



# Leonardo Electronics Pension Scheme

## Selected Benefits Scheme (SBS) Guide (2000 Section members only)

September 2023 edition

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## Introduction

The Leonardo Electronics Pension Scheme (the “*Scheme*”) is a registered pension scheme set up under trust and administered by Leonardo Electronics Pension Scheme (Trustee) Ltd (the “*Trustee*”) according to the rules of the *Scheme*. For more information about how the *Scheme* works, please read the Leonardo Electronics Pension Scheme – 2000 Section Member’s Booklet.

The *Scheme* provides valuable benefits for you and for your dependants. The benefits you are entitled to are described in detail in the rules of the *Scheme*. This booklet has been designed to explain the main details of the Selected Benefits Scheme (SBS) available to members of the 2000 Section of the *Scheme*.

**Members making SBS contributions for retirement benefits were asked to set a frozen contribution rate from April 2016 onwards.** No other members can pay SBS contributions for retirement benefits.

You will be able to cancel your contributions in the future, but you will be unable to increase or decrease them. If you do cancel your contributions, you will be unable to restart SBS contributions in the future.

This guide should be read in conjunction with the Leonardo Electronics Pension Scheme – 2000 Section Member’s Booklet. Specifically, you should read the sections on contributions and limits on benefits paid from the *Scheme*. Words in this booklet which are written in *italics* are defined in the Leonardo Electronics Pension Scheme – 2000 Section Member’s Booklet.

You should note that this booklet is intended as a guide and is not a legal document. Your entitlement under the *Scheme* is set out in the rules, the current law and Revenue practice. If there is any conflict between the booklet and the rules of the *Scheme*, the rules will prevail. You should also note that the rules, the law and Revenue practice can be changed at any time.

**Important note:** This Guide is not intended as financial advice. If you are uncertain of what action to take it is strongly recommended that you contact an independent financial adviser (IFA).

The contact details for the Pension Administrator are:

Leonardo Electronics Pension Scheme	Tel: 0117 440 2491
XPS Administration	Email: LEPS@xpsgroup.com
PO Box 562	
Middlesbrough	
TS1 9JA	

### **Contributions to SBS whilst you were a member of the BAE Systems 2000 Pension Plan**

If you have been a member of the BAE Systems 2000 Pension Plan (the “*BAE Systems Scheme*”) you may have paid SBS contributions to that scheme. Any SBS contributions made whilst you were a member of the *BAE Systems Scheme* are separate from the SBS contributions made whilst you are a member of the *Scheme*.

## Paying SBS contributions

### Eligibility to contribute to SBS

You can pay contributions to SBS for **retirement benefits** if:

- you are a contributing member of the 2000 Section, and you returned your form confirming your future SBS contribution to be effective from April 2016; and
- the *Trustee* accepted your application to pay contributions to SBS.

### Paying SBS contributions

You are unable to join SBS and start paying contributions towards retirement benefits unless you set a frozen SBS contribution rate in April 2016. Only members who were making regular monthly contributions before this date were eligible to set a frozen rate.

Members are able to contribute to the Buy Up option or Additional Voluntary Contributions arrangement with Mobius Life as alternatives to SBS. Members are not allowed to contribute to Buy Up or AVCs if they are making SBS for retirement benefits contributions. Please see the Buy Up Guide and the AVC Guide for further details.

Your contributions are deducted from your pay before tax is calculated. Therefore you automatically receive income tax relief at your highest rate.

**If you are currently paying your core contributions to the Scheme via SMART pensions, your SBS contributions will also be paid in this way.**

### Changing SBS contributions

SBS contributions for retirement benefits are frozen at the rate you set in April 2016.

You can stop making SBS for retirement benefits contributions at any time however you cannot restart SBS contributions for retirement benefits.

### Limits on contributions

The *Scheme* rules provide that, in any tax year, your voluntary contributions to the **SBS for retirement benefits** will be frozen at your chosen % level, which cannot exceed 7.5% of your Pensionable Salary (basic salary + permanent shift).

**Important Note:** Currently, you may incur a tax liability if your pension benefits increase by more than £60,000 in one tax year. The value of any increase in your Leonardo Electronics pension over the year is taken into account (including voluntary savings), as is the value of any increase in any other pension savings you may have. In addition a limit of £10,000 on the amount you save into money purchase arrangements in any year may be triggered in certain circumstances. A 'tapered annual allowance' applies to high earners which reduces the annual allowance in certain circumstances. For more information please see the Annual Allowance section in your Member Booklet, the Annual Allowance Factsheet available from the Scheme website and visit the Government website at [www.gov.uk/tax-on-your-private-pension/annual-allowance](http://www.gov.uk/tax-on-your-private-pension/annual-allowance).

# Retirement Benefits

## Introduction

Subject to the eligibility requirements set out above, you can make regular contributions to build up extra retirement benefits for you in retirement.

