Smart Pensions – Frequently Asked Questions

This document provides answers to the questions you may have regarding Smart Pensions.

- **Section A** provides a Key Facts summary.
- **Section B** provides more detailed information.
- **Appendix 1** is a National Insurance savings 'Ready Reckoner' which shows the potential savings available through Salary Exchange and the value of the additional Company contribution for a range of salaries and contribution levels.

Section A. SMART Pensions – Key facts

A1: How it works

- Under SMART Pensions your contractual pay is reduced by the same percentage as the pension contributions you pay to the Plan. Pensionable Salary is defined as your Gross Pay.
- For example, if you pay 6% of your Pensionable Salary into the Plan, your Contractual Pay would be reduced by this percentage.
- As your Contractual Pay has reduced both you and PayPal will pay less National Insurance (NI).
- PayPal increases its own contributions to your Plan by the amount your contractual pay has reduced (in effect you "exchange" some of your pay for an additional employer pension contribution).
- If you are a Higher Rate Tax Payer, you will also automatically receive full tax relief through your pay (at present you only receive 20% tax relief through payroll, and have to claim back any additional relief, usually through the Self-Assessment process).

See Sections B1-B2 for further information.

A2: Are my other PayPal Benefits affected?

No, all other PayPal benefits are based on your Notional Pay (i.e. your pre Salary Exchange salary).

See Sections B13-B14 for further information.

A3: How much will I save?

- In the 2020/21 tax year you will save 12% on any reduction if your earnings are between £8,840 and £50,270. You will save 2% on any reduction over c.£50,270.
- Your annual saving will depend on your gross salary level and the total amount of contributions you choose to pay.
- Please see the NI savings Ready Reckoner in Appendix 1 to give you an idea of the NI savings you could make, based on a range of contribution rates and salaries.

See Section B3 and Appendix 1 for further information.

A4: How much can I contribute?

You will be able to contribute your full contribution via SMART Pensions, as long as this doesn't reduce your earnings under the National Living Wage (or National Minimum Wage if you are under 25). Nor can you reduce your earnings to less than the HMRC Lower Earnings Limit (£6,240 in 2020/21). This is to make sure that your entitlement to state benefits (such as statutory sick pay and job-seekers allowance) is not affected.

- PayPal will continue to use a matching contribution structure up to 9% employer contribution, as it does currently.

See Sections B4-B8 for further information.

A5: What if I am not currently a member of the pension plan?

- If you are not currently a member of the Plan you may be automatically enrolled (under UK legislation) assuming you meet the eligibility criteria (further communications on this will follow if you are impacted).
- You will be enrolled with SMART Pensions being the default contribution method (although SMART Pensions is voluntary and you can opt out if you choose to do so). If you wish to join the Plan prior to being auto-enrolled you should complete and return a Pension Application Form.

A6: What is the impact on my State Pension Benefits?

- Your Basic State Pension will not be affected by contributing through SMART Pensions.

See Section B9-B11 for further information.

A7: How often can I change my level of contributions through SMART Pensions?

- You will be able to voluntarily stop, start, increase or decrease the amount of your contribution through SMART Pensions on a monthly basis (you should give 30 days' notice of your intention and changes will be made at the next available payroll opportunity).

A8: How do I join or withdraw from Smart Pensions?

- You won't need to do anything to contribute via SMART Pensions as this is the default approach for current members and future joiners. However, if you decide you do not want to contribute via SMART Pensions (also known as Salary Exchange), you should complete and return a SMART Pensions Opt Out form.

Section B. SMART Pensions – Further detail

B1: How does the SMART Pensions work?

