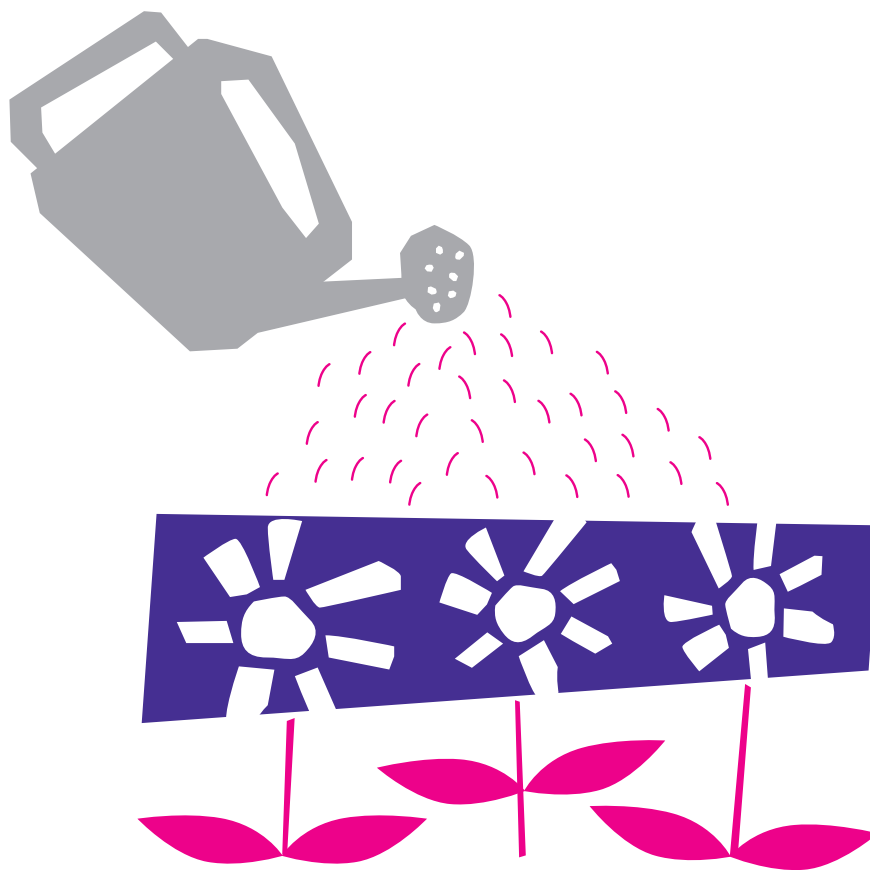


# SMART Pensions for the BT Retirement Saving Scheme

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Important - please read this document carefully



SMART Pensions is designed to increase the take home pay of BT people by reducing National Insurance Contributions without affecting pension benefits from the BT Retirement Saving Scheme (BTRSS).

Effective from April 2009



# Introduction

This booklet explains how SMART Pensions works and answers some of the questions you may have. We recognise that pensions is a complex area and have structured the booklet in an **easy to read format** using frequently asked questions covering the following areas:

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## The objectives of SMART Pensions are to:

- Increase take home pay for BT Retirement Saving Scheme (BTRSS) members without changing BTRSS pension benefits.
- Reduce BT’s National Insurance costs.

We have designed SMART Pensions so that virtually all employees will benefit. However, there are a small number of employees who potentially may be worse off. We recommend that you read the section “Should I participate?” (see page 11) which explains in more detail who may not benefit and who may therefore wish not to participate.

We believe most employees will be better off, and will want to take part in SMART Pensions.

Please read this booklet carefully. You can also see more information about SMART Pensions, on the intranet here: <http://humanresources.intra.bt.com/index/reward/pensions/smartpensions-link>

You may already be participating in SMART Pensions. If you are, your payslip will show a “Smart Pension Adjustment” in the payments column.

Please note that all amounts shown in this booklet are calculated as at April 2008 and are subject to future changes in line with legislation.

## Explanation of some terms used...

We’d like to explain some of the terms that you will come across in this booklet.

