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# Salary Exchange



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What is Salary Exchange?

What is salary sacrifice?

How does Salary Exchange work?

Position now

Position from 1 November 2011

Benefits to the Individual

Benefits to the University

Key messages

Considerations

Statutory payments

How this works in reality (practical aspects)

What happens now?

Questions?

## Excellent news

Salary Exchange is a scheme that saves you and the University National Insurance Contributions (NIC) on pension contributions. It works as follows in respect of pension contributions

- The pension scheme will be non-contributory for employees
- The University increases the level of employer contributions by the equivalent of the current employee contributions. In return the employees' exchange salary equivalent to their previous pension contributions
- There is no NIC on employer pension contributions so you and the University save NIC
- For you it means an increase in your take home pay
- It is proposed that Salary Exchange will be introduced from 1 November 2011
- Introduced for the USS, USPAS and SGSS Pensions Schemes
- At present, it does not apply to Local Government Scheme (East Sussex County Council) or NHS contributions
- Salary Exchange will be renewed each scheme year until further notice, subject to tax, pensions and employment legislation

# What is Salary Sacrifice?



A Salary Sacrifice occurs when an employee gives up the right to receive part of their pay due under his or her contract of employment.

Usually the sacrifice is made in return for the employer's agreement to provide the employee with some form of non-cash benefit.

The 'sacrifice' is achieved by varying the employee's terms and conditions of employment relating to pay.

Tax and NIC Savings are usually enjoyed by employees depending on the type of benefit being provided in return.

## Salary Exchange – Have I received some information?



You should have received the following:

- A letter introducing Salary Exchange
- Frequently Asked Questions regarding Salary Exchange

# How does Salary Exchange work?

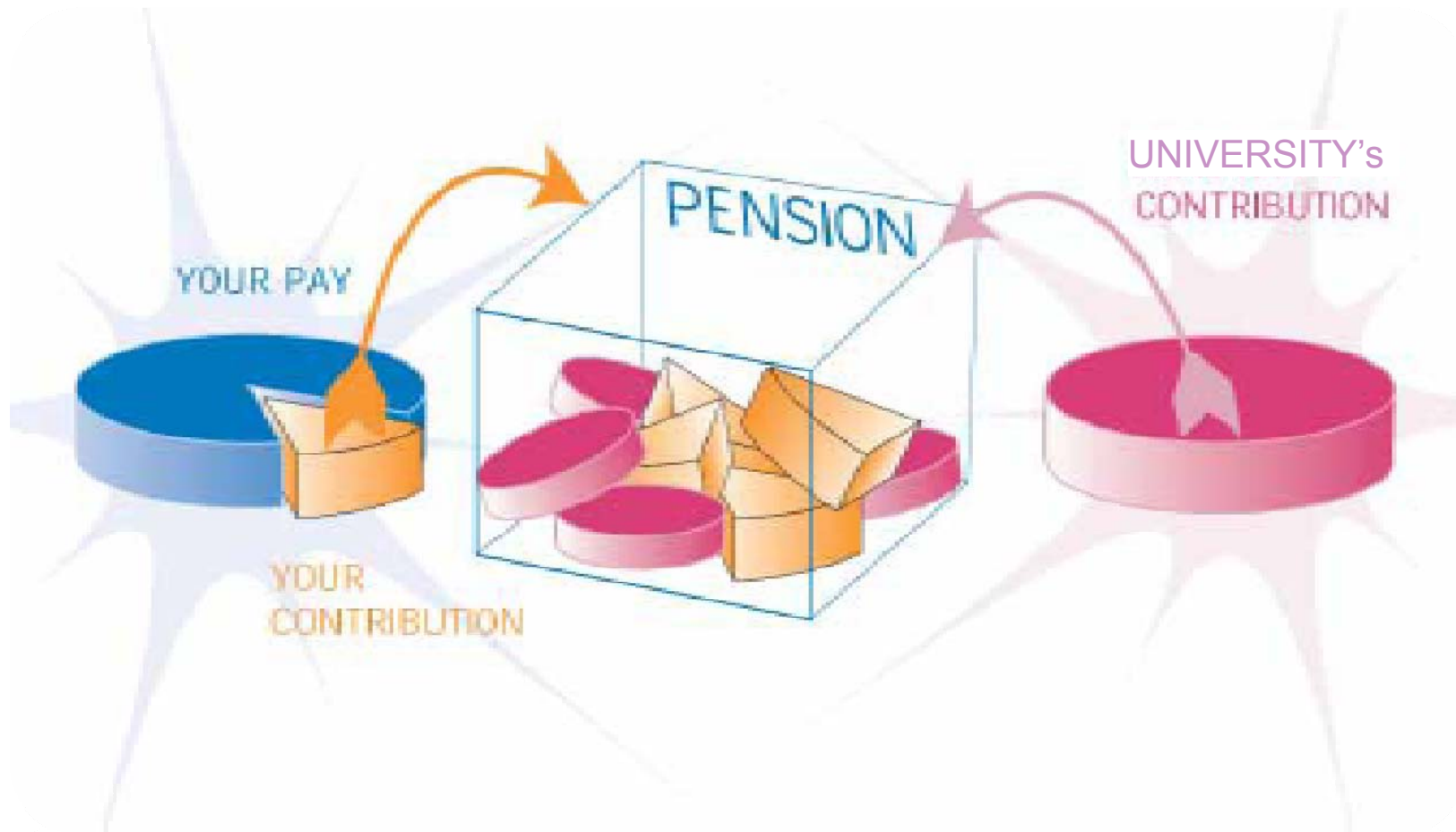
Currently, employee contributions to registered pension schemes qualify for income tax relief but not National Insurance (NI) relief.

