SMART...

Savings for employees and the company

Please read this booklet carefully as it contains important information

Contents

This booklet provides information about SMART – an alternative way of paying pension contributions. SMART is designed to save you and the company money without affecting your pension benefits. However, if you are unsure about whether or not you should participate, you should seek your own independent financial advice.

SMART is simply a different way of paying pension contributions into your existing pension scheme. The arrangement is designed to increase take-home pay and reduce Network Rail payroll costs.

Network Rail intends to operate SMART indefinitely. However, if pension or other laws change, or if for some other reason it is no longer viable for the company to operate SMART, Network Rail will terminate this arrangement. You would change back to paying pension contributions in the normal way, and your contractual pay would revert to what it was before SMART was introduced (including any increases from pay reviews).

What is SMART?

A National Insurance efficient way to pay pension contributions

Network Rail introduced SMART as a different way of paying pension contributions in the 2010/2011 tax year. SMART increased the take-home pay of employees who used to pay contributions into their company pension scheme, by reducing the amount of **National Insurance Contributions (NICs)** payable, without affecting pension scheme benefits.

All new employees are automatically entered into SMART so they can benefit from saving on their **NICs** from day one of their employment with Network Rail, provided they join one of the company's pension schemes (and in the case of the Network Rail Defined Contribution Pension Scheme (NRDC), provided they have not chosen to pay zero contributions).

Once you're in SMART you do not have to do anything to continue to benefit from the saving in **NICs**. However, there are a few employees who do not gain from SMART and some who cannot participate and they are automatically opted-out (see page 10).

***RPS65* – Participation in the SMART arrangement is a condition of entry into the Network Rail Section of the Railways Pension Scheme on RPS65 terms. However, Network Rail will automatically opt-out of SMART anyone who may be adversely affected.**

SMART FACTS

- SMART does not affect your pension scheme membership or benefits.
- SMART changes the way your pension is paid for, and saves on **NICs**. That means your take-home pay is increased and Network Rail makes savings too.
- It is recognised by Her Majesty's Revenue and Customs (**HMRC**).
- Participating in SMART counts as a technical change to your terms and conditions of employment because you are giving up some of your contractual pay but in exchange you aren't required to pay pension contributions – the company pays these for you.
- SMART does not affect any other salary-related payments or benefits you receive from Network Rail such as salary increases, overtime payments and pension scheme life assurance. These will be based on your '**headline pay**' – your basic pay before SMART is applied.
- SMART is designed to benefit the majority of employees; if you are unable to participate, even temporarily, your pay returns to what it was before SMART was introduced (including pay awards) and you resume paying normal pension contributions.

A Jargon Buster explaining SMART terms is available on page 12.

Please read on to find out more about SMART and what it means for you.

How will I see SMART savings on my payslip?

Since SMART was introduced, your payslip has referred to a 'SMART reduction' to reflect the reduction in your contractual pay and therefore the earnings you have to pay NICs on.

Network Rail pays the whole of the SMART reduction into your pension scheme as an additional employer contribution. The reduction in your contractual pay is a change to your terms and conditions of employment.

Below is an example of how an NRDC pension scheme member's payslip looks before and after participation in SMART; this member has chosen to pay 4% regular contributions.

The result? Your take-home pay goes up because you pay less NICs, while the same amount of money goes into your pension scheme.

Note: *Although your contractual pay is reduced, a '**headline pay**' figure (i.e. before taking account of adjustment for SMART) will be maintained for all other employee benefit purposes.*

Your normal pension deduction

COST CENTRE	XXXXX	CONTRACT HOURS	35	ANNUAL HEADLINE PAY	£20,000

PAYMENTS	UNITS	HRLY RATE	RATE	£
HEADLINE PAY			1.00	1538.46

DEDUCTIONS	£
NRDC PEN	61.54
TAX	150.00
NI A	112.97
SEASON TKT	24.63

EARNINGS & CONTRIBUTIONS £	This Payslip	YTD
TAXABLE PAY	XXX	XXX
TAX PAID	150.00	XXX
NI PAY	XXX	XXX
NI EE	112.97	XXX
NI ER	130.61	XXX
PENSIONABLE PAY	1,538.46	XXX
PENSION ER	107.69	XXX
PENSION EE	61.54	XXX
BRASS		0.00
AVC		0.00
PREVIOUS EMPLOYMENT FIGURES		
TAXABLE PAY		0.00
TAX PAID		0.00