- The conventional way of paying pension contributions into a Group Personal Pension Plan is for an employer to pay your salary (less Income Tax and NI contributions) and then make a pension contribution from your net pay, into your pension plan. Whilst tax relief is given on the contribution, there is no relief from the NI Contributions you and the Company have already paid.
- This means that your NI contributions will be less than normal, quite simply because you will no longer pay NI on the pension contributions you pay through Salary Exchange.
- PayPal will automatically reduce your Contractual Salary by an amount equal to your contribution. PayPal will then increase its own contributions to the Plan by the amount of salary you've given up and pay it directly into the Plan along with its normal contribution.

B2: Why is the Company operating SMART Pensions?

- To take advantage of NI savings available to both you and PayPal and enhancing your overall pension contribution and to help you to obtain Higher Rate Tax Relief (if applicable) on your personal contributions more easily.

B3: How much will I save?

- The potential increase to your take-home pay is based on the amount of your pension contribution and corresponding NI saving which also depends on the rates of NI you pay.
- The rate of NI you pay will depend on the total amount you earn, (i.e. basic pay plus any additional payments).
- You will save 12% on any reduction on your earnings where these are between £8,840 and £50,270 and 2% of any reduction if your earnings are above £50,270 (2020/2021 figures). In both cases, these earnings figures apply after the Salary Exchange reduction has been made.

Please see the National Insurance savings "Ready Reckoner" in Appendix 1 which includes multiple examples to give you an idea of the NI savings you could make.

Contribution levels and limits

B4: How much can I contribute?

- You will be able to contribute your total employee contribution through SMART Pensions, as long as this doesn't reduce your taxable earnings to less than the National Living Wage (National Minimum Wage if you are under 25) or the Lower Earnings Limit.

- Pension contributions (including the Company's contributions) are subject to an overall Annual Allowance of £40,000* (for the tax year 2020/21). Contributions in excess of this figure can still be paid but members will pay tax on the excess at their highest marginal rate of tax.
- The Tapered Annual Allowance (TAA) was first introduced in April 2016 for individuals with **taxable income** over £150,000. For every £2 of income above £150,000 the AA reduced by £1 down to a minimum of £10,000. Effective 6 April 2020, the government increased the level of income earned before tapering takes effect from £150,000 to £240,000 and reduced the minimum annual allowance (AA) from £10,000 to £4,000.

B5: What if I currently receive Childcare vouchers or participate in Bike2Work?

- Childcare Vouchers and Bike2Work are currently paid for by reducing your salary, in the same way as outlined in this document, so that you benefit from personal NI and Income Tax savings. So, if you have chosen these benefits, the reduction in salary for any contributions you make into the Plan will be applied after the reduction for Childcare vouchers and Bike2Work, and the total reduction must not reduce your salary (before tax and NI are deducted) below the "Salary Protection Limit".

B6: Will I still benefit from income tax relief on my pension contributions if I contribute through SMART Pensions?

- Yes. Paying through SMART Pensions means that employees making contributions will get their full tax relief at their highest marginal rate at source. This means that regardless of your earnings level, if you make contributions:

  - There are no delays in obtaining Higher Rate Tax Relief
  - There is no risk of missing out (if you currently do not claim the additional tax relief you are entitled to)
  - You get the full amount of tax relief each month
  - You don't need to remember to claim back the tax relief above 20% from HMRC

B7: Do I need to do anything else if I am a Higher Rate taxpayer?

- New employees joining the Plan need do nothing.
- Existing employees who have been previously reclaiming their Higher Rate or Additional Rate Tax Relief, will need to contact their Tax Office to let them know that the basis of paying personal contributions has changed to the Salary Exchange method and that you are no longer paying pension contributions from your net salary. Your PAYE tax coding notice will be altered to ensure that you are no longer reclaiming this tax relief in respect of your contributions.

B8: What if I want to pay additional contributions?

- Any additional contributions you pay (i.e. those contributions over and above the level that attracts Company matching contributions) will automatically continue on the SMART Pensions basis, unless you make a decision to change them.
- SMART Pensions will also automatically apply to any future changes to contributions you ask to make unless you opt out.

Impact on State benefits

B9: What is the impact on Maternity Pay or other paid Leave?

