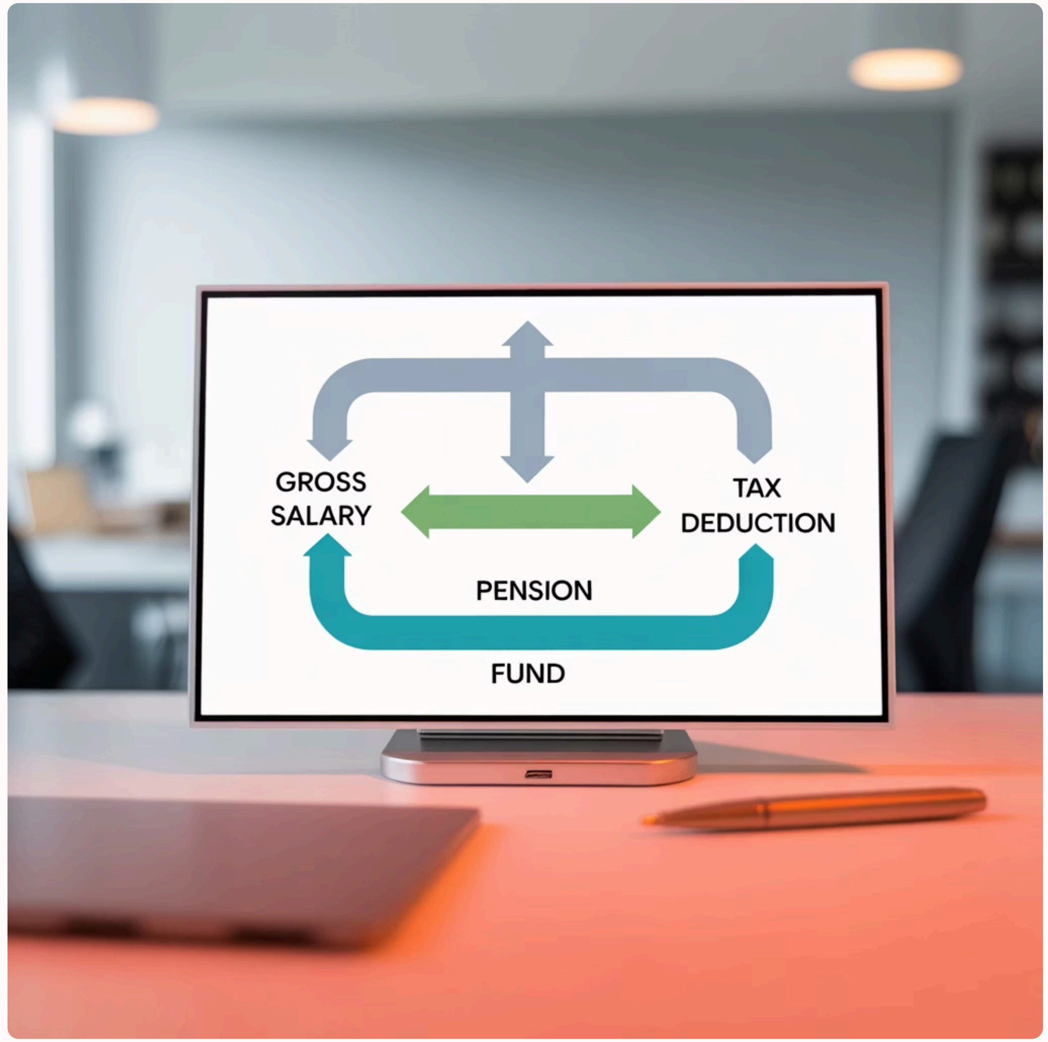
SMART Pay Guide: Enhancing Your Pension Benefits

A comprehensive guide to understanding SMART Pay, a tax-efficient method for making pension contributions that can increase your take-home pay while maintaining the same pension contribution levels.

What is SMART Pay?

SMART Pay is a tax-efficient way for you to make pension contributions. Your contributions are deducted from your gross pay **before** you pay tax and national insurance contributions (NICs).

In simple terms, you will get the same amount paid into your workplace pension as making contributions from your after-tax pay, but your take-home pay will increase.



How SMART Pay Works

Salary Adjustment

Your salary is reduced by an amount equal to your gross pension contribution. This is a contractual change.

Employer Contribution Increase

The employer pension contribution increases by the same amount as your salary reduces.

Tax & NIC Savings

You save tax and NICs on your salary, resulting in higher take-home pay while maintaining the same pension contribution.

Example: If you contribute 3% and your employer contributes 9%, under SMART Pay your gross pensionable salary reduces by 3% and your employer increases their contribution from 9% to 12%.

Benefits of SMART Pay

Higher Take-Home Pay

Your exchanged salary is no longer subject to tax and NICs, resulting in higher take-home pay.

Same Pension Contribution

The total contribution to your workplace pension remains the same.

Automatic Tax Relief

Higher and additional rate taxpayers receive tax relief at source, eliminating the need to reclaim it from HMRC.

Impact on Higher Rate Taxpayers

If you are a higher or additional rate taxpayer, you no longer need to reclaim tax relief by completing a tax return or writing to HMRC. Higher and additional rate tax relief will be applied at source.

Tax Band Benefits

If you are on the edge of higher or additional rate tax bands, SMART Pay may help you fall into a lower tax band.

Government Schemes

Reduced gross earnings may make you eligible for benefits subject to earnings limits, such as Tax-Free Childcare or 30-hours free Childcare.

Note: If you're unsure about participating in SMART Pay, you should seek advice. HR can issue a letter showing your notional salary (pre-exchange salary), which will also appear on your payslip.