Salary Exchange enables NI savings to be made by restructuring the employees' pension contributions, effectively this provides NI relief for pension contributions.

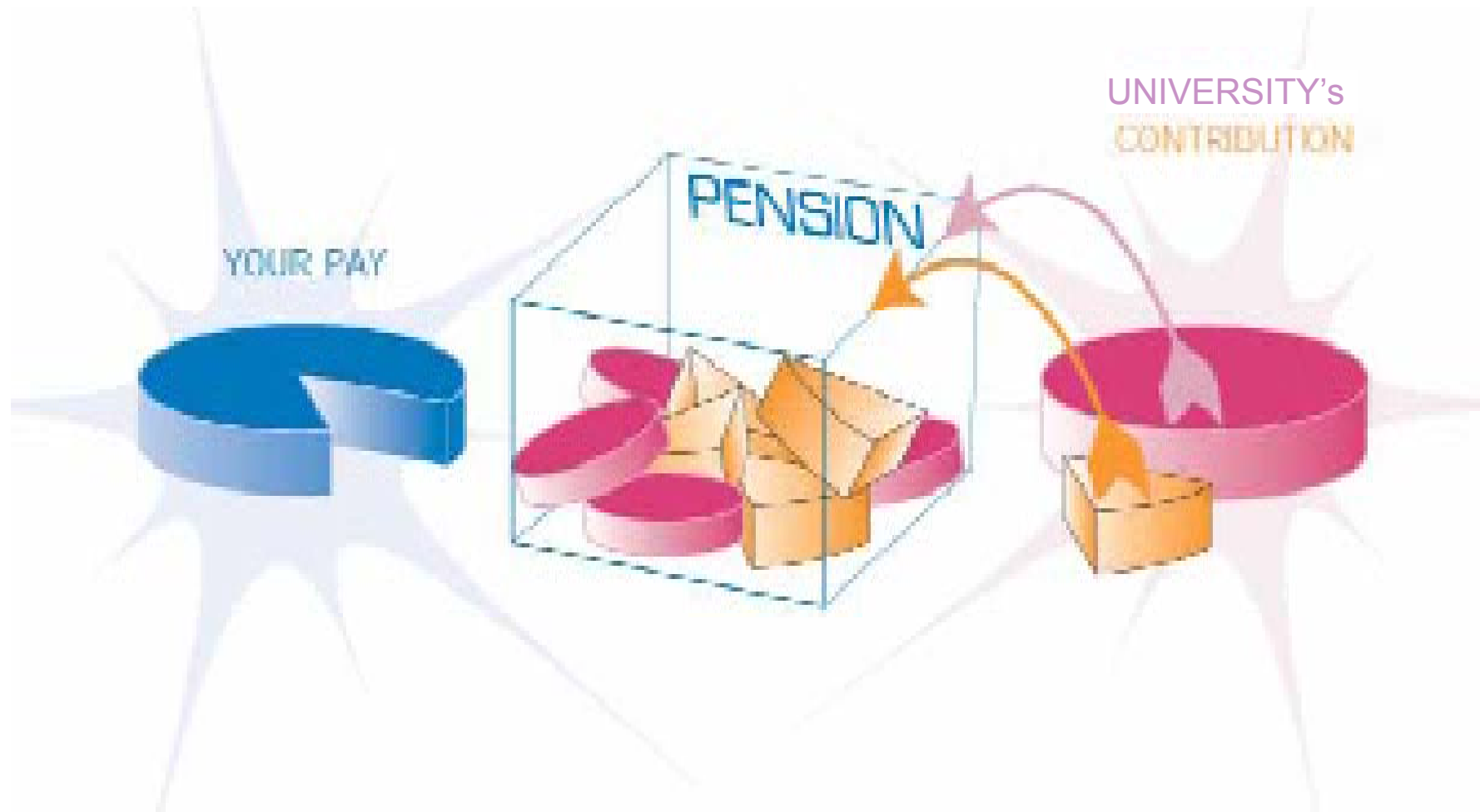
Salary Exchange varies the terms and conditions of employment by reducing the contractual salary by the amount of the employees contributions.

