

SMART Pensions

BAE Systems pension schemes



SMART Pensions could mean more money in your pay

The Company operates an arrangement known as SMART Pensions which the majority of the Company's eligible employees have joined.

SMART Pensions results in employees and the Company paying lower National Insurance (NI) contributions. The majority of employees receive higher take home pay and the Company pays its NI savings into the pension schemes for the benefit of all pension scheme members.

Part 1: What is SMART Pensions?

This section will tell you how SMART Pensions works.

Part 2: How will SMART Pensions affect me?

This section will give you more detail on what SMART Pensions means for you. SMART Pensions is designed so that virtually all employees will see a benefit. However, there are a small number of employees who may potentially be worse off and this section explains this in more detail.

Part 3: Is there anything else I need to know?

This section will answer common questions about SMART Pensions, including its effect on your State Pension.

If you have any queries, contact details can be found on the back of this booklet.

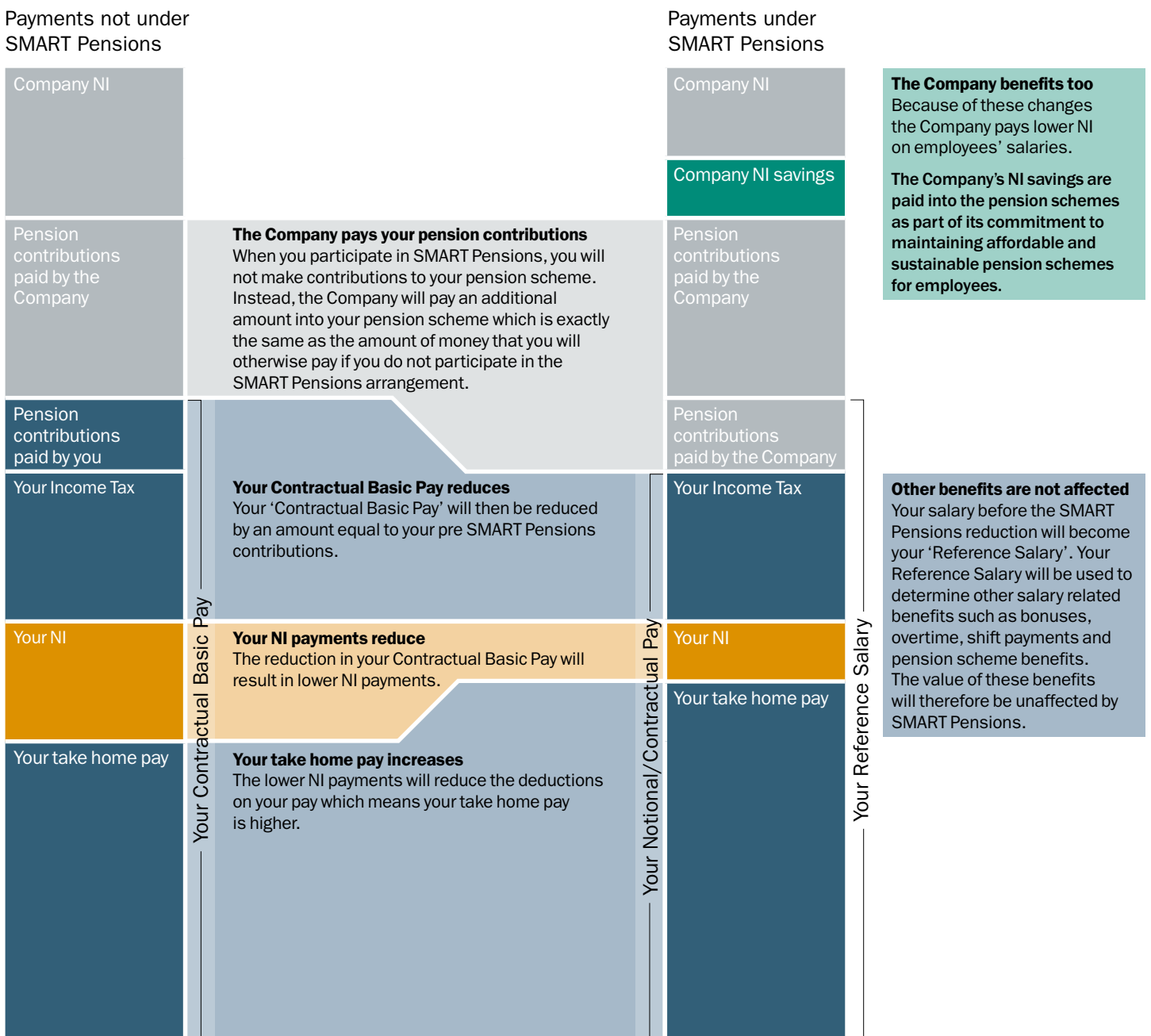


Part 1: What is SMART Pensions?

