

Scheme Maximum

Pension guide – Information for employees

This guide provides BAE Systems defined benefit (DB) pension scheme members with an explanation of the Scheme Maximum, when this may affect you, and what to consider if it does.

Prior to April 2006, many different tax regimes governed pensions in the UK. Each tax regime had different rules about how much could be paid in and the maximum benefit members could receive. New legislation from April 2006 replaced many of these previous limits with the Lifetime Allowance (which has since been abolished). However, for many of the BAE Systems DB arrangements some of these previous limits continue to apply as these are set out in the scheme's rules.

1. What limits could apply to my pension?

The table below provides a summary of the DB schemes which currently have active members, where limits continue to apply (typically in a simplified form).

Scheme	Limits and restrictions
BAE Systems Pension Scheme	
Main Edition (Level 125-200)	<ul style="list-style-type: none">Your pension (excluding any AVCs but including previous benefits in other schemes) cannot exceed 2/3rds of your Final Earnings (the Scheme Maximum)If you joined the Scheme on or after 1 June 1989 the Earnings Cap is applied to the salary used in any calculation of your contributions and benefits
2000 Plan	<ul style="list-style-type: none">Your pension (excluding any AVCs and benefits in the Selected Benefits Scheme) cannot exceed 2/3rds of your Final Earnings (the Scheme Maximum)
SIPS VSEL	<ul style="list-style-type: none">Your pension (excluding any AVCs) cannot exceed 2/3rds of your Final Earnings (the Scheme Maximum)If you joined the Scheme on or after 1 June 1989 the Earnings Cap is applied to the salary used in any calculation of your contributions and benefits
SIPS Portsmouth & SIPS Fleet Support	<ul style="list-style-type: none">If you joined the Scheme on or after 1 June 1989 the Earnings Cap is applied to the salary used in any calculation of your contributions and benefits
Alvis	<ul style="list-style-type: none">Your pension (excluding any AVCs) cannot exceed 2/3rds of your Final Earnings (the Scheme Maximum)If you joined the Scheme on or after 1 June 1989 the Earnings Cap is applied to the salary used in any calculation of your contributions and benefits
Level 100+	<ul style="list-style-type: none">If you joined the Scheme on or after 1 June 1989 the Earnings Cap is applied to the salary used in any calculation of your contributions and benefits

Scheme	Limits and restrictions
Royal Ordnance Pension Scheme	
Crown Service & 1984	<ul style="list-style-type: none"> Your pension (excluding any AVCs) cannot exceed 2/3rds of your Final Earnings (the Scheme Maximum) If you joined the Scheme on or after 1 June 1989 the Earnings Cap is applied to the salary used in any calculation of your contributions and benefits Your Pensionable Service (including any transferred-in service) cannot exceed 45 years

2. What is the Earnings Cap?

The Earnings Cap is relevant to members who joined on or after 1 June 1989. The Earnings Cap was introduced in 1989 to restrict people (particularly directors of companies) from increasing their salary immediately before they retired to increase their pension benefits.

The Earnings Cap is no longer published by HM Revenue & Customs, but some of the BAE Systems schemes apply a notional Earnings Cap which is increased each year in line with the rise in the Consumer Prices Index (CPI). For the 2025/26 tax year the Earnings Cap is **£190,200**.

3. How are Final Earnings calculated for the Scheme Maximum check?

Firstly, please note that Final Earnings used in the 2/3rds Scheme Maximum check against your pension are calculated differently to the pensionable salary definition used in the calculation of your pension, and usually is a much higher salary. Please refer to your [Member Booklet](#) for your scheme's definition of final pensionable salary.

Final Earnings used in the 2/3rds Scheme Maximum check against your pension are an average of your Gross Earnings (usually your basic pay plus any fluctuating emoluments and other benefits). The Final Earnings calculation is based on a three-year average and can look back 10 years to achieve the highest average, with previous years' salaries being increased to today's date in line with the rise in the Retail Prices Index (RPI). The calculation is restricted to the Earnings Cap, if this applies. An example calculation is provided in [Appendix B](#)

4. What pension amount is used in the Scheme Maximum check?

The Scheme Maximum is checked against the value of your pension at retirement, excluding any pension provided from Additional Voluntary Contributions (AVCs) or the Selected Benefits Scheme (SBS).

Your Scheme pension amount is shown as Option 1 on any retirement illustration you receive from Aptia (if applicable, you need to deduct any pension purchased from AVCs or SBS contributions).

If you are a member in the Main Edition (Level 125-200) of the BAE Systems Pension Scheme, this is in no way related to the Individual Pension Percentage (IPP) you have built up, i.e. your IPP at retirement can be far more than 66.7% and, depending on your Final Earnings, your pension could still be well below the Scheme Maximum. A simplified example of how the Scheme Maximum would operate for a member in the Main Edition of the BAE Systems Pension Scheme is provided in [Appendix A](#)

5. How will I know if I have exceeded the Scheme Maximum?

The Scheme Maximum is dependent on the elements that are used to calculate your pension, and how this compares to 2/3rds of your Final Earnings. These elements would not be known with any certainty until very close to your retirement date, and the position can change over time.

In addition, even if it is estimated that the Scheme Maximum may be exceeded at your Normal Retirement Date (NRD) the position could change if a different retirement date was selected. For example, retiring earlier than your NRD may mean that an Early Retirement Factor is applied to your pension.

Aptia do not run any regular checks on whether you may exceed the Scheme Maximum. However your annual benefit statement will state if your estimated pension was restricted to an estimated Scheme Maximum check. Where applicable retirement illustrations will automatically restrict benefits to the Scheme Maximum. You will be unable to run a retirement illustration on [OneView](#) if you have reached the Scheme Maximum and will be directed to contact Aptia to obtain an illustration.