- You will continue to participate in SMART Pensions during any paid Leave periods
- If you qualify for Statutory Maternity Pay we will continue to make employer pension contributions while you are on maternity leave. Please contact HR for further information about pension and maternity leave. Statutory Adoption and Paternity Leave will be calculated on the same basis, as for Statutory Maternity Leave. Please contact the HR team for full details.
- During periods of short and long-term sick leave, you will continue to participate in SMART Pensions unless your actual earnings drop below the "Salary Protection Limit", (which will be the case for Statutory Sick Pay). In this case you will no longer be eligible to participate in SMART Pensions and will revert to paying contributions in the normal way, based on the standard paid leave terms.
- Further details are available from HR.

Participating in SMART Pensions

B10: Who is eligible to contribute through SMART Pensions?

You are eligible to contribute through SMART Pensions as long as:

- You are a member of the Plan and are paying contributions
- This doesn't reduce your taxable earnings to less than the National Living Wage (National Minimum Wage if you are under 25) or the Lower Earnings Limit.

B11: What if I am not eligible to pay contributions through SMART Pensions?

- If you are not eligible to pay contributions through SMART Pensions - or if during relevant paid family or other statutory leave your actual earnings fall below the "Salary Protection Limit", the amount you choose to contribute to your pension will revert to being paid as an employee contribution in the normal way and there will be no resulting NI savings.
- Your eligibility to start paying contributions through SMART Pensions will then be adjusted when your earnings are back above the "Salary Protection Limit".

Other considerations

B12: My contractual pay is reduced as a result of SMART Pensions; will this affect the amount of mortgage or loan I could receive?

- No, it shouldn't have any impact. Reference letters provided by the Company for mortgage or loan purposes will refer to your 'Notional Salary' which is your gross annual base salary before Salary Exchange.
- Lenders have historically been happy with this. Payslips will also show your salary before Salary Exchange.

B13: Will contributing through SMART Pensions affect my student loan repayments as they are based on my earnings?

- Yes. The minimum amount you are required to pay in Student Loans will be lower as it is based on your pay after the Salary Exchange reduction. Of course, if you pay-off your loan at a lower rate, you will end up paying it back over a longer period, which may result in higher interest fees. To make additional payments towards your Student Loan, you can contact the Student Loans Company to make arrangements directly.

B14: How long will SMART Pensions be an option?

- PayPal would like SMART Pensions to remain in place indefinitely. However, future tax changes or HMRC policy could impact on the feasibility of the arrangement. We reserve the right to withdraw Salary Exchange at any time, if necessary.

B15: What if I have any further questions?

- If you still have any comments or questions regarding the information included in this leaflet, please contact Employee Central.

<u>Important notes</u>

Whilst great care has been taken in preparing this document, the benefits to which you will be entitled will always be subject to the Rules of the Scottish Widows Plan, the limits and allowances set by HMRC and any tax rules in force at the time.

Please also note: we cannot provide you with individual financial advice about this change and this announcement does not do so. If you require advice, you can find details of your nearest independent financial adviser at www.unbiased.co.uk.

Paypal Plc
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Appendix 1 – Paypal Plc – National Insurance Saving 'Ready Reckoner'

Pensionable Salary Level (Annual base pay before the *salary exchange* contribution)	**£30,000**	**£50,000**	**£70,000**	**£100,000**
	Estimated value of contributions or saving per annum			
4% employee contribution (*salary exchange* reduction in pay)	**£1,200**	**£2,000**	**£2,800**	**£4,000**
Your NI saving (increase to your take-home pay per annum)	**£144**	**£240**	**£56**	**£80**
	Estimated value of contributions or saving per annum			
6% employee contribution (salary exchange reduction in pay)	**£1,800**	**£3,000**	**£4,200**	**£6,000**
Your NI saving (increase to your take-home pay per annum)	**£216**	**£60**	**£84**	**£120**