Your entitlement to SBS retirement benefits will depend on the value of your SBS retirement benefits fund at the date on which benefits are provided.

Your SBS retirement benefits fund is a notional sum held within the *Scheme* with the rest of the *Scheme* assets.

## Value of SBS retirement benefits fund

Your SBS retirement benefits fund will be equal in value to contributions made by you to purchase additional retirement benefits, together with Credited Interest. Credited Interest is added monthly.

The Credited Interest rate is decided by the *Trustee* but will be no less than 2.5% per annum.

## Options at retirement

When you come to retire, you have two options available in respect of your SBS fund:

- Option 1 - you may transfer your SBS fund;
- Option 2 - you may take your SBS fund at retirement

More information about these options is set out below.

## Information and advice on your options

An information guide provided by the Money Advice Service called “Your Pension – it’s time to choose” can be downloaded from our website, [www.lepensions.co.uk](http://www.lepensions.co.uk).

Pension Wise is a free & impartial service provided by the Government to help you understand the options in relation to the increased flexibility of defined contribution and cash balance benefits (such as your SBS fund). You should consult Pension Wise, which can be accessed online, by phone or face to face, before making any decisions in relation to how you draw your SBS fund. Visit [www.pensionwise.gov.uk](http://www.pensionwise.gov.uk) for more information, or call 0300 330 1001 to book a free appointment.

Pension Wise is a guidance and information service only. Neither the Trustee nor Pension Wise can provide you with advice or recommendations about the best options for you.

Therefore, if you wish to consider the suitability of any of these options, including taking a cash lump sum, purchasing an annuity or entering into an income drawdown product, it is recommended that you speak to an independent financial adviser (IFA). Contact details for IFAs in your area can be found at [www.unbiased.co.uk](http://www.unbiased.co.uk).

Please remember that there may be tax implications associated with accessing your SBS fund. Income from pensions, and certain cash lump sums are taxable. The rate at which you are taxed depends on the amount of income that you receive from pensions and other sources.

## Option 1 - transfer your SBS fund

If you stop paying SBS contributions for additional retirement benefits, you have a right to request a transfer of your SBS fund at any time. You can continue to earn defined benefit pension within the Scheme even after exercising this option. If you choose to transfer your SBS fund out of the Scheme, **you will not be permitted to rejoin SBS for additional retirement benefits in future.**

You may transfer your SBS fund to one or more external providers. Different external providers allow different options in relation to what you can do with your fund and these different options have different features, rates of payment, charges and tax implications. Some external providers may offer the full range of the Government's new flexible benefit options, whilst others may only offer some of those options. If you wish to enter into an income drawdown product, you will need to transfer your SBS fund to an HMRC approved pension arrangement with an external provider which offers this facility.

If you transfer your SBS fund out of the Scheme, you will not be able to use it towards your Pension Commencement Lump Sum (PCLS) from the Scheme. However, you should be able to take 25% of your SBS fund as a PCLS from your new provider (or you may be able to take all your SBS benefits as a cash sum from that provider, part of which will be taxed).

If you continue to accrue main scheme benefits, you will be permitted to make additional voluntary contributions (AVCs) in future (subject to Trustee consent) but if you have 'flexibly accessed' your SBS fund, you will be subject to the £10,000 money purchase annual allowance. Please see the 'Limits on benefits' section below for details of the annual allowance.

## Option 2 - take your SBS fund from the Scheme at retirement

You have a number of options with regard to how to take your SBS fund at retirement:

### a. As part of your Pension Commencement Lump Sum (PCLS, sometimes referred to as tax-free cash)

Unless you elect otherwise, the *Trustee* will pay all or part of your SBS fund as a Pension Commencement Lump Sum (insofar as *Scheme* and HM Revenue & Customs limits allow). This is currently paid tax-free.

The maximum amount of your SBS fund that you may receive as your Pension Commencement Lump Sum from your voluntary savings (i.e. your SBS fund and any AVC fund you may have) will be broadly 25% of the total value of your pension benefits in the Scheme (in other words, including your Leonardo Electronics pension) on your retirement date up to a maximum of £50,000, or 25% of the value of your voluntary savings if this 25% would exceed £50,000. If your SBS fund exceeds these limits, you can choose from option b and, depending on the amount of pension used up (or "crystallised") in respect of option a, potentially option c as well (see below for further details).

### b. To provide an income

Alternatively, you may wish to use all/part of your SBS fund to purchase an income when you retire, either through:

- An annuity from any third party provider (sometimes known as the Open Market Option (OMO)); or
- An income drawdown product with a drawdown provider.

The terms of any income payable will depend on the basis on which your particular income product is provided by the third party you choose.

The level of any annuity depends on the value of your SBS fund when you retire and the cost of buying pension at the date you retire. The value of your SBS fund will depend on how much you have

paid in, over how long and on the Credited Interest applied. The cost of buying an annuity will be influenced by factors like interest rate levels, your age and the pension options you choose. Also, there are a number of options regarding the type of annuity you can purchase, for example, you may choose to buy an annuity product which increases each year it is in payment, continues to your spouse on your death or is paid for a guaranteed period.