GROSS PAY	£1,538.46	DEDUCTIONS	£349.14	NET PAY	£1189.32

Your total pension contribution

Your SMART reduction is the same as your old pension deduction

Exactly the same money goes into your pension*. £61.54 + £107.69 = £169.23

COST CENTRE	XXXXX	CONTRACT HOURS	35	ANNUAL HEADLINE PAY	£20,000

PAYMENTS	UNITS	HRLY RATE	RATE	£
HEADLINE PAY			1.00	1538.46
SMART REDUCTION				61.54
GROSS PAY				£1,476.92

DEDUCTIONS	£
TAX	150.00
NI PAID	105.59
SEASON TKT	24.63
DEDUCTIONS	£280.22

EARNINGS & CONTRIBUTIONS	This Payslip	YTD
TAXABLE PAY	XXX	XXX
TAX PAID	150.00	XXX
NI PAY	XXX	XXX
NI EE	105.59	XXX
NI ER	122.12	XXX
PENSIONABLE PAY	1,538.46	XXX
PENSION ER	169.23	XXX
PENSION EE	0.00	XXX
BRASS		0.00
AVC		0.00
PREVIOUS EMPLOYMENT FIGURES		
TAXABLE PAY		0.00
TAX PAID		0.00
NET PAY		£1196.70

Your net pay goes up

These payslips are for illustration purposes only

** Network Rail is unable to display RPS60 values today because of the way it is collected*

What do I gain from SMART?

In the examples below you can see SMART savings for people with different salaries across the different Network Rail pension schemes:

Note: *These examples show annual NIC savings for employees in SMART for tax year 2013/2014. They are based on the current contribution rates for RPS60, RPS65 and the CARE Scheme (as at 1 April 2013), and the maximum 'normal' contribution for the NRDC Scheme.*

Pension Scheme/assumed contribution rate:		*Railway Pension Scheme*				*CARE (7.2%)*		*NRDC (4%)*	
		RPS60 (9.36%)		*RPS65 (7%)*					
Example member	Pensionable salary	Annual **NICs** savings							
		You	Network Rail	You	Network Rail	You	Network Rail	You	Network Rail
Helen	£15,000	£77	£75	£133	£131	£115	£112	£72	£83
Darren	£20,000	£119	£116	£119	£117	£153	£150	£96	£110
Robert	£30,000	£184	£181	£193	£190	£229	£225	£144	£166
Kiran	£41,500	£373	£399	£284	£312	£333	£360	£195	£229
Jim*	£50,000	£60	£412	£64	£444	£72	£497	£40	£276

The* **NIC *savings are different at different rates of pay, and also depending on which pension scheme you are a member of. This is because the rate of* **NICs** *that you pay depends on how much you earn. For earnings above the* **Upper Earnings Limit** *(UEL) – £41,444 for tax year commencing 6 April 2013 – the employee* **NICs** *rate will be 2%. If this rate increases in the future, your saving will go up. It's worth noting that SMART doesn't affect the amount of Income Tax you pay – only* **NICs.**

It's your choice

- If you opted-out previously but now want to benefit from the SMART arrangement you need to complete an opt-in form and send it to payroll by email or post.
- If you are already in SMART but for some reason you do not wish to continue to benefit from saving on your **NICs** you can choose to opt-out of SMART.

SMART forms are available from HR Shared Services.
Call 0161 880 1100 (internal 085 51100)
or email: PayrollHelpdesk@networkrail.co.uk

RPS65 – members do not have the option to opt-out of the SMART arrangement voluntarily. However, Network Rail will take an RPS65 member out of SMART in the limited circumstances of that member being adversely affected.

Absence and SMART

The following table provides a summary of what happens to your SMART status if you are away from the business on various types of leave:

<table>
<tr><th>Type of leave</th><th>Opted-out of SMART?</th><th>Re-entry to SMART?</th></tr>
<tr><td>Maternity Leave</td><td>You will be opted-out of SMART from the start of your maternity leave. You will receive maternity pay (inclusive of Statutory Maternity Pay (SMP)) which will be calculated by reference to your headline pay. While you are opted-out of SMART you will pay pension contributions in the normal way.</td><td rowspan="3">You will be automatically re-entered into SMART when you return to work normally. The exceptions to this are:
• If you have completed a SMART opt-out form
• Your salary is below the Pay Protection Limit of £6,900 per annum for 2013/2014 tax year (see Jargon Buster on page 12)</td></tr>
<tr><td>Adoption Leave and Paternity Leave</td><td>You will remain in SMART while you receive Occupational Adoption Pay or Occupational Paternity Pay. However, if you only receive Statutory Adoption Pay (SAP) or Statutory Paternity Pay (SPP) or Additional Paternity Pay (APP) you will be opted-out of SMART and pay your pension contributions in the normal way.</td></tr>
<tr><td>Unpaid Leave</td><td>There are different types of unpaid leave. However, as you will not be receiving any pay, you will not be able to take part in SMART and you will be opted-out.</td></tr>
<tr><td>Sickness Absence</td><td>You will remain in SMART while you receive Occupational Sick Pay. If you only receive Statutory Sick Pay (SSP) you will be opted-out of SMART and pay your pension contributions in the normal way.</td><td>Once you return to work, you will be re-entered into SMART from the start of the next period after you have completed 12 full working weeks.</td></tr>
</table>

Note: *Any pension contribution arrears you may be required to pay, as a result of your period of absence during which you were not participating in SMART, will be deducted as normal contributions and not through SMART – even if you are in SMART.*

Questions about State benefits

Entitlement to some State benefits – such as contribution-based Jobseeker's Allowance, Employment and Support Allowance (formerly Incapacity Benefit) and Bereavement Payment/ Allowance – is based on the amount of **National Insurance Contributions** that you have paid. If you earn more than the **Primary Threshold** (£7,748 for 2013/2014 tax year) on a regular basis your entitlement to these State benefits will not change under current State benefit rules. However, if SMART causes your contractual pay to fall below the **Primary Threshold** your entitlement to some benefits may be reduced.

If you are working fewer than 16 hours a week and are claiming Job Seeker's Allowance (part of the Universal Credit from October 2013), the reduction in your **NICs** may have an impact on the amount of your entitlement to this State benefit. You will need to decide whether this is an issue for you and whether or not you want to participate in SMART.

Tax credits

Participating in SMART will not affect your entitlements to Working Tax Credit or Child Tax Credit (both part of the Universal Credit from October 2013). These benefits are based on taxable pay and your taxable pay figure is not affected by SMART. For more information, contact the government's Tax Credits helpline on **0845 300 3900** or visit **www.gov.uk**

You can opt-in or opt-out of SMART by completing the relevant form available from HR Shared Services: Call 0161 880 1100
(internal 085 51100)
or email: PayrollHelpdesk@networkrail.co.uk

REMEMBER: SMART is designed so that most employees in the three Network Rail pension schemes will benefit and see an increase in their take-home pay.

Questions about State Pension benefits

Basic State Pension (BSP)

SMART will not affect the BSP for anyone earning more than the **Lower Earnings Limit** (LEL) each year as Network Rail operates a **Pay Protection Limit** (£6,900 in the 2013/2014 tax year) which is greater than the LEL and you will be automatically opted-out of SMART if your salary falls below this level.

State Second Pension (S2P)

S2P is the Additional State Pension (which replaced SERPS in 2002). It provides a pension in excess of the basic State Pension. The amount payable will depend on your pay and **NICs** in each year of your working life.

***For more information about State Pensions go to* www.gov.uk**

Railways Pension Scheme (RPS60 or RPS65 terms) and the Network Rail CARE Pension Scheme

Members of these schemes are generally not entitled to **S2P** as they are 'contracted-out' of **S2P** and they pay a reduced amount of **NICs**. However, you may be entitled to a reduced **S2P** if you have previously worked and been contracted-in to **S2P**.

As the RPS and CARE pension schemes are contracted-out of **S2P**, whether you are in SMART is unlikely to impact on any State Pensions.

Network Rail Defined Contribution Pension Scheme (NRDC)

This scheme provides pension benefits in addition to **S2P**. Therefore, there could be a small impact on any future **S2P** benefit in certain circumstances:

- If you earn less than £15,000 or more than £40,040 (for tax year 2013/2014) a year, taking part in SMART will not affect your **S2P.**
- If you earn between £15,000 and £40,040 (for tax year 2013/2014), there may be a small reduction to your **S2P** when you retire, because of your reduced **NIC**s. You will need to decide whether this is an issue for you and whether you wish to participate in SMART.

In future, expected to be April 2016, BSP and S2P are being replaced with a single-tier pension that will be paid to people retiring after that date. Entitlement will still be dependent on your National Insurance Contributions record.

