SMART DC Pensions could mean more money in your pay

SMART Pension

What is this booklet all about?

The Company has been looking into making our Defined Contribution (DC) Pension scheme more tax efficient.

Both the Trustees of our pension scheme and the Company introduced SMART Pension (SMART) for the DC scheme with effect from 1 February 2013. .

SMART will result in employees and the Company paying lower National Insurance Contributions (NIC). All eligible participating employees will receive higher take home pay.

This booklet gives you answers to a whole range of questions, which will inform you about SMART. Since most employees in the DC pension scheme will be better off as a result of SMART we assume you'll want to take part.

SMART is designed so that the majority of employees will see a benefit. However, there are a small number of employees who may potentially be worse off. We recommend that you read this booklet, which explains in more detail who may not benefit from SMART.

If you don't want to participate in SMART please read the 'What do I need to do now?' section of this booklet and complete and return the Opt-Out Form to the H.R. Department.

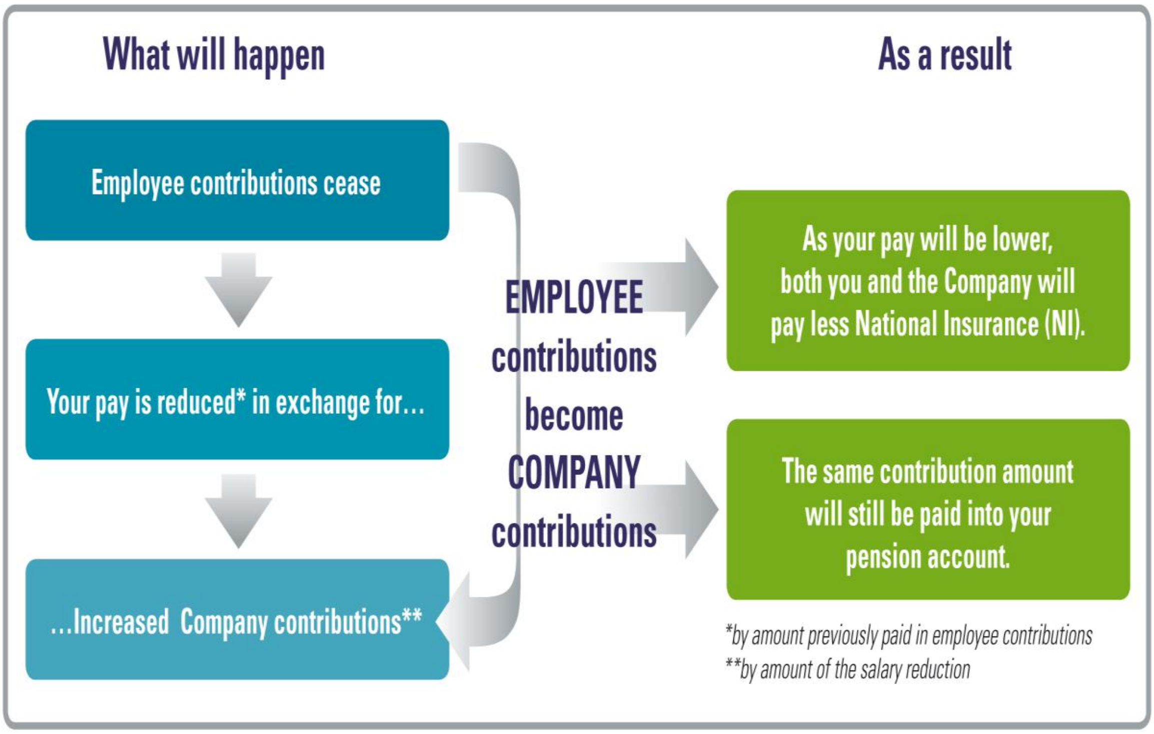
Please note that, by participating, you will be agreeing to a change in your terms and conditions of employment.

What is SMART?

SMART is simply a more efficient way of paying contributions to the existing DC 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, the overall amount of money going into your pension scheme does not decrease, it stays exactly the same.

It works like this; currently both you and the company pay NI contributions on your total salary, including the part you pay into the pension scheme. SMART will reduce these NI contributions and the diagram below shows how this process will work.

<u>The SMART approach to investing in your company pension</u>



1. You stop making your normal pension contribution into your pension scheme.

2. Your 'Contractual Pay' will then be reduced by an amount equal to your pre-SMART contribution. This will result in lower NI payments, which will increase your take home pay. The company will also pay less NI.

