

Smart Pensions for the BT Pension Scheme

Important – Please read this document carefully



Smart Pensions is a new initiative designed to improve the take home pay of BT people by reducing National Insurance contributions without affecting pension benefits from the BT Pension Scheme.



Contents

	Page
Introduction	4
1. Smart Pensions... savings for employees and BT	6
2. How Smart Pensions works	7
3. My company benefits	9
4. My State benefits	11
5. Who shouldn't participate?	12
6. What you need to do now	12

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 covering the following areas:

1 Introduction	Short Guide to Smart Pensions.
2 How Smart Pensions works	To help you understand more about how Smart Pensions works, including examples and an indication of the National Insurance savings.
3 My company benefits	To confirm that Smart Pensions will not change other benefits you receive from BT or affect future pay reviews.
4 My State Benefits	To find out about Smart Pensions and your State benefits.
5 Who shouldn't participate?	To highlight those small groups of employees which may not benefit from Smart Pensions.
6 What you need to do now	To confirm what you need to do now.



The objectives of Smart Pensions are to:

- increase take-home pay for BT Pension Scheme (BTPS) members without changing pension benefits.
- reduce BT's National Insurance costs.

We've designed Smart Pensions so that virtually all employees will see a benefit and we very much hope that you will enjoy the benefits it offers. However, there are a small number of employees who potentially may be worse off. We recommend that you read the section 'Who shouldn't participate?' which explains in more detail who may not benefit and who may therefore wish not to participate.

Please read this booklet carefully. If you have any questions after reading it, please consult the Smart Pensions website:

<http://humanresources.intra.bt.com/smartpensions>
or call Peopleline on 0800 731 4747

Please note that all amounts shown in this booklet are calculated as at April 2004 and are subject to future changes in line with legislation.

Explanation of some terms used...

Before you move on, we'd like to explain some of the terms that you will come across in this booklet.

Term	Explanation
BTPS	BT Pension Scheme
Basic Contributions	6% for members of the BTPS
Base Salary	Your basic salary before taking account of any Smart Pensions adjustment or any salary direct adjustment. For example, home computing or childcare vouchers.
National Insurance (NI)	NI contributions are deducted from your salary and may determine your entitlement to certain State benefits.
AVCs	Additional Voluntary Contributions to provide a fund of money to purchase extra pension benefits at retirement.
Added Years	Additional voluntary contributions to provide additional years of pensionable service (available only to Section A/B members of the BTPS).

1. Smart Pensions ...savings for employees and BT

1. Why are we doing 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 BT pension benefits.

2. How does it work?

- you'll stop making your 6% basic contributions. Your gross pay will go down by the amount you previously paid into the BTPS.
- BT will increase its pension contributions so exactly the same amount of money goes into the BTPS as before.
- you'll pay less NI so your take home pay will increase.

3. 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.

4. Is there a catch?

No, by introducing Smart Pensions we are simply providing the opportunity for employees and BT to save NI. However, please see section 5 for details of who should consider not participating.

5. What do I do to take up this opportunity?

BTPS members were contacted prior to the introduction of Smart Pensions in June 2004 and advised that they could participate in Smart Pension if they wished.

Any member who chose not to participate was required to complete an opt-out form. If you completed this form you may wish to change your mind and decide to participate in Smart Pensions in the future.

If any BTPS member wishes to participate in Smart Pensions and receive the benefit of the National Insurance savings in their pay, they may do so by completing a Smart Pensions Application Form. You can request an Application Form via Peopleline or download one from the Smart Pensions website.

6. Where do I get more information about Smart Pensions?

Further information is available from:

- Website: <http://humanresources.intra.bt.com/smarpensions>
- Peopleline from 08.30 to 17.00 Monday to Friday on 0800 731 4747



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:

- you'll stop making your 6% basic contributions to the BTPS.
- BT will make additional contributions to the BTPS equal to the basic contributions you used to make because BT is now making additional pension contributions, your contractual gross pay will be reduced by the amount of additional contributions BT will now make. *However, because of the way NI is calculated, your take-home pay will not be reduced and, in fact, will increase. Here is an example that will help explain...*

Currently: let's assume you contribute £120 per month (excluding any AVCs).

