unquoted*</td>
<td>19.2%</td>
<td>15.0%</td>
</tr>
<tr>
<td>Property</td>
<td>3.8%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Cash and Other Assets</td>
<td>2.3%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Matching Assets</td>
<td>36.1%</td>
<td>31.9%</td>
</tr>
<tr>
<td>Matching Plus Assets</td>
<td>18.6%</td>
<td>14.9%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

* Unquoted comprises private equity (which is a mix of direct funds and fund of funds) and alternatives. These assets are held as medium to long term investments due to their illiquid nature.

Glossary

* **Investment Grade**
A level of credit rating for stocks regarded as carrying a minimal risk to investors.

** **UK small caps**
Generally companies in the bottom 10% by size of the UK market.
Looking forward

It is clear we entered into a global recession in the second quarter of this year due to the deliberate locking down of economies in response to the global pandemic. The challenging economic outlook has led to many companies’ earnings and dividend forecasts being slashed, with raising and preserving cash being prioritised. More positively, the monetary policy response to the crisis has been massive, supporting asset prices and facilitating record levels of bond issuance, which, combined with huge fiscal support programmes, has provided lifelines to the private sector as it struggles with the cash flow consequences of lockdown.

Looking forward, the financial outlook is extremely uncertain. Some improvements in the rate of virus infections have enabled a gradual reopening of some economies. Most commentators anticipate economic recovery over the rest of the year, but the strength, shape and durability of the recovery remains uncertain, with a key near term factor being virus developments. There are also a number of long term factors that will likely weigh on economic growth including demographics (declining working age population), low productivity, high global debt levels, trade tensions and poor productivity.

As far as financial markets are concerned, monetary policy support and some recovery in leading economic indicators have led equity and bond markets to rebound sharply off the recent lows, leaving financial asset valuations looking expensive relative to their history, pointing to the likelihood of lower, more volatile returns in the future.

The Common Investment Fund (CIF)

Up until the last quarter of the period under review, the Scheme gained its exposure to listed equities, Matching and certain Matching Plus assets, through its holdings in the CIF. The CIF is an arrangement between all the schemes of BAE Systems to pool their investments and save costs, however, with the completion of the scheme mergers in October 2019, this largely eliminated the benefits of the CIF. This, together with the fact that the CIF had become a less tax efficient vehicle, resulted in a second phase of the project, post the merger, which involves de-constructing the CIF. This, in turn, will result in a more tax and operationally efficient ownership structure for a range of the Scheme’s assets, albeit the assets themselves will remain largely unchanged.

£1bn contribution from BAE Systems

Following the completion of the actuarial valuation as at 31 October 2019, BAE Systems injected £1bn into the Scheme on 17 April 2020. It is planned that this contribution will ultimately be invested into a combination of 20% Growth assets, 40% Matching Plus assets and 40% Matching assets. Pending investment into these assets, the capital will be held in a transition fund comprising a mix of shorter dated money market instruments, gilts and slightly longer dated, high quality (and higher yielding) corporate credit managed by the BAE Systems Pension Funds Investment Management (BAPFIM) Fixed Income team.

To date, good progress has been made in rolling out the strategy. In particular the Matching Plus pipeline is looking strong, with over £400m of potential investments earmarked for the next couple of quarters. This bodes well for the longer term deployment outlook for this portfolio. The Matching capital has been invested in Gils and is gradually being switched into higher yielding corporate bonds as opportunities present themselves.
### Investment performance

<table>
<thead>
<tr>
<th></th>
<th>1 Year 31 March 2020 %</th>
<th>3 Years to 31 March 2020 %pa</th>
<th>5 Years to 31 March 2020 %pa</th>
<th>10 Years to 31 March 2020 %pa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scheme (total)</td>
<td>(0.64)</td>
<td>3.30</td>
<td>5.85</td>
<td>7.88</td>
</tr>
<tr>
<td>Unquoted</td>
<td>16.04</td>
<td>17.15</td>
<td>16.96</td>
<td>12.65</td>
</tr>
<tr>
<td>Scheme performance (excluding Unquoted, Matching and Matching Plus Assets)</td>
<td>(11.03)</td>
<td>(1.62)</td>
<td>2.68</td>
<td>5.93</td>
</tr>
<tr>
<td>Performance benchmark*</td>
<td>(9.47)</td>
<td>(0.39)</td>
<td>3.57</td>
<td>6.41</td>
</tr>
</tbody>
</table>

* The Performance benchmark excludes the Scheme's Unquoted, Matching and Matching Plus assets as these are either assessed over a much longer period, or generate income to match future pension payments. These assets are outperforming the Scheme's targets.