SMART Pensions is simply a more efficient way of paying contributions to your pension scheme. It works by eliminating the NI contributions that you and the Company would otherwise have to pay on the amounts paid into your pension scheme. Under SMART Pensions, the overall amount of money going into your pension scheme does not decrease and your pension scheme benefits are unaffected.

It works like this; if you do not participate in the SMART Pensions arrangement then both you and the Company pay NI contributions on your total salary, including the part you pay into your pension scheme. Participation in SMART Pensions will reduce these NI contributions.

The diagram below shows you how.



Part 2: How will SMART Pensions affect me?

Who can't benefit from SMART Pensions?

There are a few employees who are not eligible to participate in SMART Pensions including:

1. Any employees whose hourly rate would fall below the National Minimum Wage as a result of the salary sacrificed under SMART Pensions.
2. Employees whose annual gross rate of pay is less than £6,000 or who fall below this level at any time during the year. This is because they could lose entitlement to certain State benefits.
3. Expatriate or overseas employees, other than those on short term assignments, for whom different taxation and/or social security arrangements apply.
4. Employees not in BAE Systems pension schemes.

If you believe you may be adversely affected by SMART Pensions we recommend that you take independent financial advice.

How much am I going to save?

The amount of extra money you will take home depends on your individual circumstances. The 'ready reckoner' tables on pages 3 to 5 will give you an idea of the difference SMART Pensions will make to you.

The savings illustrated throughout this booklet are based on NI rates and the Upper Earnings Limit (UEL) which is set by the Government for each tax year. For the tax year 2011/12, the UEL is £42,475.

Remember, your participation will allow the Company to make savings which will be invested for the long-term future of all the pension schemes.

How to use the savings ready reckoner

Step 1

Identify which table you need to use:

- **Table A** is for members of Levels 125,167, 187 and 200.
- **Table B** is for members of 2000 Pension Plan, Level 100+ and Aircrew (post March 2003 joiners) and the SIPS Money Purchase Plan.
- **Table C** is for members of Aircrew (pre April 2003 joiners), SIPS (all sections except SIPS Money Purchase Plan), Royal Ordnance Pension Scheme (all sections) and Alvis Pension Scheme.

Step 2

Find out your monthly pension contribution to the nearest £10 (excluding AVCs). You will find this on your payslip. Highlight this amount in the first column of the table.

Step 3

If your gross pay is less than the Upper Earnings Limit (UEL) you can use the green columns to see how much you would save each month and each year and how much BAE Systems will save each month and each year.

If your gross pay is above the UEL you can use the blue columns to see how much you would save each month and each year and how much BAE Systems will save each month and each year.

Example (based on the UEL for 2011/12 of £42,475 and a member in Level 167)

If your gross pay is less than the UEL and your monthly contribution is £200, you will save £250 a year and the Company saving, which will go into the pension schemes, will be £298. If your gross pay is more than the UEL then, even though your personal saving may seem low, the Company saving will be much higher and these savings will be invested for the long-term future of all the pension schemes.

Savings will depend on your actual earnings and pension scheme contributions in each pay period. Savings in future tax years will depend on NI contribution rates at that time. Savings are calculated using reduced rate NI rates for 2011/12, which apply due to you being contracted out of the State Second Pension by virtue of your pension scheme membership, and are not applicable to those who elected to pay Married Women's Reduced National Insurance.

Remember that the savings you make go into your take home pay and the savings that the Company makes will be put into the BAE Systems pension schemes.