Salary Exchange does not:

- Reduce pension benefits or entitlements, including death in service benefit
- Reduce money going into pension schemes
- Impact on any other benefit including pay increases, overtime rates, or holiday pay. In all cases the Notional Salary will be used for these purposes.







# How does Salary Exchange work?

## The Change

Employees cease making regular pension contributions

Contractual gross pay reduces by an equal amount

The University will make additional pension contributions equal to contributions that employees would otherwise have made



## The Benefit

Results in better take home pay for employees

# Salary Exchange example – USS and USPAS



<b>Employee:</b>	John Smith			<b>Period:</b>	Month 8
<b>Tax code:</b>	747L month 1	<b>NI No.</b>	AB123446A	<b>Date:</b>	30 November 2011
<b>Description:</b>	<b>Hours:</b>	<b>Rate:</b>	<b>Amount:</b>	<b>Description:</b>	<b>Amount:</b>
<b>PAYMENT</b>				<b>DEDUCTIONS</b>	
Basic pay			2,000.00	Pension deduction	100.00
				Income tax	255.40
				Employee NI	142.83
				Total deductions	498.23
				<b>Net pay:</b>	<b>1501.77</b>

<b>Description:</b>	<b>Amount:</b>
Taxable gross	1,900.00

**Employers NI 137.06**

# Salary Exchange example – USS and USPAS



<b>Employee:</b>	John Smith			<b>Period:</b>	Month 8
<b>Tax code:</b>	747L month 1	<b>NI no.:</b>	AB123446A	<b>Date:</b>	30 November 2011
<b>Description:</b>	<b>Hours:</b>	<b>Rate:</b>	<b>Amount:</b>	<b>Description:</b>	<b>Amount:</b>
<b>PAYMENT</b>				<b>DEDUCTIONS</b>	
Notional Pay			2,000.00	Income Tax	255.40
Salary Exchange			-100.00	Employee NI	132.43
				Total deductions	387.83
				<b>Net pay:</b>	<b>1,512.17</b>

<b>Description:</b>	<b>Amount:</b>
Taxable gross	1,900.00

**Increase to take home 10.40**  
**Employers NI 126.96**

# Salary Exchange example – SGSS



<b>Employee:</b>	John Smith			<b>Period:</b>	Month 8
<b>Tax code:</b>	747L	<b>NI no.:</b>	AB123446A	<b>Date:</b>	30 November 2011
<b>Description:</b>	<b>Hours:</b>	<b>Rate:</b>	<b>Amount:</b>	<b>Description:</b>	<b>Amount:</b>
<b>PAYMENT</b>				<b>DEDUCTIONS</b>	
Basic Pay			2,000.00	Employee pension contribution	80.00
				Income Tax	275.40
				Employee NI	167.76
				<b>Total deductions</b>	<b>523.16</b>
				<b>Net pay:</b>	<b>1,476.84</b>

