

SMART Pensions for Level 100+ members



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 scheme for the benefit of all pension scheme members.

Part 1: What is SMART Pensions?

This section will tell you how SMART Pensions works.

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 2: How will SMART Pensions affect me?

This section will give you more detail on what SMART Pensions means for you – what you could save and how your State Pension may be affected.

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

This section will answer common questions about SMART Pensions.

Part 4: What do I need to do now?

This section details the next steps you should take, whether you decide to take part in SMART Pensions or not.

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

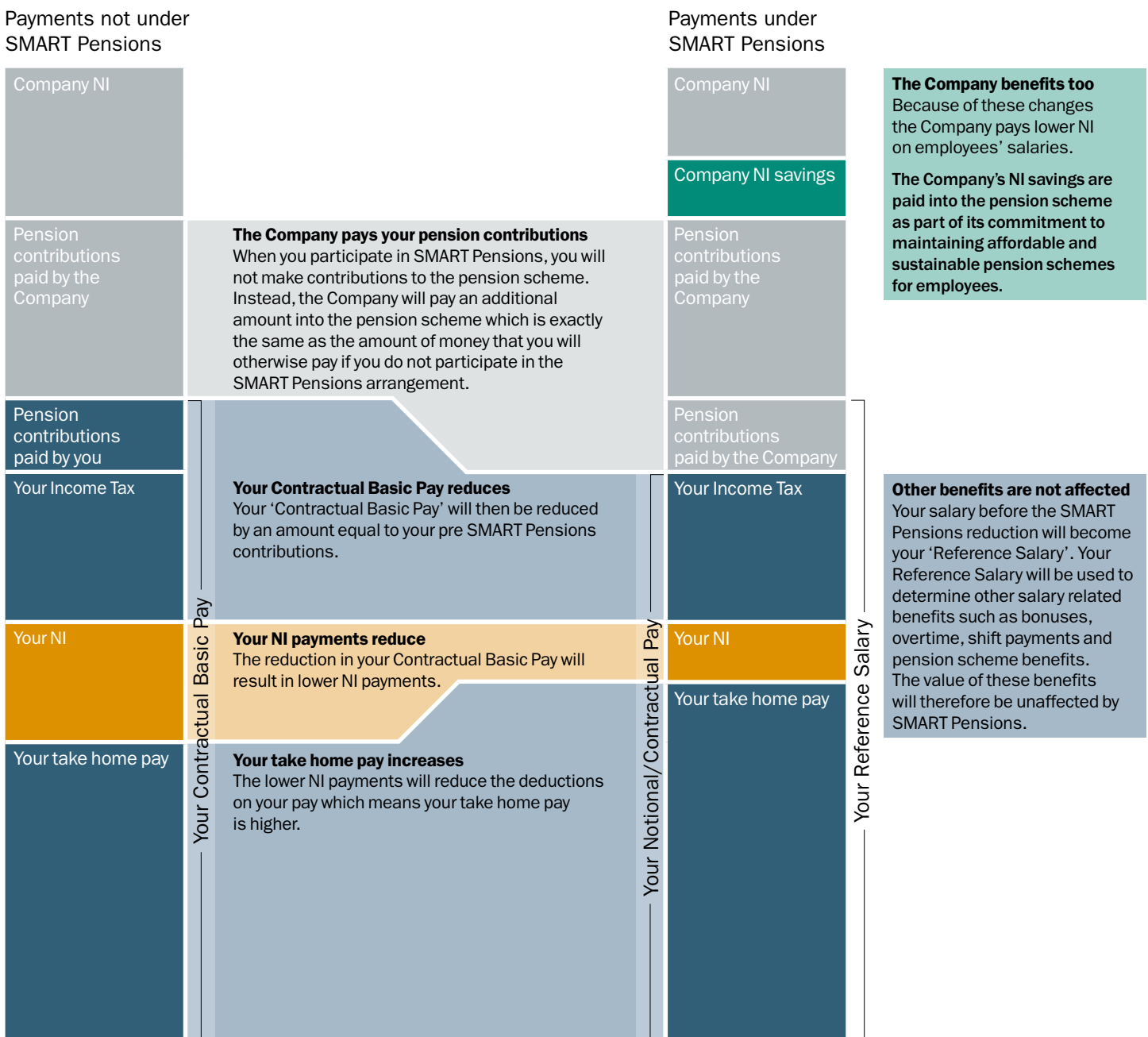


Part 1: What is SMART Pensions?

SMART Pensions is simply a more efficient way of paying contributions to the pension scheme. It works by eliminating the NI contributions that you and the Company would otherwise have to pay on the amounts paid into the pension scheme. Under SMART Pensions, the overall amount of money going into the 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 the pension scheme. Participation in SMART Pensions will reduce these NI contributions.