Table A – for members of Levels 125, 167, 187 and 200

Contribution per month (£)	Earnings below UEL				Earnings above UEL			
	Employee savings (£)		Employer savings (£)		Employee savings (£)		Employer savings (£)	
	per month	per annum	per month	per annum	per month	per annum	per month	per annum
10	1	12	1	15	0	2	1	17
20	2	25	2	30	0	5	3	33
30	3	37	4	45	1	7	4	50
40	4	50	5	60	1	10	6	66
50	5	62	6	74	1	12	7	83
60	6	75	7	89	1	14	8	99
70	7	87	9	104	1	17	10	116
80	8	100	10	119	2	19	11	132
90	9	112	11	134	2	22	12	149
100	10	125	12	149	2	24	14	166
110	11	137	14	164	2	26	15	182
120	12	150	15	179	2	29	17	199
130	14	162	16	193	3	31	18	215
140	15	175	17	208	3	34	19	232
150	16	187	19	223	3	36	21	248
160	17	200	20	238	3	38	22	265
170	18	212	21	253	3	41	23	282
180	19	225	22	268	4	43	25	298
190	20	237	24	283	4	46	26	315
200	21	250	25	298	4	48	28	331
210	22	262	26	312	4	50	29	348
220	23	275	27	327	4	53	30	364
230	24	287	29	342	5	55	32	381
240	25	300	30	357	5	58	33	397
250	26	312	31	372	5	60	35	414
260	27	324	32	387	5	62	36	431
270	28	337	33	402	5	65	37	447
280	29	349	35	417	6	67	39	464
290	30	362	36	432	6	70	40	480
300	31	374	37	446	6	72	41	497
310	32	387	38	461	6	74	43	513
320	33	399	40	476	6	77	44	530
330	34	412	41	491	7	79	46	546
340	35	424	42	506	7	82	47	563
350	36	437	43	521	7	84	48	580
360	37	449	45	536	7	86	50	596
370	38	462	46	551	7	89	51	613
380	40	474	47	565	8	91	52	629
390	41	487	48	580	8	94	54	646
400	42	499	50	595	8	96	55	662
410	43	512	51	610	8	98	57	679
420	44	524	52	625	8	101	58	696
430	45	537	53	640	9	103	59	712
440	46	549	55	655	9	106	61	729
450	47	562	56	670	9	108	62	745
460	48	574	57	684	9	110	63	762
470	49	587	58	699	9	113	65	778
480	50	599	60	714	10	115	66	795
490	51	612	61	729	10	118	68	811
500	52	624	62	744	10	120	69	828

Table B – for members of 2000 Pension Plan, Level 100+ and Aircrew (post March 2003 joiners) and the SIPS Money Purchase Plan

Contribution per month (£)	Earnings below UEL				Earnings above UEL			
	Employee savings (£)		Employer savings (£)		Employee savings (£)		Employer savings (£)	
	per month	per annum	per month	per annum	per month	per annum	per month	per annum
10	1	14	1	17	0	2	1	17
20	2	29	3	33	0	5	3	33
30	4	43	4	50	1	7	4	50
40	5	58	6	66	1	10	6	66
50	6	72	7	83	1	12	7	83
60	7	86	8	99	1	14	8	99
70	8	101	10	116	1	17	10	116
80	10	115	11	132	2	19	11	132
90	11	130	12	149	2	22	12	149
100	12	144	14	166	2	24	14	166
110	13	158	15	182	2	26	15	182
120	14	173	17	199	2	29	17	199
130	16	187	18	215	3	31	18	215
140	17	202	19	232	3	34	19	232
150	18	216	21	248	3	36	21	248
160	19	230	22	265	3	38	22	265
170	20	245	23	282	3	41	23	282
180	22	259	25	298	4	43	25	298
190	23	274	26	315	4	46	26	315
200	24	288	28	331	4	48	28	331
210	25	302	29	348	4	50	29	348
220	26	317	30	364	4	53	30	364
230	28	331	32	381	5	55	32	381
240	29	346	33	397	5	58	33	397
250	30	360	35	414	5	60	35	414
260	31	374	36	431	5	62	36	431
270	32	389	37	447	5	65	37	447
280	34	403	39	464	6	67	39	464
290	35	418	40	480	6	70	40	480
300	36	432	41	497	6	72	41	497
310	37	446	43	513	6	74	43	513
320	38	461	44	530	6	77	44	530
330	40	475	46	546	7	79	46	546
340	41	490	47	563	7	82	47	563
350	42	504	48	580	7	84	48	580
360	43	518	50	596	7	86	50	596
370	44	533	51	613	7	89	51	613
380	46	547	52	629	8	91	52	629
390	47	562	54	646	8	94	54	646
400	48	576	55	662	8	96	55	662
410	49	590	57	679	8	98	57	679
420	50	605	58	696	8	101	58	696
430	52	619	59	712	9	103	59	712
440	53	634	61	729	9	106	61	729
450	54	648	62	745	9	108	62	745
460	55	662	63	762	9	110	63	762
470	56	677	65	778	9	113	65	778
480	58	691	66	795	10	115	66	795
490	59	706	68	811	10	118	68	811
500	60	720	69	828	10	120	69	828