Some sections of the BAE Systems Pension Scheme allow your pension accrual rate to be changed annually. If you request to increase to a higher level, Aptia will check if it would be expected that the increased accrual would lead to your pension at NRD exceeding the Scheme Maximum. If this is the case the change will not be allowed and Aptia would confirm this.

6. What happens if I exceed the Scheme Maximum?

If your pension exceeds the Scheme Maximum it will be restricted to the Scheme Maximum amount. **The pension in excess of the Scheme Maximum cannot be paid in any format.**

Some sections of the BAE Systems Pension Scheme allow your pension accrual rate to be changed annually, and you could choose to reduce your pension accrual level. Doing this would reduce the ongoing pension accrual and delay how quickly the Scheme Maximum would be reached.

You might also wish to consider opting out of active membership, however you should ensure you understand the following important considerations:

- You would lose the opportunity to earn a pension linked to future earnings. The final pensionable salary used to calculate your pension would be based on the salary at the date of opting out, not the salary at the date of leaving employment.
- You would lose the protection provided by the Scheme to you and your family in the event of your death in service. You will become a deferred member and will be entitled to death benefits associated with this status, rather than that of an active member. Please refer to your [Member Booklet](#) for more information.
- You will lose the protection provided by the Scheme to you and your family in the event of your early retirement from the Company because of ill health.
- Re-entry into the Scheme is not permitted in any circumstances. You will be able to join a defined contribution (DC) arrangement with the Mercer Master Trust. More details are available on the BAE Systems [pensions website](#)

If you are considering making changes to your Scheme benefits it is recommended you contact Aptia so they can carry out a more accurate calculation of your Final Earnings. If your benefits are estimated to exceed the Scheme Maximum and you are still accruing benefits, or you think you may exceed the Scheme Maximum before you plan to retire, you should consider taking independent financial advice to help you consider the available options and what best suits your personal circumstances. You can visit unbiased.co.uk to find out how to contact an independent financial adviser near you.


Appendix A – Example Scheme Maximum calculation (Main Edition)

The following simplified example is for illustrative purposes only and more detailed calculations may be needed depending on personal circumstances.

	Final Basic Salary		TPP		LAF		Annual pension
Pre-2006 pension	£48,000 (12-month average)	X	38.1% (14 years' IPP)			=	£18,288 (pre-2006 pension)
Post-2006 pension	£46,000 (36-month average)	X	43.2% (18 years' IPP)	X	0.9011	=	£17,907 (post-2006 pension)
			81.3% (total IPP)				£36,195 (total pension)

On retirement, the pension is the full pension amount shown in Option 1, which may also have an Early Retirement Factor (ERF) applied

The following Scheme Maximum checks would be carried out

	Final Earnings					
Scheme Maximum	£46,833 (Gross Earnings*)	X	2/3rds	=	£31,222	So... £36,195 is over Scheme Maximum so further check carried out 

*For this check **Gross Earnings** have been taken as an average of gross earnings (basic pay plus any other payments and benefits received each year, i.e. broadly the amounts shown on your last three P60s) over the past three years. If the member's Gross Earnings mean the member may be restricted to the Scheme Maximum, this is re-tested using Final Earnings.

Scheme Maximum	£54,324 (Final Earnings**)	X	2/3rds	=	£36,216	So... £36,195 is under Scheme Maximum and member receives £36,195 
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****Final Earnings** are an average of your Gross Earnings looking back 10 years with previous years' earnings being increased to today's date in line with inflation. In this example, the pension is within the Scheme Maximum so the member would receive £36,195 a year.

Appendix B – Example Final Earnings Calculation

The following simplified example is for illustrative purposes only and more detailed calculations may be needed depending on personal circumstances.

This example member's Final Earnings are £54,324 (as highlighted below) based on an average of previous earnings increased to today's date in line with inflation. This example member's pension would therefore be restricted to **£36,216 a year**, if necessary.

Scheme year	Basic Salary	Gross Earnings	Current RPI	Previous RPI	Increase in RPI	Revalued Gross Earnings	Final Earnings
	<i>(used to calculate pension)</i>	<i>(used to calculate Final Earnings)</i>	(A)	(B)	<i>(this is column A/B)</i>		<i>(three-year average)</i>
2023/24	£48,000	£50,000	372.8	372.8	1.000	£50,000	£52,074
2022/23	£46,000	£47,000	372.8	334.6	1.114	£52,365	£53,670
2021/22	£44,000	£43,500	372.8	301.1	1.238	£53,858	£54,324
2020/21	£42,000	£43,000	372.8	292.6	1.274	£54,786	£54,143
2019/20	£40,000	£42,000	372.8	288.2	1.294	£54,328	£53,331
2018/19	£38,000	£40,000	372.8	279.7	1.333	£53,314	£52,336
2017/18	£36,000	£38,000	372.8	270.6	1.378	£52,351	£50,940
2016/17	£34,000	£36,000	372.8	261.4	1.426	£51,342	£49,041
2015/15	£32,000	£34,000	372.8	258.0	1.445	£49,128	£46,869
2014/15	£30,000	£32,000	372.8	255.7	1.458	£46,654	£45,354
2013/14	£28,000	£30,000	372.8	249.5	1.494	£44,825	
2012/13	£26,000	£29,000	372.8	242.5	1.537	£44,582	
2011/12	£25,000	£28,000	372.8	234.4	1.590	£44,532	