As part of the same proposals, contracting-out is being abolished too. SMART is expected to work in the same way as it does now, but the NI saving will change as your rate of NICs will increase if you are an RPS or CARE member.

You can read more about the proposed changes on www.gov.uk

Who can't take part in SMART?

SMART has been designed so that the vast majority of members of the three Network Rail pension schemes will benefit and see an increase in their take-home pay. However, there are some people who will see no impact and others who may not benefit.

Those who cannot participate in SMART

- Members earning less than the **Pay Protection Limit** in a pay period (see Jargon Buster on page 12).
- Members whose earnings would fall below the National Minimum Wage (NMW) after SMART.
- Members who, at any time, are absent due to statutory leave and/or are receiving statutory payments only (e.g. maternity, sickness, adoption and paternity). Such members will be re-entered into SMART when they are eligible (see page 7).
- Employees not in a Network Rail pension scheme.

Members who may not gain, or will not gain as much as others

- Members of the Network Rail Defined Contribution Pension Scheme (NRDC) who choose 0% contributions. If you are required to pay minimum contributions (under the auto-enrolment requirements) or increase your normal contribution, you will participate in SMART and benefit immediately (provided you have not completed an opt-out form).
- Members of the Network Rail Section of the Railways Pension Scheme who have reached 40 years' pensionable service and do not pay normal pension contributions.
- Members paying married women's reduced rate **NICs** will see a smaller saving in their **NICs** but there should still be some saving.
- Members who are over State Pension Age (SPA) no longer have to pay **NICs** and so will make no saving under SMART. However, the company will still make a saving as employer **NICs** continue to be payable after SPA.

If you are in any of these groups you were included in SMART automatically from its commencement, or your date of employment (whichever is later) unless you've opted-out.

Members who may lose out

- Members who work fewer than 16 hours a week and are claiming Job Seekers' Allowance may find that this allowance is affected by SMART. You will need to decide whether this is an issue for you and whether or not you wish to participate in SMART. If you are in this category you will be included in SMART automatically unless you opt-out.

Members who cannot, or decide not to take part in SMART (with the exception of members on RPS65 terms) will remain in their Network Rail pension scheme and their contributions will continue in the normal way.

Please note: *that if you fall into one of the categories that cannot participate, you will be contacted individually. If you subsequently become eligible to participate in SMART you will be notified directly and entered from the next available pay period. In all situations you will not be entered into SMART when you become eligible if you have previously completed an opt-out form.*

Jargon Buster

Primary Threshold

The point at which employees begin to pay **National Insurance Contributions** – £7,748 in the 2013/2014 tax year.

Headline pay

Your basic salary (excluding allowances such as overtime and shift pay) before the reduction for SMART. Previously know as 'basic pay'.

HMRC

Her Majesty's Revenue and Customs, formerly called the Inland Revenue.

Lower Earnings Limit (LEL)

The minimum amount of earnings to accrue State Pension benefits – £5,668 in the 2013/2014 tax year.

National Insurance Contributions (NICs)

The payment of Class 1 National Insurance by employees gives entitlement to a range of contributory State benefits, subject to meeting the qualifying conditions: Jobseekers' Allowance, Employment and Support Allowance, Maternity Benefit, State Pensions, and Bereavement Benefits. Employers pay Class 1A National Insurance.

Pay Protection Limit (PPL)

Network Rail set this to minimise the impact of SMART on low earners to reduce the risk of affecting entitlement to certain State benefits (statutory sick pay and the basic State Pension). The PPL is 120% of the annual **Lower Earnings Limit** (see above) rounded up to the next £100. The PPL is £6,900 for the 2013/2014 tax year.

Pensionable salary

The salary used as a basis to calculate pension contributions due, and for the RPS and CARE schemes the benefits payable at retirement. The definition for each of Network Rail's pension schemes can be found in the scheme's 'Member's Guide' Booklet. Your **pensionable salary** is your '**headline pay**' plus London or South East Allowance (if applicable).

Upper Earnings Limit (UEL)

The ceiling for the main **National Insurance Contributions** rate (variable depending on whether you are contracted-in or contracted-out). Earnings above the UEL (£41,444 for the 2013/2014 tax year) are subject to **NICs** at a lower rate (2%).

If you have a question about pensions contact the Network Rail Pensions Team on 01908 781010 (internal 085 21010) or visit **myNRpension.co.uk**