Important note for people with earnings below the Upper Earnings Limit (UEL) and a 'personal pension for contracting out' plan or members of SIPS Money Purchase Plan who choose to contract out:

The amount of money that would have been paid by the Government into your plan had you not participated in SMART Pensions could be more than the savings you make from SMART Pensions. You should therefore consider taking independent financial advice if you are contracting out through a personal pension or via the SIPS Money Purchase Plan.

Table C – for members of Aircrew (pre April 2003 joiners), SIPS (all sections except SIPS Money Purchase Plan), Royal Ordnance Pension Scheme (all sections) and Alvis Pension Scheme

Contribution per month (£)	Earnings below UEL				Earnings above UEL			
	Employee savings (£)		Employer savings (£)		Employee savings (£)		Employer savings (£)	
	per month	per annum	per month	per annum	per month	per annum	per month	per annum
10	1	12	1	12	0	2	1	17
20	2	25	2	24	0	5	3	33
30	3	37	3	36	1	7	4	50
40	4	50	4	48	1	10	6	66
50	5	62	5	61	1	12	7	83
60	6	75	6	73	1	14	8	99
70	7	87	7	85	1	17	10	116
80	8	100	8	97	2	19	11	132
90	9	112	9	109	2	22	12	149
100	10	125	10	121	2	24	14	166
110	11	137	11	133	2	26	15	182
120	12	150	12	145	2	29	17	199
130	14	162	13	158	3	31	18	215
140	15	175	14	170	3	34	19	232
150	16	187	15	182	3	36	21	248
160	17	200	16	194	3	38	22	265
170	18	212	17	206	3	41	23	282
180	19	225	18	218	4	43	25	298
190	20	237	19	230	4	46	26	315
200	21	250	20	242	4	48	28	331
210	22	262	21	255	4	50	29	348
220	23	275	22	267	4	53	30	364
230	24	287	23	279	5	55	32	381
240	25	300	24	291	5	58	33	397
250	26	312	25	303	5	60	35	414
260	27	324	26	315	5	62	36	431
270	28	337	27	327	5	65	37	447
280	29	349	28	339	6	67	39	464
290	30	362	29	351	6	70	40	480
300	31	374	30	364	6	72	41	497
310	32	387	31	376	6	74	43	513
320	33	399	32	388	6	77	44	530
330	34	412	33	400	7	79	46	546
340	35	424	34	412	7	82	47	563
350	36	437	35	424	7	84	48	580
360	37	449	36	436	7	86	50	596
370	38	462	37	448	7	89	51	613
380	40	474	38	461	8	91	52	629
390	41	487	39	473	8	94	54	646
400	42	499	40	485	8	96	55	662
410	43	512	41	497	8	98	57	679
420	44	524	42	509	8	101	58	696
430	45	537	43	521	9	103	59	712
440	46	549	44	533	9	106	61	729
450	47	562	45	545	9	108	62	745
460	48	574	46	558	9	110	63	762
470	49	587	47	570	9	113	65	778
480	50	599	48	582	10	115	66	795
490	51	612	49	594	10	118	68	811
500	52	624	51	606	10	120	69	828

Part 3: Is there anything else I need to know?

How will SMART Pensions affect my State Pension?

The State Pension is made up of two parts:

Basic State Pension (BSP)

SMART Pensions will not affect the basic State Pension.

State Second Pension (S2P)

The State Second Pension (S2P) is a reformed version of the State Earnings Related Pension Scheme (SERPS).

For 2000 Pension Plan, Level 100+ and Aircrew (post March 2003 joiners) and members of the SIPS Money Purchase Plan who have chosen not to contract out, S2P provides a pension in excess of the basic State Pension, with the amount paid depending on your earnings in each year of your working life. If you earn less than the Upper Accruals Point (£40,040 a year for the tax year 2011/12), there may be a small reduction in your S2P when you retire, because of the reduction in your gross earnings. However, by participating in SMART Pensions you will receive an increase in your take home pay, which you could invest, if you wish, to offset the reduction in your S2P. The value of investments can go down as well as up and you are strongly advised to seek independent financial advice before making any decision.