The diagram below shows you how.



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.

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.

Part 2: How will SMART Pensions affect me?

How much am I going to save?

The amount of extra money you will take home depends on your individual circumstances. The 'ready reckoner' table opposite 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

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.

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.

Step 2

There are some notes below the table which you may need to take into consideration. Please read these carefully to see whether they apply to you.

Example (based on the UEL for 2011/12 of £42,475)

If your gross pay is less than the UEL and your monthly contribution is £200, you will save £288 a year and the Company saving, which will go into the pension schemes, will be £331. 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.



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

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 the full NI rates for 2011/12 and are not applicable to those who elected to pay Married Women's Reduced National Insurance.

Important note for people with a 'personal pension for contracting out' plan and earnings below the Upper Earnings Limit (UEL):
The amount of money that would have been paid by the Government into this 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.

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). It 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.

The tables on pages 5 to 7 are provided for employees who are members in Level 100+ of the BAE Systems Pension Scheme and are either a female born after 5 April 1950 or male.

NOTE: The illustrations provided in the tables are dependent on the following assumptions:

- Normal retirement age is 65
- Employees contribute 4% of their salary to the pension scheme
- Current Tax and National Insurance legislation remains unchanged
- Investment returns will be 2.75% a year
- Annual Management Charges on AVC arrangements are 0.25% a year
- The terms for converting AVC funds into pension at age 65 are:
 - the interest rate underlying the cost of purchasing the pension will be 2.75% a year
 - a 4% expense charge is incurred when converting the accumulated AVC fund into a pension
 - £28.21 from the accumulated AVC fund at age 65 will purchase £1 a year of pension for life from age 65
 - the pension purchased increases in line with inflation once in payment
 - the pension purchased includes a 50% pension payable to a spouse or civil partner
 - the pension purchased includes a 5 year guarantee

Investment returns can go down as well as up and are in no way guaranteed.



Table A – Using the increase in take home pay to provide additional pension

If you invested the increase in your take home pay as Voluntary Contributions in the Scheme or through a separate AVC arrangement, you could earn additional pension. This table shows the potential increase in take home pay for one year, how much that could be worth as AVCs and the amount of pension the AVC fund could buy (in current money terms).

Step 1

Highlight the figure closest to your annual gross pay in the first column.

Step 2

The second column shows the approximate increase in your take home pay that participation in SMART Pensions provides.

Step 3

Using the column closest to your current age, you can see how much additional annual pension you could receive by investing the extra amount in your take home pay as Voluntary Contributions in your Level 100+ Retirement Account or another AVC arrangement. It is based on you taking your pension from age 65 and represents the potential annual pension earned for every year that you take part in SMART Pensions.

Annual Gross Pay (£)	Take Home Pay Increase (£)	Gross AVC (£)	Age 20 (£)	Age 30 (£)	Age 40 (£)	Age 50 (£)	Age 60 (£)	Age 64 (£)
6,000	36.00	45.00	1.35	1.40	1.45	1.50	1.55	1.58
7,000	42.00	52.50	1.58	1.63	1.69	1.75	1.81	1.84
8,000	48.00	60.00	1.80	1.86	1.93	2.00	2.07	2.10
9,000	54.00	67.50	2.03	2.10	2.17	2.25	2.33	2.37
10,000	60.00	75.00	2.25	2.33	2.41	2.50	2.59	2.63
11,000	66.00	82.50	2.48	2.56	2.65	2.75	2.85	2.89
12,000	72.00	90.00	2.70	2.80	2.89	3.00	3.11	3.15
13,000	78.00	97.50	2.93	3.03	3.13	3.25	3.37	3.42
14,000	84.00	105.00	3.15	3.26	3.38	3.50	3.63	3.68
15,000	90.00	112.50	3.38	3.49	3.62	3.75	3.88	3.94
16,000	96.00	120.00	3.60	3.73	3.86	4.00	4.14	4.21
17,000	102.00	127.50	3.83	3.96	4.10	4.25	4.40	4.47
18,000	108.00	135.00	4.05	4.19	4.34	4.49	4.66	4.73
19,000	114.00	142.50	4.28	4.43	4.58	4.74	4.92	4.99
20,000	120.00	150.00	4.50	4.66	4.82	4.99	5.18	5.26
21,000	126.00	157.50	4.73	4.89	5.06	5.24	5.44	5.52
22,000	132.00	165.00	4.95	5.13	5.30	5.49	5.70	5.78
23,000	138.00	172.50	5.18	5.36	5.55	5.74	5.96	6.05
24,000	144.00	180.00	5.41	5.59	5.79	5.99	6.21	6.31
25,000	150.00	187.50	5.63	5.82	6.03	6.24	6.47	6.57
26,000	156.00	195.00	5.86	6.06	6.27	6.49	6.73	6.83
27,000	162.00	202.50	6.08	6.29	6.51	6.74	6.99	7.10
28,000	168.00	210.00	6.31	6.52	6.75	6.99	7.25	7.36
29,000	174.00	217.50	6.53	6.76	6.99	7.24	7.51	7.62
30,000	180.00	225.00	6.76	6.99	7.23	7.49	7.77	7.89
31,000	186.00	232.50	6.98	7.22	7.48	7.74	8.03	8.15
32,000	192.00	240.00	7.21	7.46	7.72	7.99	8.29	8.41
33,000	198.00	247.50	7.43	7.69	7.96	8.24	8.54	8.67
34,000	204.00	255.00	7.66	7.92	8.20	8.49	8.80	8.94
35,000	210.00	262.50	7.88	8.15	8.44	8.74	9.06	9.20
36,000	216.00	360.00	10.81	11.18	11.57	11.99	12.43	12.62
37,000	222.00	370.00	11.11	11.49	11.90	12.32	12.77	12.97
38,000	228.00	380.00	11.41	11.81	12.22	12.65	13.12	13.32
39,000	234.00	390.00	11.71	12.12	12.54	12.99	13.46	13.67
40,000	240.00	400.00	12.01	12.43	12.86	13.32	13.81	14.02