Term	Explanation
<b>BTRSS</b>	BT Retirement Saving Scheme.
<b>Basic Contributions</b>	5% of Base Salary for members of the BTRSS.
<b>Base Salary</b>	Your basic gross salary before taking account of any SMART Pensions or any salary direct adjustment, for example, mobile worker payments or childcare vouchers. Your Base Salary is restricted to an Earnings Cap which limits the level of earnings on which benefits and contributions are based (this does not apply to former members of the Syntegra Limited Flexible Pension Plan). For the 2008/09 year this is £117,600 per annum.
<b>National Insurance (NI)</b>	NI contributions are deducted from your salary and may determine your entitlement to certain State benefits. NI contributions are deducted from your gross salary (i.e. before deduction of tax or pension contributions).
<b>State Second Pension (S2P)</b>	Also called S2P, this is the reformed version of SERPS and provides an additional State Pension in excess of the Basic State Pension, based on earnings.
<b>Lower Earnings Limit (LEL)</b>	The amount of earnings below which NI contributions do not apply - £390 per month (£4,680 per annum 2008/09)
<b>Upper Earnings Limit (UEL)</b>	The amount of earnings above which NI contributions are levied at 1% only - £3,336.67 per month (£40,040 per annum 2008/09)

# 1. SMART Pensions ...savings for employees and BT

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## Why do we do it?

SMART Pensions provides the opportunity for employees and BT to save National Insurance (NI). This means that your take home pay will increase. It does not reduce your BTRSS pension benefits.

## Will SMART Pensions affect anything else I get from BT?

No, we'll make sure it doesn't. We'll do this by calculating all your benefits (such as overtime, holiday and pay reviews) using your "Base Salary" i.e. before any reduction under SMART Pensions.

## Is there a catch?

No, SMART Pensions simply provides the opportunity for employees and BT to save NI. However, please see page 11 for details of who should consider not participating. SMART Pensions is not unique to BT, many large employers have introduced similar arrangements enabling their employees to take home more of their pay.

## What do I do to take up this opportunity?

**New employees joining BT on or after 1 April 2009 -** You will automatically participate in SMART Pensions from the date you join the BTRSS, although you can choose to opt-out.

**Former members of the BT Retirement Plan (BTRP) or Syntegra Limited Flexible Pension Plan (SLFPP) -** If you were participating in SMART Pensions in respect of your basic and/or Additional Voluntary Contributions, your decision to participate will be carried over to the BTRSS. If only part of your contributions are covered by SMART Pensions and you would like to change this to all of your contributions, you will need to submit the application form at: <http://eresponse.intra.bt.com/run/survey3.cfm?ID=35577>

## Where do I get more information about SMART Pensions?

You can see more information about SMART Pensions here: <http://humanresources.intra.bt.com/index/reward/rpensions/smartpensions-link>

## Does HM Revenue & Customs (the tax office) mind?

SMART Pensions has received approval from HMRC and is a recognised arrangement to encourage employees to save for their retirement.

## 2. How SMART Pensions works

SMART Pensions is designed to increase employees' take home pay and reduce the NI costs for BT without reducing employees' pension benefits. If you participate in SMART Pensions:

- Your BTRSS contributions stop.
- BT will make an equivalent contribution on your behalf to the BTRSS.
- BT will offset your contribution by reducing your gross salary by the same amount.
- As your gross salary reduces, so will the NI you pay and this results in an increase in your take home pay.

### Here's an example that will help explain...

Let's assume Sarah, a BTRSS member, pays a Basic Contribution of £130 per month.

**Under SMART Pensions:** Sarah will stop making her Basic Contributions of £130 per month; her gross pay will reduce by £130; and BT will now make additional contributions of £130 per month into her Retirement Account...

### So in practice this is what happens each month...

Before SMART Pensions		After SMART Pensions	
Salary each month	£2,000.00	Salary each month	£2,000.00
Basic Contribution... £130.00	£130.00	BT pay in... (plus its normal pension contribution)	
Pay after contributions	£1,870.00	Pay after contributions	£1,870.00
Tax due on £1,870 <sup>1</sup>	£293.42	Tax due on £1,870 <sup>1</sup>	£293.42
NI due on £2,000	£170.17	NI due on £1,870	£155.87
<b>Take home pay</b>	<b>£1,406.41</b>	<b>Take home pay</b>	<b>£1,420.71</b>

The result...Sarah's take home pay goes up as she pays less NI (the employee saving amounts to £171.60 per annum in this example) and without changing the amount of money which is paid into the BTRSS.

