

# Salary Exchange Fact Sheet

In order to benefit from Salary Exchange, you must complete the required opt-in form and return for approval

Salary Exchange is a common feature of many pension plans. It lets you rearrange the way you make pension contributions by routing them through the Company payroll and directly into the Plan. This means you get the same amount paid into the Plan, but your payment is made in a different way. The Company makes your pension contributions for you and your pay is reduced by an amount equal to those gross contributions.

The **advantage** of Salary Exchange is that **your take-home pay increases**. This is because the amount of money paid into the Plan by the Company, which would normally be paid by you, **is not subject** to National Insurance.

The National Insurance saving for you is 12% of the pension payment if you earn between £797 and £4,189 pcm (2021/2022 tax year) and 2% on any pension payment on earnings above £4,189 pcm.

**For example, if you earn a gross Pensionable Pay (“gross” means your salary before tax) of £50,000:**

## Before Salary Exchange

<b>Your salary</b>	£50,000
<i>Your National Insurance contributions</i>	(£4,851)
<i>Your Income Tax</i>	(£7,486)
<b>You pay a 5% contribution (4% net with tax relief added at source)</b>	(£2,500)

**Your net taxable pay after Tax and NI contributions £35,162**  
**£300 of tax relief is added by the pension scheme on receipt**

## After Salary Exchange

<b>Pre-exchange salary</b>	£50,000
<b>Salary exchanged</b>	(£2,500)
<b>Your salary</b>	£47,500
<i>Your National Insurance contributions</i>	(£4,551)
<i>Your Income Tax</i>	(£6,986)
<b>You pay a 0% pension contribution as all is shown as Company paid</b>	(£0)

**Your net pay after tax and NI contributions £35,962**

Using this example, your take home pay is increased by £800 a year and the total gross pension payment is still £2,500 once all tax relief is added back in.

You will of course still be paying your 5% of salary to the pension scheme it will just look as though it is all company paid, when it gets there rather than split between yours and the companies. Instead your salary will be 5% lower.

Salary Exchange is attractive for most members because of the increase to take home pay. You might be concerned about the pay reduction, but we have made sure that you are not disadvantaged by it in the following ways:

- Although your pay is reduced by the amount of the pension contribution, all your benefits will be based on your pre-reduction pay (called your “notional” pay).
- Lenders are used to the idea of Salary Exchange. When you apply for a mortgage, for example, we will tell them your notional pay. They’ll then take this pay into account when working out if you can afford your loan.
- Pay review and overtime payments will be based on your notional pay.

Salary Exchange may not be the best option if you earn less than a minimum amount (around £15,000 for 2021/22).

We will check to make sure you are not in this group and if you are you may be refused entry to the scheme. If in the future your circumstances change and you drop below this level, we will let you know and withdraw you from the arrangement. If you work part-time then the £15,000 figure is prorated, for example if you work three days a week the figure is £9,000, i.e. £15,000 x 3/5.

Salary Exchange may affect some State benefits, such as:

- Statutory Sick Pay
- Statutory Maternity Pay
- Statutory Redundancy Pay
- Additional State Pension
- Working Tax Credit or Child Tax Credit

**If you have a concern about this, you might not want to take advantage of this arrangement. This is why we are making the scheme voluntary and opt in to ensure you get the best solution for you.**

If you need more information on Salary Exchange contact our advisers - Warren House Chartered Financial Planners at [mike.savage@sjpp.co.uk](mailto:mike.savage@sjpp.co.uk) or (01908) 326586

# Salary Exchange FAQs

## What are the attractions of a Salary Exchange arrangement?

### How does Salary Exchange work?

Should you opt in to Salary Exchange your pay is reduced, the Company then pays into the Plan the amount that your pay has been reduced by. This Company payment replaces the amount you would normally pay into the Plan and is paid in addition to the Company's own contributions.

This will show on your monthly pension statement as a single monthly employer payment. This is how the pension provider knows not to reclaim additional tax relief as they do now.

### Can everyone participate in Salary Exchange?

To be eligible for Salary Exchange, you must be a permanent employee and earn above a minimum amount each year (around £15,000 for 2021/2022). If you work part-time then the minimum amount is scaled down. For example, if you work three days a week the figure is £9,000 (3/5ths of £15,000).