Impact on Other Benefits

Although your contractual salary will be reduced for pension contributions, it will not impact other salary-related benefits:

Death in Service

Based on your notional salary (pre-exchange salary)

Overtime Payments

Calculated using your notional salary

Future Salary Increases

Based on your notional salary

Example: If your current gross basic salary is £25,000 and after SMART Pay it reduces to £24,120, your death in service benefit would still be calculated using £25,000.

Special Circumstances

Student Loans

As SMART Pay reduces pay subject to NICs, your student loan repayments may reduce. If earnings fall below the threshold, no repayments would be made.

State Pension

Entitlement to the State Pension is based on 'qualifying years' rather than NICs paid. Ensure earnings remain above the Lower Earnings Limit (LEL).

Statutory Payments

During maternity/paternity/adoption leave, statutory payments will be calculated on your SMART Pay earnings and may be lower. Employer pension contributions will be based on pre-leave earnings.

Sick Leave

During statutory sick pay periods, you will not participate in SMART Pay and pension contributions will be deducted from net pay.

Eligibility and Opting Out

Minimum Wage Limit

You cannot participate if your SMART Pay salary falls below the National Minimum Wage (NMW).

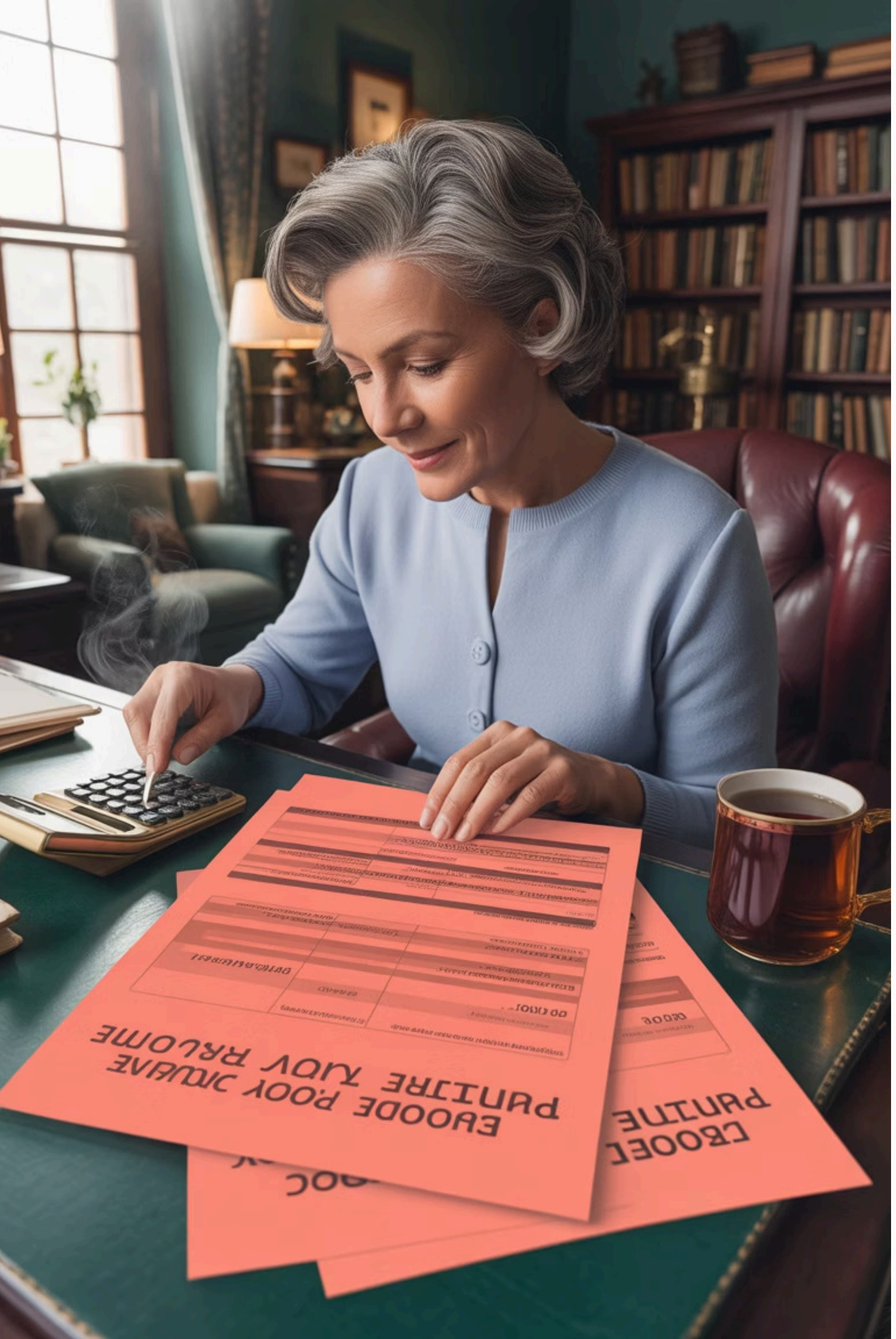
Maximum Contribution

The maximum pension contribution you can exchange is 10% of your gross pay, without referring to HR.

Stepping Out

You can elect to step out of SMART Pay if you believe it's not appropriate for you, or after certain 'lifestyle' events (marriage, divorce, birth of a child, etc.).

If you step out, you won't benefit from tax or NIC savings, and higher rate taxpayers will need to reclaim tax relief directly from HMRC.



Key Takeaways: Why Choose SMART Pay?

Increased Take-Home Pay

Save on tax and NICs while maintaining the same pension contribution.

Simplified Tax Relief

Higher and additional rate taxpayers receive tax relief automatically without claiming from HMRC.

Protected Benefits

Other salary-related benefits remain based on your notional (pre-exchange) salary.

Flexible Participation

Option to step out if your circumstances change or SMART Pay isn't right for you.