<b>Description:</b>	<b>Amount:</b>
Taxable gross	2,000.00

**Employers NI 194.72**

# Salary Exchange example – SGSS



<b>Employee:</b>	John Smith			<b>Period:</b>	Month 8
<b>Tax code:</b>	747L	<b>NI no.:</b>	AB123446A	<b>Date:</b>	30 November 2011
<b>Description:</b>	<b>Hours:</b>	<b>Rate:</b>	<b>Amount:</b>	<b>Description:</b>	<b>Amount:</b>
<b>PAYMENT</b>				<b>DEDUCTIONS</b>	
Notional Pay			2,000.00	Income Tax	255.40
Salary Exchange			-100.00	Employee NI	155.76
				Total deductions	411.16
				<b>Net pay:</b>	<b>1,488.84</b>

<b>Description:</b>	<b>Amount:</b>
Taxable gross	1,900.00

Increase to take home

12.00

Employers NI 180.92

Employees participating in Salary Exchange arrangements will pay less National Insurance (NI) and will receive more take home pay.

Savings will be larger for earners being paid below the Upper Earnings Limit (£42,475 from 6 April 2011) due to the higher NI rates applicable below this limit.

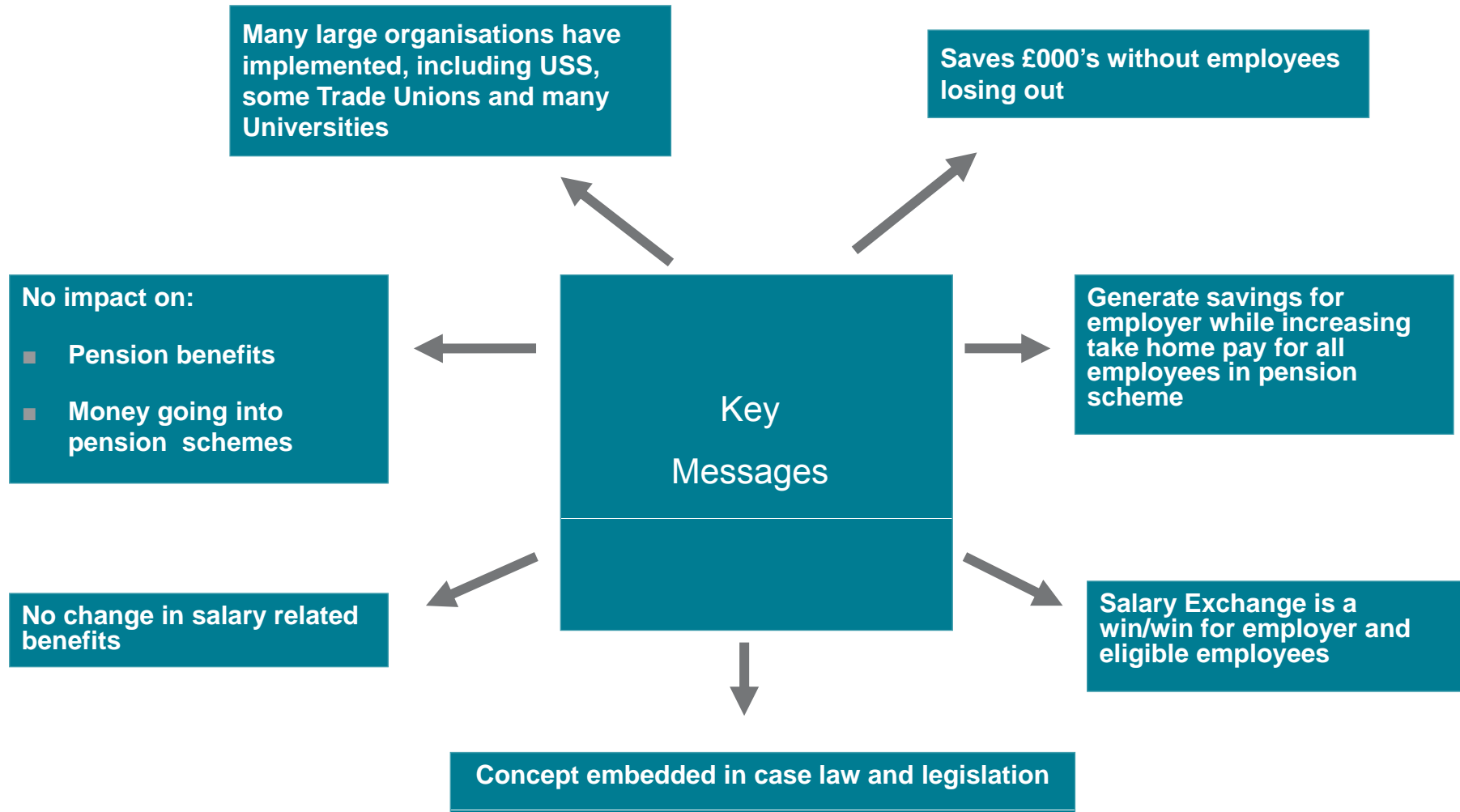
The University will also benefit from paying lower NI