The minimum amount is in place as the Company must ensure that members do not exchange salary to a level that puts them below the National Minimum Wage. This figure will change from time to time as the Government reviews the National Minimum Wage.

### As I am reducing my pay does that mean I earn less?

No. As you are reducing your pay by the amount that you would have paid into the Plan anyway, you do not take home less pay. In fact, you may well take home slightly more, as you will pay less National Insurance (see "What are the attractions of a Salary Exchange arrangement?" above).

Any future benefits or pay which are dependent on your existing pay, like pay reviews, overtime, and bonus rates will be based on your pre-Salary Exchange figure (called your notional pay) and will therefore also be unaffected.

### Does reducing my pay in this way have any implications for the Company pension?

No. Your pensionable pay (and as a result, your pension) are worked out using your pre-Salary Exchange pay or "notional pay." Therefore, these will remain unaffected. This is the same for all other pay such as bonuses and related awards.

### How will Salary Exchange affect my ability to borrow money?

When applying to borrow money from financial institutions such as a mortgage company, they will often ask how much you earn. To ensure the maximum amount you can borrow is not reduced you should provide your notional pay. If further information is required by the lender, Human Resources are happy to provide a letter clarifying your pay for the purposes of a mortgage or loan application.

### As I am paying National Insurance contributions, will this affect the amount of state pension I receive at retirement?

- Provided you earn enough to still pay at least some National Insurance Contributions after Salary Exchange is accounted for, it will not affect the amount of State Pension you receive.
- If participating in Salary Exchange means that you will not earn enough to pay some National Insurance contributions, then it may not be worthwhile participating in Salary Exchange or opting to make voluntary National Insurance top ups.

You need 35 years of National Insurance contributions or equivalent credits to get the full amount of single tier State Pension.

## As I am paying less National Insurance, how will it affect other State benefits?

Statutory Maternity Pay and Statutory Redundancy Pay are based on your gross earnings, and may therefore be reduced if you participate in the scheme.

### Maternity Pay

For the first six weeks of maternity leave your Statutory Maternity Pay is calculated on 90% of your average weekly pay. Therefore, by reducing your pay through Salary Exchange, this figure will be reduced. After six weeks, Statutory Maternity Pay is set at a flat rate which is not earnings related; therefore, Salary Exchange will have no further effect.

For example, based on a member who is aged 40, earning £20,000 a year and paying 5% of pensionable pay. Under Salary Exchange the member's pay would reduce to £19,000 and there would be an overall reduction in total Statutory Maternity Pay of £103.84 (over the first six weeks of Statutory Maternity Pay), based on an estimate of current legislation.

### Redundancy Pay

Statutory Redundancy Pay is usually calculated using your pay. A maximum amount of £544 per week is taken into consideration when calculating this benefit. Therefore, based on current legislation, you should not be affected if your pay remains above £28,288 per year after Salary Exchange.

If your salary falls below this level your Statutory Redundancy Pay would be reduced accordingly. To calculate the amount, you would receive, the Company would use your notional pay. Your redundancy pay would not therefore be reduced as a result of being in Salary Exchange.

Other means tested benefits such as Working Tax Credit and Child Tax Credit could increase by participating in Salary Exchange. Rules for claiming benefit are based on wider personal circumstances rather than just your salary.

## Do I have to make contributions under Salary Exchange?

No. If you prefer to make contributions through payroll, you can continue to do so, this is an opt in process. If already in the scheme you can subsequently choose to opt out of Salary Exchange by completing the Salary Exchange opt-out form although this remains at the Company's discretion.

## How often can I change my contributions?

Your contributions will be paid through payroll.

You are agreeing to a permanent change to your terms and conditions of employment by opting in to the scheme but, at the company's discretion, you are able to change the amount you contribute at any time in the year at the discretion of the Company by writing to:

**Mike Savage**

**Warren House Chartered Financial Planners**

Milton Keynes, UK

[mike.savage@sjpp.co.uk](mailto:mike.savage@sjpp.co.uk)

For further information on how Salary Exchange can affect benefit entitlement, you should contact the Department for Work and Pensions on 0845 60 60 265. Alternatively you can contact your local social security office.

For further information on tax credits you can contact the HMRC helpline on 0845 300 3900.

*Note: This information is based on current legislation and HMRC working practice. The treatment of Salary Exchange and the specific individual benefits mentioned in this document may change in the future*