3. The company will pay an additional amount into your pension scheme. That additional amount will be exactly the same as the amount of money that you have stopped paying in pension contributions.

Your salary before the SMART reduction will become your ‘Reference Salary’. Your Reference Salary will be used to determine other salary related benefits such as bonuses, overtime, shift payments and pension scheme contributions. The value of these benefits will therefore remain unaffected by SMART.

Who can’t benefit from SMART?

There are a few employees who will be ineligible to participate in SMART including:

1. Any employees whose hourly rate would fall below the National Minimum Wage as a result of the salary sacrificed under SMART.

2. Employees whose annual gross rate of pay is less than £13,000 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. Anyone who does not pay National Insurance (for example those who have reached State Pension Age).

Those employees currently ineligible under these categories will be notified separately.

If you are in one of these categories, and would like to discuss your situation further, please contact the HR team on 01292 672947 for more information.

How much am I going to save?

The amount of extra money you will take home depends on your personal circumstances.

How much will Spirit save?

The actual saving will depend on the number of employees who participate in SMART.

What will Spirit do with the saving it makes?

The Employer N.I Savings will be used to reduce the overall taxable position of the company. E.g. savings used to reduce the amount of National Insurance Contributions paid by the company.

What do I need to do now to save money through SMART and help support my pension scheme?

If you would like to participate in SMART you do not need to take further action, as you will be included automatically if eligible.

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

If you decide to opt out of SMART please complete the Opt Out Form that is contained in your pension documentation and return to Linda Milroy, H.R. Department.

When will the changes start?

The changes to your pay will start from your first pay period after you commence employment.

What if I change my mind in future?

I wish to Opt-Out of Smart DC:

You should contact Linda Milroy, H.R. Department and request an Opt-Out Form. Complete it and return it to the H.R at your earliest convenience. HR will then liaise with the appropriate stakeholders and process your Opt Out.

I wish to Opt In to Smart DC

You should contact the H.R. Department and put your request in writing. H.R. will then liaise with the appropriate stakeholders and advise you the effective date you will become a Smart DC member.

Where can I get more information about SMART?

If your question is not answered in this booklet then you can contact a member of the H.R. Department or the pension administrators. – Jim Hodge (Mercer) contact number 0141 222 8499

IN SUMMARY....

SMART is a way of putting more money in your pocket by making savings on NI contributions.

SMART– Questions and Answers

Here are some commonly asked questions.

1. *Will SMART affect my income tax position?*

   No there will be no change. SMART only affect NI payments, income tax will remain unaffected.

2. *Will SMART affect any other Spirit AeroSystems benefits I receive?*

   SMART will not reduce any other salary-related payments or any other benefits you receive directly from Spirit.

   Pension scheme contributions, overtime, shift premium and discretionary redundancy severance payments will 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.

   The 'Reference Salary' will be used for mortgage reference letters, and therefore should not impact the amount of any mortgage you take out, or your credit rating.

3. *Will Additional Voluntary Contributions (AVC's) be included in SMART?*

   No, only your core contributions will be included and AVC's will continue to be made as a payroll deduction.

4. *Does the implication of SMART constitute a change to my terms and conditions of employment?*

   Yes, SMART represents a change to the terms and conditions of your employment. By participating in SMART, you are agreeing to a reduction in your contractual salary for an equivalent increase in employer pension contribution. This will be implemented automatically unless you decide to opt out of SMART.

This approach has been adopted in other large companies and is likely to assist in increasing participation levels

6 *How long will SMART 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 Spirit to operate this arrangement, Spirit reserves the right to withdraw SMART.

7 *Will my payslip change?*

Not in format but in terms of content the gross column will include an adjustment in respect of ‘SMART Pension’.

8 *Can I opt in or out of SMART at any time?*

See answer to “what if I change my mind”

9 *Will SMART impact the income tax credits I get from the state?*

No, SMART will not affect any income tax credits that you may receive.

10 *Will SMART impact any pension I am entitled to from the State?*

The state offers two levels of pension to employees.

Basic State Pension (BSP) – SMART will not affect the basic state pension.

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.

The Company’s advisers have undertaken calculations and all eligible members are shown to save more in NI savings than lose value of S2P and hence benefit from SMART. However, that is based on certain assumptions and if receiving more S2P is more important to you than receiving a higher take home pay, you should consider opting out of SMART.

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