Once you have joined SMART Pensions, contributions cannot be reduced, except at October each year, or in circumstances described as a lifestyle change in Section 6. However, you are able to increase your contributions at any time and any increase would also be included in SMART Pensions.

<sup>1</sup> The above example is based on the basic rate of tax. Whichever rate at which you currently pay income tax, the amount of income tax you pay will not change under SMART Pensions.

The following table gives you an indication of the increase in take home pay for a range of salaries. The savings are

calculated using the 2008/09 NI rates, and assumes a current employee Basic Contribution rate of 4%.

Salary £ (per year)	BTRSS members' increase in take home pay £ (per year)	
	4% contribution rate	
4,000		£0.00
6,000		£26.40
10,000		£44.00
15,000		£66.00
20,000		£88.00
25,000		£110.00
30,000		£132.00
40,000		£176.00
50,000		£200.00
60,000 <sup>2</sup>		£240.00

<sup>2</sup> You will save more than this if you earn in excess of £60,000 or pay a higher contribution rate than shown.

Note: Some employees pay the lower married women's NI rates and they will save approximately 40% of the amounts shown.

## Questions about SMART Pensions

### What's in it for BT?

Just as employees who take part in SMART Pensions will pay less NI, so will BT.

### How long will SMART Pensions last?

We plan to operate SMART Pensions indefinitely. However, if tax, NI or pensions law changes, or it is no longer viable for us to operate it, BT reserves the right to withdraw SMART Pensions.

You will then pay your contributions from your gross salary which will no longer be reduced.

### Will SMART Pensions affect my income tax position?

No. There will be no change.

### What happens if I am seconded overseas?

If you are seconded overseas and cease to be liable for UK income tax and NI contributions you will not be able to participate in SMART Pensions for that period.

When you return to the UK you will resume participation in SMART Pensions.

### Are AVCs refunded on death?

If you die whilst a member of the BTRSS, the value of your Smart Contributions (including any relating to AVCs) will be refunded.

### Will my investment choices change?

Your investment choice will not be affected if you decide to participate in SMART Pensions.

### How do I know if I am already a SMART Pension member?

If you have elected to join SMART Pensions in the past you would have been sent an acknowledgment letter. You will also see an element of "SMART Pensions Adjustment" in the payments column on your payslip.

## 3. My company benefits

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SMART Pensions will not affect salary related payments or benefits that you receive from BT. To achieve this, we have introduced a concept called “Base Salary”. Base Salary is your basic salary before taking into account any SMART Pensions reduction (or any salary direct adjustment such as childcare vouchers). All future pay rises will be based on your Base Salary. SMART Pensions will, therefore, not affect the calculation of future pay reviews. All your salary related benefits will now also be calculated on your Base Salary. These include any overtime and bonuses. Mortgage reference letters will also refer to Base Salary.

### Questions about the impact on BT benefits

#### How will SMART Pensions affect my pension?

SMART Pensions will not affect the overall contributions or resulting benefits you will receive from the BTRSS.

#### How will this affect death in service benefits?

Your death in service benefits will be unaffected by SMART Pensions. These will continue to be calculated on your Base Salary before any reduction for SMART Pensions.

#### What happens if I leave BT?

If you leave the BTRSS your retirement account will be left in BTRSS and you can use it to buy a pension at any time on or after your 50th birthday (your 55th birthday from 6th April 2010).

#### How will SMART Pensions affect the BT share plans?

SMART Pensions may reduce the maximum you can save each month under directshare. The maximum amount that you can use to buy shares is limited to the lower of:

- £1,500 per year or
- 10% of your taxable pay (before deducting pension contributions).

As SMART Pensions reduces the amount of your gross pay, this may reduce the maximum value of BT shares you can buy under directshare. This will potentially affect employees who invest the maximum of £1,500 and earn less than £15,625 per year, and others who are investing at, or near, their 10% limit.

## 4. My State benefits

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

If you continue to earn in excess of the Lower Earnings Limit (£4,680 per annum 2008/09) for NI purposes on a regular basis after the introduction of SMART Pensions your entitlement to State benefits will not change.

Also, SMART Pensions will not affect any income tax credits that you may receive.

However, if you currently earn above the Lower Earnings Limit, and SMART Pensions causes your earnings to fall below the limit, your entitlement could potentially change so as to reduce some of your State benefits. We estimate that this may affect employees who currently earn on a regular basis around £405 per month (£4,860 per annum).