- Between 10.1% and 13.8% for employees earning above £7,072

The actual level of savings will depend on the number of employees participating in the Salary Exchange



# Some key messages



National Insurance Contributions will be saved by both the employees in the pension scheme and the University

Those earning near to NMW will not be suitable for Salary Exchange as it is not possible to sacrifice pay below this level

Those employees close to retirement age should take independent financial advice

Those over state retirement age who do not have to pay NIC will not receive any NIC savings from the arrangement

If employees choose not to join Salary Exchange they can opt out, but they will not then enjoy the NIC savings available

S2P may be slightly reduced by Salary Exchange

Statutory payments as listed below are linked to actual pay i.e. the lower amount after the Salary Exchange.

- Statutory Sick Pay
- Statutory Maternity Pay
- Statutory Paternity Pay
- Statutory Adoption pay
- Statutory Redundancy Pay

The University recognise that employees could receive lower statutory payments because of the implementation of the arrangement. Therefore, all of these payments will be enhanced by the University up to the level they would have been prior to any Salary Exchange

## How does this affect statutory payments ?

As stated on the previous slide statutory payments are based on actual pay

Basic state pension benefit will not be affected by the implementation of Salary Exchange

Entitlement to the State Second Pension (pension top-up, S2P) may be affected by the introduction of Salary Exchange

Due to state benefits being calculated on actual pay, Working Tax Credit and Child Tax Credit may increase

## How this works in reality (practical aspects)



Employee's current gross salary becomes notional salary i.e. salary before any Salary Exchange deductions

Employees will see slight alterations in their payslip layout to take into account the new terminology and the way the deduction will be made

Employees agree to reduce their salary by the equivalent of their pension contribution

Employees will no longer have a pension deduction

The salary reduction occurs before tax/NIC is calculated. Currently NIC is calculated on salary before any pension contribution is deducted

Employees save NIC and their net pay increases by the equivalent of NIC currently deducted from their pension contribution

It is tax neutral as employee pension contributions already receive tax relief

## How this works in reality (practical aspects)

Total pension contributions and benefits remain unchanged

The same funds are delivered to the employee's pension fund

Any letters to mortgage providers will state employee's notional salary

This is a change to terms and conditions

Everybody should win and save NIC

## What happens now?

Communication to employees

Information and covering letter have been issued to eligible University employees

Those automatically opted out will be advised separately

Those employees who wish to opt out will have 5 weeks to complete and sign a form which will need to be returned to Helen Kalkbrenner, HR Department

This form needs to be submitted by 30 September 2011 otherwise employees are automatically opted in

After this period has elapsed employees will be able to opt out if a life style changing event has occurred

HM Revenue & Customs clearance will be obtained to confirm that Salary Exchange is effective for tax and NIC purposes.



**Questions**



**Thank you**





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