

# SMART

## 'Save Money and Reduce Tax'

As a member of the Leonardo Electronics Pension Scheme you have two ways of making contributions to the Scheme:

- via deduction from your pensionable pay; or
- via salary sacrifice. This option is known as SMART, which stands for 'Save Money and Reduce Tax'.

This Guide explains how SMART works. If you have any questions after reading this booklet, please get in touch with XPS. Their contact details are given at the back of this document.

Most employees will be better off as a result of paying their contributions through SMART however a small number of members may not benefit or may be worse off. Please read the Questions & Answers section for further information.

Please understand that, by law, XPS cannot give you financial advice. If you want help in deciding whether SMART benefits you, please consider talking to an Independent Financial Adviser.

### **How SMART works**

SMART is a way of contributing towards your pension benefits which reduces the amount of National Insurance that you and the Company have to pay. It can increase your take-home pay, and it saves the Company money. Participating in SMART involves a change to your terms and conditions of employment.

Here is how it works.

- You don't make your pension contributions.
- Instead your salary goes down by an amount equal to your pension contributions.
- The Company pays an amount equal to your pension contributions directly into the Scheme.
- As a result of this, you and the Company pay no National Insurance on your contributions. Your take-home pay may be higher, and the Company also saves money.

Your salary before the SMART deduction is made is known as your 'reference salary'. The Company uses your reference salary to work out your Scheme pension, other Company benefits (including bonuses, overtime, shift premium and maternity pay) and for any salary reviews.

## Questions and Answers

### How much will I save through SMART?

The amount you save depends upon how much you earn. If you earn more than the Government's upper earnings limit (which is £50,284 for the 2021/22 tax year), the savings tend to be lower as the rate of National Insurance is lower for earnings above this level.

Please visit the net pay calculator on the Leonardo Electronics Pension Scheme website, <http://www.lepensions.co.uk>, which will enable you to enter your earnings and will show you how much you may save by participating in SMART.

Please note that all the amounts quoted on the modeller are **estimates** only using the 2021/22 tax year figures. These may change in the future if pension, tax or National Insurance laws change.

### I'm not paying my contributions through SMART – how can I join?

You are able to opt in to SMART at any time. This also applies if you are in SMART and wish to opt out.

If you wish to opt in to or out of SMART you should contact XPS for the necessary form. You must give up to one month's notice for payroll deadlines.

### Is Leonardo the only company doing this?

No, many other large organisations allow their employees to make pension contributions through similar arrangements, delivering savings to their employees and the business.

### How long will SMART last?

The Company intends to operate SMART as long as the savings on National Insurance continue to be available. However, if the rules on tax or National Insurance change, or there is some other reason that prevents the Company from continuing with the arrangement, it will stop.

If this happens, you will go back to paying pension contributions out of your salary. Your take-home pay may go down because you are no longer making savings on National Insurance. You will not have to pay back any of the savings you made while SMART was operating.

### **Does SMART affect my tax position?**

No. Your pension contributions are free of tax. The reduction in your gross taxable pay is equal to the pension contributions you would have made. SMART only affects National Insurance contributions.

### **Are voluntary contributions included in SMART?**

Yes since 1 July 2013 both Additional Voluntary Contributions (AVCs) and Selected Benefits Scheme (SBS) contributions are included in SMART.

### **Can I pay my Scheme contributions through SMART and my voluntary contributions by salary deduction?**

No. The salary sacrifice applies to all types of pension contribution. So if you participate in SMART for your main contributions, you will also participate for any voluntary contributions.

However, if you elect to pay voluntary contributions and these additional contributions would result in your post salary sacrifice earnings being lower than the National Living Wage, your AVCs/SBS will be paid by salary deduction (i.e. not paid through SMART) but your core contributions will continue to be paid through SMART (provided this does not take you below the National Living Wage).

### **Will my pension reduce?**

No. Your pensionable salary is not affected by SMART so your benefits remain the same. Benefits that are linked to contributions paid will be calculated as if you had not participated in SMART.

### **Does SMART affect my other benefits from Leonardo?**

It does not affect the following benefits: pension; overtime; bonuses; salary supplements; shift premium; holiday pay; sick pay; maternity pay, adoption pay and paternity pay. This is because benefits are based on your reference salary – which is your salary before SMART. Salary reviews are also based on reference salary.

### **Does SMART affect the amount of mortgage I can apply for?**

For any mortgage or other loan references that we provide, we will disclose your reference salary.

### **What happens if my salary goes below the National Living Wage?**

The payroll system will automatically take you out of SMART if your salary after sacrificing your pension contributions would be less than the National Living Wage – which amounts to £17,142.84 per annum (from April 2021) for this purpose. If your salary then increases above the National Living Wage the payroll system will put you back into SMART.

If your core contributions (including any Buy Up contributions) to the Scheme do not take your post Salary Sacrifice salary below the National Living Wage, but you elect to pay AVCs /SBS which would take your post Salary Sacrifice salary below the National Living Wage, your AVCs/SBS would be taken out of SMART by the payroll administrator.

### **Does SMART affect my State benefits?**

Your National Insurance contributions count towards State benefits, so it is possible that participation in SMART could affect some of these benefits. This generally depends on the amount you earn.

The following State benefits are based on the amount of National Insurance you have paid:

- Basic State pension
- Statutory sick pay
- Incapacity benefit
- Jobseeker's allowance

Your entitlement to these benefits will not change as long as you earn more each year than the Lower Earnings Limit before SMART (£6,240 a year for the 2021/22 tax year). If your earnings are currently below this figure, it is possible that SMART could affect your entitlement to some State benefits. Please note however that as set out above, if your salary would be less than the National Living Wage payroll will automatically take you out of SMART.

Some employees may receive other benefits such as income support and housing benefit. These benefits are typically means tested and assessed on your overall financial position. You may need to consider whether the increase in net pay that arises as a result of participation in SMART would impact on the level of these benefits.

SMART does not affect any income tax credits you may receive.

SMART could reduce the amount of statutory entitlement to maternity, paternity and adoption payments. However, Leonardo ensures that employees are no worse off by adjusting the amount paid by the Company.

Members should also consider the effect on other State benefits. For example, Working Tax Credits and Child Tax Credits may increase due to the reduction in an employee's taxable earnings, thus increasing the overall net saving. The overall impact for each employee is highly dependent on individual circumstances.

### **Does SMART affect the State pension?**

Your State pension is linked to the number of years of National Insurance you have paid. SMART would then only affect your State pension if it meant that your pay reduced below the threshold for National Insurance.

## **Can I still make SMART savings if I leave the Scheme and make my own pension arrangements?**

No. For Leonardo employees SMART is only available if you are a member of the Leonardo Electronics Pension Scheme (or Leonardo FuturePlanner).

### **Any more questions?**

If you have any questions about SMART or your benefits that are not answered here, please get in touch with XPS either by:

- Calling **0117 440 2491**; or
- Emailing **LEPS@xpsgroup.com**

Please understand that XPS cannot give you financial advice. If you are unsure about whether SMART is beneficial to you, you may want to consider consulting an Independent Financial Adviser (IFA). An organisation called IFA Promotion can provide contact details for IFAs in your area – you can visit their website at [www.unbiased.co.uk](http://www.unbiased.co.uk).

#### **Disclaimer**

The purpose of this guide is to provide you with information about SMART and is not financial advice. Illustrations are indicative of savings you may make. The actual amounts may vary from those shown depending on your circumstances. The rules of the Scheme govern how the Trustee must act and if the rules are inconsistent with the information in this guide, the rules will prevail.