Under Smart Pensions: you'll stop making your regular contributions of £120 per month; your gross pay will reduce by £120; and BT will now make additional contributions of £120 per month. AVCs or Added Years are not included in Smart Pensions and so will not change.

So in practice this is what happens...

Before Smart		After Smart	
Your salary each month	£2,000.00	Your salary each month	£1,880.00
Your pension contribution...	£120.00	BT pay in... (plus its normal pension contribution)	£120.00
Your pay after contributions	£1,880.00	Your pay after contributions	£1,880.00
Tax due on £1,880*	£306.41	Tax due on £1,880*	£306.41
Your NI due on £2,000	£150.93	Your NI due on £1,880	£139.65
Your take home pay	£1,422.66	Your take home pay	£1,433.94

The result...your take-home pay goes up as you pay less NI (the employee saving ranges from £20 – £170 per year), and the same amount as before Smart Pensions goes into the BTPS.

**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 2004/05 NI rates, and assume a current employee contribution rate of 6%.

Salary £ (per year)	BTPS members' increase in take-home pay £ (per year) 6% contribution rate
4,000	Nil
6,000	34
10,000	56
15,000	85
20,000	113
25,000	141
30,000	169
40,000	24
50,000	30
60,000*	36*

Notes:

*You will save more than this if you earn in excess of £60,000.

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

2A What's in it for BT?

Just as employees who take part in Smart Pensions will pay less NI, so will BT. After the costs of implementing Smart Pensions, and making sure that employee benefits are not affected, BT will save in the region of £10m in the first year with an ongoing saving in each year thereafter.

This assumes that virtually all employees participate in Smart Pensions. If fewer employees join, the savings will reduce. We also estimate that employees will, between them, also save a similar amount.

2B Have the unions and trustees been consulted?

Both unions have been consulted on this issue and have agreed to the introduction of Smart Pensions as suitable safeguards have been put in place to protect individual pension and State benefit entitlements.

The trustees have also been consulted and have agreed to the introduction of Smart Pensions.

A number of other large organisations have introduced Smart Pensions successfully, delivering savings to their employees and the business.

2C 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'll then change back to your current contribution basis (i.e. pre Smart Pensions), and your gross pay will no longer be reduced. However, you will not have to pay back any of the benefits that you have received.



2D How will Smart Pensions affect my income tax position?

There will be no change.

This is because the reduction in your gross taxable pay is equal to the amount of the tax-deductible pension contributions that you would otherwise have paid.

2E 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 participate in Smart Pensions for that period. When you return to the UK you will be able to participate in Smart Pensions.

3. My company benefits

Smart Pensions will not affect salary-related payments or benefits that you receive from BT. To achieve this, we have introduced a new concept called “base salary”. Base salary is your basic salary before taking account of any Smart Pensions adjustment (or any salary direct adjustment such as home computing or 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, bonuses and pay rises. Mortgage reference letters will also refer to base salary.

Questions about the impact on BT benefits

3A How will Smart Pensions affect my pension?

Smart Pensions will not affect the pension you receive from the BTPS at retirement. Your pension will continue to be calculated before any adjustment for Smart Pensions.

3B How will this affect my death in service benefits?

Your death in service benefits will be unaffected by Smart Pensions. These will continue to be calculated before any adjustment for Smart Pensions.

3C How does Smart Pensions affect the maximum amount of Added Years and/or AVCs I can pay?

Participation in Smart Pensions will mean that you may be able to increase the amount of Added Years and/or AVCs that you can make. Please call Peopleline if you would like to consider increasing your Added Years and/or AVCs.

3D 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 £15,957 per year, and others who are investing at, or near, their 10% limit.

3E How will Smart Pensions affect the Inland Revenue limits on my maximum pension and death in service benefits?

The Inland Revenue places limits on your maximum pension and death in service lump sum benefits. For most employees, Smart Pensions will not affect these limits.

Pension benefits

The current Inland Revenue limits could potentially reduce the pension of a relatively small number of employees. This is something that we want to avoid, so prior to the introduction of Smart on 1st June 2004 procedures were in place to identify employees affected at that time and to suggest they did not participate in Smart Pensions.