The Scheme’s private equity portfolio and alternative assets produced strong returns.

David Adam  
Chief Investment Officer  
BAE Systems Pension Funds Investment Management (BAPFIM)
Committee Elections

There are two committees that represent the interests of the Scheme’s members. The BAE Systems Pension Scheme Consultative Committee represents active and deferred members of the Scheme, whilst the Joint Pensioners Committee (JPC) represents all pensioners. Both committees promote a better understanding of the workings of the Scheme, pensions in general and also ensure that any issues or concerns that arise are dealt with appropriately and promptly.

Representatives from both committees 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, BAE Systems, the Trustee and the Scheme Administrators;
> answer questions from members about the Scheme and signpost them to the 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 active Member Representatives of the Scheme from different businesses across the UK.

The Consultative Committee has been reconfigured to take account of the merger of the Shipbuilding Industries Pension Scheme, the Alvis Pension Scheme and the BAE Systems 2000 Pension Plan into the BAE Systems Pension Scheme from October 2019. As a result of this, elections were recently held at the Warton site. A number of representatives also joined the Consultative Committee on an unopposed basis.

Pensioner Representatives are elected by a direct ballot of the Scheme’s members in their local constituency. The BAE Systems Pension Scheme has three voting constituencies: North, South East and South West.

For further details and a list of the current Member and Pensioner Representatives, please refer to the Consultative Committee page of the BAE Systems pension website at: baesystems.com/en-pensions/more-info/consultative-committees
Are you in receipt of a pension from the Scheme?

With the merger of the Alvis Pension Scheme, the BAE Systems 2000 Pension Plan and the Shipbuilding Industries Pension Scheme (SIPS) into the BAE System Pension Scheme as of 1 October 2019, work has been ongoing to streamline some of the administration processes of the Scheme.

For those members whose benefits are administered by Equiniti, you will shortly notice a change to the description on your bank statement when your BAE Systems pension is credited to your account. This does not apply to pensioners with SIPS benefits as these are administered by Capita.

The reason for this is that the bank accounts for the former Alvis Pension Scheme and the BAE Systems 2000 Pension Plan have now been closed. At the same time we also took the opportunity to update the bank account description for BAE Systems Pension Scheme members.

The old descriptions that appeared on your bank statement were as follows:

<table>
<thead>
<tr>
<th>Scheme</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>BAE Systems Pension Scheme</td>
<td>British Aerospace Pension T/Tees Direct</td>
</tr>
<tr>
<td>Former Alvis Pension Scheme</td>
<td>Alvis Pension Scheme</td>
</tr>
<tr>
<td>Former BAE Systems 2000 Pension Plan</td>
<td>BAE Systems 2000 Pension Plan</td>
</tr>
</tbody>
</table>

The above have now been replaced with **BAE Systems Pension Scheme**. Please note that no changes have been made to your level of pension.
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/individuals/dangers-of-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). 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
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: moneyadviseservice.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.

Scheme website

For all members of the Scheme, useful pension information can be found on the BAE Systems pensions website at baesystems.com/pensions. Add this link to your ‘favourites’.

The BAE Systems pensions website holds the latest Scheme and related general pensions 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 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 SIPS Benefits members can log into Hartlink and all other members can log into MyPension. This allows you 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 your Scheme administrator.

Go to baesystems.com/pensions for useful pension information. Add this link to your ‘favourites’.
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, can be accessed via your phone, tablet or PC and has been designed to run on all modern browsers and operating systems. 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 second 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 pensions website at: 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 the website URL, a client code and unique code which you may use to register on the website. You will also need to know your Member Number (which is shown on your annual benefit statement or you can obtain it from Equiniti), National Insurance Number and date of birth to complete the registration process.

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.

Please note that this is not applicable for SIPS Benefits members who access their pension details via Hartlink, a website provided by the Scheme administrator, Capita. SIPS Benefits members should refer to the article on page 18 for further information on Hartlink.
As an active member you will be able to:
> View the current value of your retirement benefits
> Provide yourself with a pension estimate, on both a ‘with’ and ‘without’ Company consent basis (this is a recent addition to the MyPension functionality).
> 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, register now for access to your pension information 24/7.
Hartlink for SIPS Benefits members

Hartlink is a secure pensions website provided by the Scheme Administrator Capita that allows SIPS Benefits members to access their pension details 24/7 without the need to contact the Scheme Administrator.

How do you access or register to use Hartlink?