Example

A member with an annual salary of £25,000 will see an increase in their annual take home pay of £150 (after tax) if they participate in SMART Pensions. If this member is aged 40 and invested this £150 in an AVC arrangement the additional pension provided would be £6.03 a year.

All figures in this table and the example are calculated using the assumptions on page 4.

Table B – How your State Pension is reduced

Because you pay lower NI contributions under SMART Pensions, you will be entitled to a lower State Second Pension (S2P). This table shows the reduction in annual pension in current money terms.

Step 1

Highlight the figure closest to your annual gross pay in the first column.

Step 2

Using the column closest to your current age, you can see how much your S2P could be reduced by for every year that you participate in SMART Pensions.

Annual Gross Pay (£)	Age 20 (£)	Age 30 (£)	Age 40 (£)	Age 50 (£)	Age 60 (£)	Age 64 (£)
6,000	-	-	-	-	-	-
7,000	-	-	-	-	-	-
8,000	-	-	-	-	-	-
9,000	-	-	-	-	-	-
10,000	-	-	-	-	-	-
11,000	-	-	-	-	-	-
12,000	-	-	-	-	-	-
13,000	-	-	-	-	-	-
14,000	-	-	-	-	-	-
15,000	1.18	1.18	1.20	1.22	1.58	1.76
16,000	1.57	1.57	1.60	1.63	2.11	2.35
17,000	1.67	1.67	1.70	1.73	2.24	2.50
18,000	1.76	1.76	1.80	1.84	2.37	2.65
19,000	1.86	1.86	1.90	1.94	2.50	2.79
20,000	1.96	1.96	2.00	2.04	2.63	2.94
21,000	2.06	2.06	2.10	2.14	2.76	3.09
22,000	2.16	2.16	2.20	2.24	2.89	3.24
23,000	2.25	2.25	2.30	2.35	3.03	3.38
24,000	2.35	2.35	2.40	2.45	3.16	3.53
25,000	2.45	2.45	2.50	2.55	3.29	3.68
26,000	2.55	2.55	2.60	2.65	3.42	3.82
27,000	2.65	2.65	2.70	2.76	3.55	3.97
28,000	2.75	2.75	2.80	2.86	3.68	4.12
29,000	2.84	2.84	2.90	2.96	3.82	4.26
30,000	2.94	2.94	3.00	3.06	3.95	4.41
31,000	3.04	3.04	3.10	3.16	4.08	4.56
32,000	3.14	3.14	3.20	3.27	4.21	4.71
33,000	3.24	3.24	3.30	3.37	4.34	4.85
34,000	3.33	3.33	3.40	3.47	4.47	5.00
35,000	3.43	3.43	3.50	3.57	4.61	5.15
36,000	3.53	3.53	3.60	3.67	4.74	5.29
37,000	3.63	3.63	3.70	3.78	4.87	5.44
38,000	3.73	3.73	3.80	3.88	5.00	5.59
39,000	3.82	3.82	3.90	3.98	5.13	5.74
40,000	3.92	3.92	4.00	4.08	5.26	5.88

Example

A member aged 40 with an annual salary of £25,000 would see a reduction in their S2P of £2.50 for every year they participate in SMART Pensions.