For all other pension schemes, you are contracted out of the S2P by virtue of your pension scheme membership. SMART Pensions will not affect this.

Does the more you earn mean the more you save?

Only to a certain extent. Once earnings exceed the Upper Earnings Limit (£42,475 in tax year 2011/12), NI rates reduce from 12% to 2% for members of the BAE Systems pension schemes. People earning above this amount will therefore save proportionately less.

Would SMART Pensions affect my income tax position?

No, SMART Pensions only affects NI payments. Income tax payments would be unaffected.

Would SMART Pensions affect any other BAE Systems benefits I receive?

SMART Pensions does not reduce any salary related payments or any other benefits you receive directly from the Company.

Pension scheme benefits, overtime, shift premium and discretionary redundancy severance payments continue to be based on your Reference Salary.

Any future salary increases and all other related benefits, such as pay reviews, will be calculated on your Reference Salary, and are therefore unaffected by SMART Pensions.

The Reference Salary is used for mortgage reference letters and therefore should not impact the amount of any mortgage you take out, or your credit rating.

Are AVCs included in SMART Pensions?

No, only your core contribution can be included and any AVCs will be made as a payroll deduction.

What happens to benefits where these are linked or underpinned to contributions paid?

For the purpose of benefit calculations, benefits (including the value of contribution underpins) are calculated as if you had not participated in SMART Pensions.

What is the Company doing with the money it saves through SMART Pensions?

The Company's NI savings through SMART Pensions are paid into the pension schemes. This means that the more people who participate in SMART Pensions, the more the Company pays into employees' pension schemes to help safeguard their future.

How long will SMART Pensions last?

There is no end date planned. However, if the tax/National Insurance regime or the law changes, or it is no longer viable for BAE Systems to operate this arrangement, BAE Systems reserve the right to withdraw SMART Pensions.

Should this happen, employees' pay will be adjusted back to their Reference Salary (less any other salary sacrifices that they participate in) and they will begin making pension contributions again. However, they will not have to pay back any of the additional take home pay received from the reduction in NI contributions.

What are the Change of Lifestyle Events which would be considered for allowing a reversal of an opt in or opt out decision?

The circumstances listed below are those which, at the time of writing, are likely to lead to the granting of employer consent. The employer has the right to change any of the exceptional circumstances in which an employee may be allowed to change their decision to opt in or opt out of SMART Pensions during the course of the year.

- Pregnancy, birth or adoption of a child
- Marriage or divorce
- Death of dependant or death of individual on whom the employee is financially dependent
- Commencement of other salary sacrifice arrangement which, if employee remains in SMART Pensions, would reduce contractual salary to £6,000 or below (pro-rata for part time employees)
- Change in working hours (unless change is less than 7 hours a week)
- Place of work changing to another country
- Any other exceptional reason at discretion of employer

Would SMART Pensions impact any benefits I get from the State?

Entitlement to some State benefits, such as statutory sick pay, incapacity benefit and job seekers allowance are based on the amount of National Insurance that has been paid.

Provided you continue to earn more than around £6,000 a year on a regular basis after the introduction of SMART Pensions, your entitlement to these benefits will not change.

Although SMART Pensions could reduce the amount of statutory entitlement to maternity, paternity and adoption payments, BAE Systems will ensure that employees are no worse off by adjusting the amount paid by the Company.

Would SMART Pensions impact the income tax credits I get from the State?

No, SMART Pensions does not affect any income tax credits that you may receive.

The personal savings for me are small – why should I support SMART Pensions?

The more people who participate in SMART Pensions, the more the Company contributes to help safeguard the future of the BAE Systems pension schemes.

What if I change my mind?

You will be able to opt in or out of SMART Pensions during September each year. Normally the change will take effect from the November payroll.

In exceptional circumstances (for example, a change in working hours or earnings) you will be able to, at the Company's discretion, opt in or out of SMART Pensions during the course of the year, as explained on page 6.



Pensions Service Centre

If you need any further information, please contact the Pensions Service Centre:

BAE Systems plc
PO Box 87
Chester House
Farnborough Aerospace Centre
Farnborough
Hampshire
GU14 6YU

Pensions helpline: 0845 180 1401
(or if calling from abroad 01293 591956)
e-mail: farnborough.pensions@xafinity.com
Pensions website: www.baesystemspensions.com