

### SMART PENSIONS - A DIFFERENT APPROACH TO SALARY SACRIFICE

If you operate a pension scheme but have fought shy of the complications of salary sacrifice, a Smart scheme might make you think again. It's designed for schemes already in place and can generate cost savings for both employees and the employer.

#### HOW IT WORKS

1. Employees stop making pension contributions from salary.
2. Instead, the employer makes the same contribution (be it a specific amount or a percentage of salary).
3. The employee's salary is reduced by the same amount or percentage of salary.
4. The salary reduction means that less NICs are paid, resulting in more take-home pay.
5. The salary reduction also means less NICs are paid by the employer, resulting in lower scheme costs.

#### SO WHAT'S NEW?

If you've already contemplated salary sacrifice, you might think this is nothing new. So far, you're right. But the difference lies in the implementation of Smart schemes.

First, each member is informed in writing about the new process and are told the changes to a Smart scheme will go ahead automatically unless they elect to opt out. If they do not opt out in advance, they cannot opt out again until the first anniversary of the scheme starting unless they experience a "lifestyle change" (marriage, birth of a child, separation or divorce, death of a partner or child, or a change from full-time to part-time work).

Second, automatic enrolment in the arrangements brings about a change to the terms and conditions of employment. Crucially, however, the change does not require the employee to sign a document to signify their acceptance of the changes. According to the HMRC this is because...*"the scheme is clearly intended to vary the terms and conditions of all employees except those who opt out. The fact that those employees who do not opt out accept payment of the reduced salary without objection means that they have accepted the variation to their contract by their conduct"*.

#### THE "BASE SALARY" AS A YARDSTICK

The previous gross salary can still be used for other pay and benefits, such as overtime, bonuses, salary increases and life assurance. So long as the terms and conditions have been varied (as outlined above) the employee cannot sue for payment of the original level of salary. However, it is important to note that salary sacrifice involves a genuine reduction in salary. As a result transactions that are based on salaries, such as mortgages or personal loans and benefits including incapacity benefit, jobseekers allowance, statutory sick pay and state pensions may be affected.

#### AND FINALLY...

We find that a number of employers decline the savings possible through salary sacrifice because of the bureaucracy involved in changing contracts. Others struggle to implement salary sacrifice because employees fail to return the signed sacrifice letters. But operating a Smart scheme can get round these issues, simplifying the administration. And this approach could be adopted by new schemes too.



If you have any questions  
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