All figures in this table and the example are calculated using the assumptions on page 4.

Table C – Offsetting the reduced State Second Pension

If you invested your increase in take home pay as shown on page 5, this may earn more pension than the reduction in your State Second Pension (S2P), meaning you are no worse off. This table shows the potential amount above the S2P that could be earned. To get these figures we have subtracted the figures in table B from table A. They are shown in current money terms.

Step 1

Highlight the figure closest to your annual gross pay in the first column.

Step 2

Using the column closest to your current age, you can see the additional pension above your S2P that this increase in take home pay could give you every year if it is invested in an AVC arrangement to offset the reduction in your S2P

For most people, the potential extra pension from investing the savings will more than offset the potential reduction in S2P

Annual Gross Pay (£)	Age 20 (£)	Age 30 (£)	Age 40 (£)	Age 50 (£)	Age 60 (£)	Age 64 (£)
6,000	1.35	1.40	1.45	1.50	1.55	1.58
7,000	1.58	1.63	1.69	1.75	1.81	1.84
8,000	1.80	1.86	1.93	2.00	2.07	2.10
9,000	2.03	2.10	2.17	2.25	2.33	2.37
10,000	2.25	2.33	2.41	2.50	2.59	2.63
11,000	2.48	2.56	2.65	2.75	2.85	2.89
12,000	2.70	2.80	2.89	3.00	3.11	3.15
13,000	2.93	3.03	3.13	3.25	3.37	3.42
14,000	3.15	3.26	3.38	3.50	3.63	3.68
15,000	2.20	2.32	2.42	2.52	2.31	2.18
16,000	2.03	2.16	2.26	2.36	2.04	1.85
17,000	2.16	2.29	2.40	2.51	2.17	1.97
18,000	2.29	2.43	2.54	2.66	2.29	2.08
19,000	2.42	2.56	2.68	2.81	2.42	2.20
20,000	2.54	2.70	2.82	2.95	2.55	2.32
21,000	2.67	2.83	2.96	3.10	2.67	2.43
22,000	2.80	2.97	3.10	3.25	2.80	2.55
23,000	2.93	3.10	3.25	3.40	2.93	2.66
24,000	3.05	3.24	3.39	3.54	3.06	2.78
25,000	3.18	3.37	3.53	3.69	3.18	2.90
26,000	3.31	3.51	3.67	3.84	3.31	3.01
27,000	3.43	3.64	3.81	3.99	3.44	3.13
28,000	3.56	3.78	3.95	4.14	3.57	3.24
29,000	3.69	3.91	4.09	4.28	3.69	3.36
30,000	3.82	4.05	4.23	4.43	3.82	3.47
31,000	3.94	4.18	4.38	4.58	3.95	3.59
32,000	4.07	4.32	4.52	4.73	4.08	3.71
33,000	4.20	4.45	4.66	4.87	4.20	3.82
34,000	4.32	4.59	4.80	5.02	4.33	3.94
35,000	4.45	4.72	4.94	5.17	4.46	4.05
36,000	7.28	7.65	7.97	8.31	7.69	7.32
37,000	7.48	7.87	8.20	8.54	7.91	7.53
38,000	7.69	8.08	8.42	8.77	8.12	7.73
39,000	7.89	8.29	8.64	9.01	8.33	7.93
40,000	8.09	8.50	8.86	9.24	8.55	8.14

Example

For a member aged 40 with an annual salary of £25,000, the net effect of them investing the £150 increase in their take home pay and the reduction in their S2P is £3.53 for every year they participate in SMART Pensions.

All figures in this table and the example are calculated using the assumptions on page 4.

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

Here are some answers to some common questions about SMART Pensions.

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 in Level 100+ of the BAE Systems Pension Scheme. 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 Voluntary Contributions included in SMART Pensions?

No, only your core contribution can be included and any Voluntary Contributions 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.

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.

Part 4: What do I need to do now?

If you wish to participate you do not need to take any further action; on joining the pension scheme you will be automatically included in SMART Pensions.

When will the changes start?

Unless you are one of those employees specifically excluded from participating, you will be automatically included in SMART Pensions from your first pay date after joining the pension scheme, unless you have chosen to opt out. If you decide to opt out, please ensure prompt return of your opt out form to ensure that your decision is actioned by payroll for your first pay date after joining the pension scheme.

What do I need to do if I decide to opt out of SMART Pensions?

If you decide to opt out of SMART Pensions, please complete the Opt Out in section C of the HR New Starters form. If you are a Fixed Term Employee, please tick the appropriate box on the New Entrant form. On completion, please return to the relevant address on the form as soon as possible.

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 (see page 8).



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