You can access Hartlink via the SIPS Benefits section of the BAE Systems pensions website at: baesystems.com/pensions. In order to access the online portal, you will first have to login and register your details. You will be asked to enter a password of your choice and also set up some security questions. If you have any problems with access after you have registered, please contact the Capita administration team, as they can unlock your account and reset passwords if required.

Hartlink provides you with the opportunity to view various items of information relating to the Scheme and also the ability to amend personal details such as your address, telephone number and email. You can also update your nomination details to confirm your preferred beneficiaries in the event of your death. If you do make any change to your record, this would appear as a change on Capita’s electronic records, which they hold for you. This means that you would not have to contact Capita direct to request any such change. Capita acknowledge any change by email or letter so you will have comfort that any requested change has been correctly reflected on your records.

There is also a facility to run ‘with consent’ retirement illustrations, which would give you an idea of the potential benefits available at a specified retirement date. For any early retirement requests on a ‘without company consent’ basis, these would have to be provided by the Capita administration team. You will also have access to Scheme documentation such as booklets, administration forms and copies of your annual benefit statement.

If you have never used Hartlink before you are encouraged to register and start enjoying access to information about your pension information 24/7.
New dedicated Standard Life website launched for members with Defined Contribution (DC) benefits

For those active members in the Level 100+ Section of the Scheme, in addition to the final salary element of your pension, your employer also pays a percentage of your basic salary into a Retirement Account which is invested with Standard Life. Also for any member of the Scheme who pays Additional Voluntary Contributions (AVCs) these are also invested with Standard Life.

In June this year a dedicated website was launched in conjunction with Standard Life for members of the Level 100+ Section of the Scheme and for any Scheme member who pays AVCs. The website can be found at: standardlifepensions.com/bspp/ps.page.

Through the Standard Life website you will have at your fingertips all the information you need on your Retirement Account and 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 Retirement Account or 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 Retirement Account or AVC fund value and you are able to review and change the funds you are invested 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 Retirement Account or 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 years prior to your retirement the Lifestyle Investment Profiles gradually move your Retirement Account or AVCs into funds that are designed to prepare your pension 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 add the link as one of your ‘favourites’.
Retirement Living Standards

More of us are saving in a workplace pension than ever before. We now have more information, more choices, and more responsibility for our retirement savings. But will the future we want be the future we get?

The Retirement Living Standards have been created to help you picture what kind of lifestyle you could have in retirement. The Standards are based on independent research by Loughborough University and have been developed by the Pension and Lifetime Savings Association (PLSA).

What are the Standards?

To help you understand how much money you will need to live the lifestyle you want in retirement, the Standards aim to show you what life in retirement looks like based on three different levels of expenditure (minimum, moderate and comfortable). The Standards provide a benchmark level of annual income to fund different standards of living in retirement. Each Standard is based around a range of expenditure or financial commitments, including: housing, food and drink, transport, holidays and leisure, clothing and personal expenses. It also takes into account different circumstances, for example living inside or outside London, single or as a couple.

The following table focuses on a single person living outside London:

<table>
<thead>
<tr>
<th>What Standard of Living Could You Have?</th>
<th>Minimum</th>
<th>Moderate</th>
<th>Comfortable</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>House</strong></td>
<td>£10,200 a year</td>
<td>£20,200 a year</td>
<td>£33,000 a year</td>
</tr>
<tr>
<td><strong>Food &amp; Drink</strong></td>
<td>A £38 weekly food shop</td>
<td>A £46 weekly food shop</td>
<td>A £56 weekly food shop</td>
</tr>
<tr>
<td><strong>Transport</strong></td>
<td>No car</td>
<td>3-year old car replaced every 10 years</td>
<td>2-year old car replaced every five years</td>
</tr>
<tr>
<td><strong>Holidays &amp; Leisure</strong></td>
<td>A week and a long weekend in the UK every year</td>
<td>2 weeks in Europe and a long weekend in the UK every year</td>
<td>3 weeks in Europe every year</td>
</tr>
<tr>
<td><strong>Clothing &amp; Personal</strong></td>
<td>£460 for clothing and footwear each year</td>
<td>£750 for clothing and footwear each year</td>
<td>£1,000 - £1,500 for clothing and footwear each year</td>
</tr>
<tr>
<td><strong>Helping Others</strong></td>
<td>£10 for each birthday present</td>
<td>£30 for each birthday present</td>
<td>£50 for each birthday present</td>
</tr>
</tbody>
</table>

“By giving you a general figure it is hoped you can consider and develop your own personal targets based on your individual circumstances and aspirations.”
You can use the Standards as a rule of thumb for retirement planning. Roughly speaking, if you are a single person it is anticipated you will need about £10,000 a year to achieve the minimum standard of living, £20,000 a year for a moderate standard of living and £30,000 a year for a comfortable standard of living. For a couple, these numbers are £15,000, £30,000 and £45,000 a year respectively. The Standard Life website (standardlifepensions.com/bspp/ps.page) includes a pension calculator which allows you to produce an estimate of the benefits you might expect to receive on retirement. The pension calculator allows you to add in pension benefits that you will receive from any scheme you have been a member of. You can use this in conjunction with the Retirement Living Standards to help you understand whether your retirement planning is on track.
As a member what should I be focusing on to ensure my retirement plans stay on track?