If you choose to buy an annuity, the pension provided by the annuity provider from your SBS fund will be calculated by them as follows:

Pension provided by your SBS fund	=	Value of SBS fund	÷	Conversion rate determined by the annuity provider
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We would recommend that you contact an independent financial adviser about your options for purchasing a pension on the open market. XPS can provide you with details of their independent annuity advice service, PS Aspire (which is free to members of the Leonardo Electronics Pension Scheme). Alternatively, contact details for IFAs in your area can be found at [www.unbiased.co.uk](http://www.unbiased.co.uk).

Please note, if you wish to purchase an income through a drawdown product, this would need to be arranged outside the Scheme by a third party provider. You would need to transfer all/part of your SBS fund to an HMRC approved external pension arrangement which has a drawdown facility. The funds being transferred for drawdown need to be “uncrystallised” and not have been used within the calculation of any Pension Commencement Lump Sum.

The Trustee has put an arrangement in place with the Smart Pension Master Trust to support members who wish to purchase an income through a drawdown product. Please see Appendix 2 (Page 19) for more details. Alternatively, you can transfer your SBS fund to a provider of your own choice.

**c. As an Uncrystallised Funds Pension Lump Sum (UFPLS) (sometimes referred to as taxed cash)**

You can take some or all of your SBS fund (over and above any taken as part of your Pension Commencement Lump Sum from the Scheme) as an additional one-off cash payment known as an ‘Uncrystallised Funds Pension Lump Sum’ (UFPLS). This will only be possible where not all of your SBS fund has been “crystallised” for the purposes of your Pension Commencement Lump Sum.

To take a simple example, which ignores any main scheme benefit you may have, if your SBS fund were worth £100 you would need to crystallise the full £100 in order to be entitled to a £25 Pension Commencement Lump Sum (i.e. 25% of the value of the benefit). The remaining £75 has already been “crystallised” and therefore cannot be paid as an UFPLS, so would need to be used to purchase a pension outside the Scheme in accordance with option b. Because the Scheme permits you to use your SBS fund to provide the Pension Commencement Lump Sum in respect of your total Scheme benefits, for those with SBS funds in excess of £50,000 the decision about how much of your SBS fund to “crystallise” is likely to be complicated and you may wish to seek independent financial advice, as well as reading the additional information sheet referred to below.

25% of any UFPLS payment would be payable tax-free, with the balance being subject to your highest marginal rate of income tax. A tax payment will be deducted by the Scheme Administrator before the money is paid to you, based on known information (a further tax charge may be payable at a later date depending on your overall tax position). You may be charged for the costs associated with calculating and implementing an UFPLS – the Scheme Administrator will advise you in advance if any charge will be incurred.

If you wish to explore this option, you should read our additional information sheet entitled ‘Taking cash from your Voluntary Savings’ (available from the Scheme website [www.lepensions.co.uk](http://www.lepensions.co.uk)) to ensure you fully understand the financial implications.

## Limits on benefits

HMRC imposes a limit on the maximum amount you can save in pensions in a tax efficient manner.

If you take some or all of your SBS fund as an UFPLS, or transfer your SBS fund out and take it as a flexible retirement option, this will trigger a limit – a money purchase Annual Allowance of £10,000 p.a. – so that any money purchase or cash balance savings in a year exceeding £10,000 would be subject to an Annual Allowance tax charge.

Please visit [www.gov.uk/tax-on-your-private-pension/annual-allowance](https://www.gov.uk/tax-on-your-private-pension/annual-allowance) for further information.

Please note that you may not draw your *Scheme* benefits unless you leave *Service*, i.e. you are no longer employed by the *Company*. However, if you cease contributing to your SBS fund, you may transfer your SBS benefits out of the *Scheme* to an alternative pension arrangement (see Option 1 above).

## If you leave Service

If you leave the *Scheme*, your contributions to SBS will stop.

Deferred benefits: If you leave *Service* before retirement with an entitlement to a deferred pension from the *Scheme*, your SBS retirement benefits fund will continue to attract Credited Interest until your *Scheme* pension becomes payable. You will then be able to use your SBS fund in one of the ways described above.

Transfers: You may choose to transfer your *Scheme* benefits to another pension scheme after leaving service. If you take this option you will be required to transfer the accumulated value of your SBS fund (including Credited Interest) at the same time. Alternatively, you may transfer your SBS fund alone.

## If you die

If you die before you use your SBS fund, a lump sum equal to the value of your SBS fund (including Credited Interest) at the date of your death will be paid to the same beneficiary as described for death benefits in the Leonardo Electronics Pension Scheme – 2000 Section Member Booklet.

If you die after having drawn your pension, death benefits will depend on the terms of the benefits you purchased with your SBS fund.