Each year, we will seek to identify employees who may be caught by the Inland Revenue limits. Therefore, it will be suggested to some people that they may wish to opt out of Smart Pensions in future years. This issue will cease after April 2006, when pension regulations are due to change, and will not affect individuals retiring after this date. In identifying employees who may potentially be affected, we have used the information held on our pension records. However, our records may not hold details of any pension entitlement you may have under a previous employer's pension arrangements.

If you have large pension benefits held in another pension arrangement you may be affected by the Inland Revenue limits and you may wish to discuss your situation with Peopleline.

Death in service benefits

The Inland Revenue limits the benefit that can be paid tax-free on death from the BTPS. Under Smart Pensions this limit may reduce slightly. Broadly, this limit is equal to four times total earnings (i.e. including bonuses and benefits in kind etc.) so this is unlikely to be an issue for many employees. BT will ensure employee's dependants or estate are compensated where employees are affected by these limits as a consequence of participating in Smart Pensions.



Leaving Service

Regardless of your decision to participate in Smart Pensions and even if you have completed less than 2 years pensionable service, when you leave the BTPS you will be entitled to a pension payable at Normal Retirement Age. The pension will be calculated using the amount of your pensionable service and salary on leaving. The benefit will be retained in the BTPS until your Normal Retirement Age and increased in accordance with the BTPS rules.

Further details can be found in the BTPS member booklet or the intranet pages for the BT Pension Scheme at <http://humanresources.intra.bt.com/reward/rpensions>

Alternatively, you may contact Peopleline on 0800 731 4747

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. NI does not apply to earnings below the lower earnings limit (currently £4,108 per annum) and is levied at 1% only on earnings above the upper earnings limit (currently £31,720 per annum). If you continue to earn in excess of the lower earnings limit for NI purposes on a regular basis after participation in 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 just above the lower earnings limit and Smart Pensions causes your earnings to fall just below the limit, your entitlement could potentially change. We estimate that this may affect employees who currently earn on a regular basis between £343 and £365 per month (between £4,108 and £4,380 per annum). Therefore, if you earn below £500 per month (£6,000 per annum) you may not wish to participate in Smart Pensions.

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 paying a top-up amount. If you receive enhanced (as opposed to statutory) maternity pay, and remain a member of the BTPS during your maternity leave, Smart Pensions will continue to be operated.

Questions about how Smart Pensions impacts on State Benefits

4.A How does Smart Pensions affect my State Second Pension?

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 retirement pension, with the amount paid depending on an employee's earnings. There will be no reduction in the total amount of pension that you receive as the BTPS does not participate in the S2P.

5. Who shouldn't participate?

We have structured Smart Pensions so that virtually all employees will benefit and will not be disadvantaged. However, there are some situations where we cannot completely protect employees.

These include:

- Employees in the BTPS who have large benefits from previous employers' pension schemes or who have been in the BTPS for a long time and are likely to retire before 6 April 2006 (when Inland Revenue limits are due to be relaxed under new legislation and this situation will no longer apply).
- If you regularly earn below £500 per month (£6,000 per annum), you may lose your entitlement to some State benefits by participating in Smart Pensions. *You should also read section 4 of the booklet if you think this applies to you.*
- If you will be leaving BT under Newstart, participating in Smart Pensions may reduce the amount you can apply towards the 'Increasing your Pension' option. You may wish to discuss this with Peopleline.

6. What you need to do now

If you did not join Smart Pensions from inception and you would like to participate in Smart Pensions now, you should complete the Smart Pensions Application Form. The form can be found on the Smart Pensions website or requested from Peopleline. Once completed it should be returned to the Smart Pensions Team, Accenture HR Services, Pioneer House, Chesterfield, S42 6NT.

If you decide to participate in Smart Pensions, you will not be able to opt out again until June 2005 unless you have one of the following lifestyle changes:

- 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)

In these cases you may, with BT's consent, opt out of Smart Pensions.

You should contact Peopleline on 0800 731 4747.

Smart Pensions is a change to your contractual terms and condition.



Need more information or like to ask a question?

Go to the Smart Pensions website:

<http://humanresources.intra.bt.com/smartpensions>

or contact Peopleline on **0800 731 4747**



BT Group plc
Registered offices 81 Newgate Street, London EC1A 7AJ
Registered in England and Wales No. 4190816
Produced by BT Group Communications

Designed by Premm Design Limited

www.bt.com