There are a number of actions you can take to help ensure your plans for retirement stay on track. We have come up with the following:

1. **Review your last benefit statement**
   Every year all active members receive a benefit statement which gives details of the benefits you have built up within the Scheme. This is a vital planning tool which gives you a snapshot of your entitlement. Instead of putting it in a drawer for another day, read it and consider whether your pension is on track.

2. **Take a look at MyPension (For SIPS Benefits members take a look at Hartlink)**
   You can review details of your benefits at any time via the MyPension or Hartlink (SIPS Benefits only) systems. Each system gives you access to benefit modellers, instant and up-to-date pension benefit quotations, copies of annual benefits statements, access to personal information, together with useful information and links. You can access the sites via the BAE Systems pensions website, baesystems.com/pensions.

3. **Consider other income**
   Pension savings may or may not be your only source of income in retirement. Take some time to consider any other potential sources, for example any ISAs, investment bonds or savings accounts, together with the state pension and any other sources that will help you achieve your retirement income target.

4. **Consider Additional Voluntary Contributions (AVCs)**
   AVCs are a tax efficient way of boosting your pension savings. Any AVCs are invested with Standard Life. Further details be found on the BAE Systems pensions website, baesystems.com/pensions and also make sure you read the article on page 19 on the new Standard Life website. For 2000 Plan Benefits members remember that you can also pay AVCs to the Selected Benefits Scheme. Again further details can be found on the BAE Systems pensions website.

5. **Trace your other pension benefits**
   For a number of reasons, millions of pounds of unclaimed benefits sit in pension funds. The main reason for this is that when individuals move house they do not notify their scheme administrator of their new address. Equally others may have passed away leaving death benefits unclaimed. If you have lost touch with the administrator of any of your pension benefits there is a Government website you can use to help you track your benefits down. Go to gov.uk/nd-pension-contact-details.

6. **Be aware of the tax limits on pension contributions**
   There are tax limits on the amount you can pay into your pension (the Annual Allowance) and the total level of benefits you can build up (the Lifetime Allowance). Charges are incurred if you exceed these limits. Although the majority of members will not exceed these limits it is a sensible move to familiarise yourself with them. Further details can be found on the Government website at gov.uk/tax-on-your-private-pension. Please also refer to the article on page 23.

7. **Ensure your Expression of Wish form is up to date**
   An Expression of Wish form is an important part of the decision making process when the Trustee is considering the distribution of benefits in the event of your death. It is therefore important that your Expression of Wish form is kept up to date. You can download the form from the BAE Systems pension website, baesystems.com/pensions.

8. **Ensure your address is up to date**
   It is important to notify Equiniti of any change of address. This is so that you receive any communications and you can be contacted prior to your retirement date. Current employees (active members and employed deferred members) should update their address via the relevant HR system, which feeds into the pensions administration system. Those members who are no longer employees (e.g. deferred members and pensioners) can update their address via MyPension, or for SIPS Benefits members only, Hartlink. Alternatively they can contact the Scheme Administrator direct. Contact details can be found on page 24.
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://www.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://www.pensionsadvisoryservice.org.uk/publications/category/spotlights)

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://www.gov.uk/tax-on-your-private-pension)
All members (except those with SIPS Benefits*) can contact the Equiniti Pensions Service Centre with any questions:

> Freephone: 0800 917 9568
> If calling from overseas: +44 121 415 0891
> Email:farnborough.pensions@equiniti.com

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

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

and for pensioner members is:

> BAE Systems Section, 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

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

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

* Members with SIPS Benefits can contact Capita with any questions:

> Tel: 0345 601 0607
> Email: member.enquiries@sips-pensions.co.uk

If you want to write to Capita their address is:

> Capita, PO Box 555, Stead House, Darlington, DL1 9YT

**Hartlink for members with SIPS Benefits**

You can log into the Hartlink service via the SIPS Benefits section of the pensions website at:

> baesystems.com/pensions

**Standard Life**

You can access the Standard Life website at:

> standardlifepensions.com/bspp/ps.page

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 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.