Therefore, if you earn below £405 per month (£4,860 per annum) you may decide not to participate.

We can also reassure you that SMART Pensions will not affect maternity, paternity or adoptive payments.

Although SMART Pensions could reduce the amount of Statutory Maternity Pay a woman is entitled to, BT will ensure that employees are no worse off, by making a top-up amount.

If you receive enhanced (as opposed to Statutory) Maternity Pay, and remain a member of the BTRSS during your maternity leave, SMART Pensions will continue to be operated.

### How SMART Pensions impacts on State Benefits

The State offers two levels of pension to employees:

- Basic State Pension

SMART Pensions will not affect the Basic State Pension for any member earning more than £4,860 per annum.

- State Second Pension (S2P)

The State Second Pension (S2P) is a reformed version of the State Earnings Related Pension Scheme (SERPS). Both provide a pension in excess of the Basic State Pension, with the amount paid depending on your earnings in each year of your working life.

Broadly speaking, the amount of S2P you accrue each year is a percentage of your earnings up to the Upper Earnings Limit (£40,040 per annum 2008/09).

If you currently earn more than £40,040 a year from April 2008, after deduction of your pension contributions, there will not be any impact on your S2P from participating in SMART Pensions.

If you earn less than this amount there will be a small reduction to your S2P when you retire, because of your reduced NI contribution payments. However, by participating in SMART Pensions you will receive an increase in your take home pay, which you can invest, if you wish, to offset the reduction in your S2P.

The impact of SMART Pensions on S2P depends on your age and your total pay. By way of illustration, the table below gives an indication of the reduction in S2P based on a 4% contribution rate. It also shows the savings you would make by participating in SMART Pensions.

Total gross pay per year	Approximate reduction in annual S2P pension per year under SMART Pensions for each year of participation in SMART Pensions			Increase in take home pay each year
	At age 20	At age 40	At age 59	
£	£	£	£	£
10,000	0.00	0.00	0.00	44.00
20,000	1.63	1.63	2.29	88.00
30,000	2.45	2.45	3.43	132.00
40,000	6.53	6.53	9.14	176.00

If you are concerned about the impact on your S2P and do not consider the benefit of an increase in your take home pay through SMART Pensions is sufficient to outweigh any reduction in S2P you may wish to consider not participating in SMART Pensions.

If you wish to see how increasing your contribution rate could affect the pension that you receive, you can use the Retirement Planner on the Standard Life BTRSS web page:

[www.btreirementsavingscheme.com](http://www.btreirementsavingscheme.com)

**Do you have a personal pension plan to contract-out of S2P (formally SERPS)?**

If the answer is yes and you choose to participate in SMART Pensions, your earnings will reduce, and as a result there will be a small reduction in the amount of

money being paid into your personal pension plan. You should regularly review your decision to contract-out with your financial adviser.

Tax year	Age	Salary	Reduction in NI Rebate	Increase in pay
2008/09	42	£22,000	£30.80	£96.80
2009/10	43	£23,000	£32.20	£101.20
2010/11	44	£24,000	£33.60	£105.60
Total over 3 years			£96.60	£303.60

## 5. Should I participate?

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We have structured SMART Pensions so that virtually all employees will benefit and will not be disadvantaged. However, there are some members, in particular those who regularly earn below £405 per month (£4,860 per annum), who may lose their entitlement to some State benefits by participating in SMART Pensions.

You should read section 4 of this booklet if you think this applies to you.

If having read the booklet, you are concerned about whether SMART Pensions will be beneficial for you, we would strongly suggest that you seek independent financial advice.

## 6. What you need to do now

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If you currently participate in the BTRSS but do not participate in SMART Pensions, but you wish to do so, you should complete the electronic form at:

<http://eresponse.intra.bt.com/run/survey3.cfm?ID=35577>

If you do decide to participate in SMART Pensions, you will have the opportunity to opt-out each October. If you have one of the following lifestyle changes you will be able to opt out at any time, with the consent of the company:

- marriage
- birth or adoption of a child
- separation/divorce
- death of partner or child
- changes in working hours (for example from full-time to part-time)
- relocation (within the United Kingdom or abroad).

Opt-out forms can be found on the SMART Pensions pages of the intranet.

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