



# A GUIDE TO SALARY EXCHANGE

## Inspiring solutions

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# A guide to salary exchange

## How can you make your pension savings work harder?

By taking part in salary exchange you continue to build the same pension but you can save on National Insurance contributions.

**Read on to see how salary exchange works and to see how much you can save!**

Inside we have also attempted to answer any questions you might have, so please take time to read this leaflet carefully. If you still have any questions please contact your local HR or pensions contact. If you become a member of the Proposed Plan you will automatically take part in salary exchange, so it is important to understand how this works and ask any questions.

We are not able to provide financial advice, so if you think you need advice, you should speak to an independent financial adviser. A list of regulated advisers can be found at [www.unbiased.co.uk](http://www.unbiased.co.uk). Please note that the Company will not cover any costs that you incur in speaking to an adviser.

## How do you save with salary exchange?

Salary exchange provides you with the opportunity to exchange part of your Gross Salary for pension contributions. The amount you exchange is paid to your pension on your behalf by Fenner (the Company) rather than being paid by you. Because your Gross Salary (and your contractual pay) is reduced by the amount you exchange, you and the Company pay less National Insurance contributions and your take home pay increases.

For example, if you earned £20,000 and you made a 6% contribution into the Proposed Plan:

	Your salary	Salary exchange	National Insurance	Income Tax	Pension contributions	Your take home pay per year
<b>Before salary exchange</b>	£20,000 (Gross Salary)	N/A	£1,487	£2,139	£2,400: £1,200 paid in by you plus a £1,200 contribution by the Company	£15,174
<b>After salary exchange</b>	£20,000 (Notional Salary)	-£1,200 (leaving you a Gross Salary of £18,800)	£1,343	£2,139	£2,400 paid in by Fenner on your behalf. This includes £1,200 of your contribution plus the Company contribution of £1,200.	£15,318

Allowing for salary exchange, your take home pay increases by £144 per year.

**Notes on the example:** This information is based on current legislation and accurate for the 2012/13 tax year. National Insurance contribution levels and Her Majesty's Revenue and Customs' treatment of salary exchange may be subject to change in the future.



## How much will you save?

How much you will save depends on your current salary and normal pension contributions. Any contribution that you make into the Proposed Plan will be structured under salary exchange.

The table below shows the savings that you can make on National Insurance for contributions that you make via salary exchange for 2012/13 tax year:

Gross Salary	National Insurance saving (%)
Between £7,605 and £42,475	12%
£42,475 +	2%

Use the table below to see how much your take home pay will increase. If for example, you were to make pension contributions of 6% you would make the following savings based on your salary:

Salary £ per year	Savings in National Insurance contributions from a 6% contribution paid under salary exchange (per year)
£10,000	£72
£15,000	£108
£20,000	£144
£30,000	£216
£40,000	£288
£50,000	£60

## Jargon buster

### Gross Salary:

your total salary before tax

### Notional Salary:

your salary before the salary exchange adjustment

### Take home pay:

your pay after deductions of National Insurance and Income Tax, which you can spend as you like (subject to any additional deductions that you may be required to pay - for example Student Loans).



## Can you tell me...?

This section contains common questions and answers that you may have about salary exchange.

### Will it affect the amount of Income Tax you pay and how do you receive tax relief?

Salary exchange does not affect the amount of income tax you pay. Tax relief already applies to any pension contributions you make.

### Will it affect any of the other benefits you receive from the Company?

No. Any salary related benefits that you are eligible for from the Company will be based on your salary before it is reduced for pension contributions. We call this your Notional Salary. This means benefits (where they apply now) such as the following are unaffected by salary exchange:

- pension;
- death in service benefits;
- salary reviews;
- overtime; shift allowance; bonuses and any other allowances.

### Will it affect the amount you can borrow?

When applying to borrow money from a financial institution such as a mortgage company, you will often be asked for your salary. To ensure the maximum amount you can borrow is not reduced you should tell them your Notional Salary, which will be confirmed by the Company. They should then take this salary into account when working out if you can afford your loan.

### Are there any situations when salary exchange is not suitable?

Salary exchange is attractive for most employees because it increases take home pay. However, you are not allowed to exchange pay to a level that would put you below the National Minimum Wage. If by participating in salary exchange you would reduce your pay below the Lower Earnings Limit (currently £5,564 a year) you would potentially be giving up valuable State benefits which may not be in your best interests. Anyone who has earnings close to the limits will not be invited to participate.

## Will salary exchange affect the amount of State pension you will receive at retirement?

The answer depends on when you're set to retire, as follows:

### If you're set to retire after 1 April 2017...

The Government is introducing a new flat rate State pension, so if you're set to retire after that date, your State pension would not be affected. You would still receive a pension worth £144 a week (£7,488 a year) in today's money.

### If you're set to retire before 1 April 2017...

Salary exchange will have no effect on your Basic State Pension, which is currently £107.45 a week. Although, if you earn between £14,700 (Low Earnings Threshold for 2012/2013) and £40,040 (the Upper Accrual Point for 2012/2013) after Salary Exchange, you will earn less State Second Pension ('S2P') as this is based on your actual earnings between these bands. This would be the same for every year you participate in salary exchange and earn less than the Upper Accrual Point. The actual amount by which your final S2P is reduced and the National Insurance saving you will get is individual to each person as it is based upon your earnings.

If, after salary exchange, your salary is still above £40,040 each year then salary exchange will have no effect on your S2P. This is because earnings above the Upper Accrual Point do not count towards S2P.

## Will it affect Statutory Maternity Pay or Statutory Redundancy Pay?

Statutory Maternity Pay and Statutory Redundancy Pay are based on your actual earnings, and can sometimes be reduced under salary exchange plans. Should you suffer any reduction to either Statutory Redundancy Pay or Statutory Maternity Pay as a result of your participation in salary exchange, the Company will make up any shortfall.

For further information on how salary exchange affects benefit entitlement you should either contact your local social security office or visit [www.direct.gov.uk](http://www.direct.gov.uk)



## Will it affect Working Tax Credit or Child Tax Credit?

Other means tested benefits such as Working Tax Credit and Child Tax Credit could increase by participating in salary exchange. Rules for claiming benefits are based on wider personal circumstances than just your salary. For further information on tax credits you can contact the HM Revenue and Customs helpline on **0845 300 3900**.

## Will it affect Student Loans?

Any employees with outstanding Student Loans should not be adversely affected by participating in salary exchange. If you need further information on this matter you may wish to contact the Student Loans Company Limited on **0845 0738 891**.

## Will it affect any other payments?

If you have a County Court Judgement ('CCJ') or anything similar then no changes are usually made to these as a result of salary exchange. However, where the Order is explicit about the definition of pay to be used, then the impact of salary exchange should be noted to those parties to the Order. The Company suggests you seek further advice if you are unsure on this matter.

## What happens if you leave the Plan?

If you leave the Plan, the contributions already paid in will be retained in the Plan in your name. No further contribution will be made and your gross salary will revert to your Notional Salary.

## Do you have to choose whether to use salary exchange?

No, your contributions into the Proposed Plan would automatically be made under salary exchange from 1 April 2013 unless you inform your local pension contact that you wish to opt out of salary exchange. Using salary exchange means your contract of employment will change – your contractual basic salary will be reduced, and in return the Company will provide additional employer pension contributions to the same value. Please note any decision to participate or alter your participation in Salary Exchange is subject to approval by the Company.

## Are there limits to the amount you can exchange?

You can exchange as much salary as you like, but you are not allowed to exchange pay to a level that would put you below the National Minimum Wage. If by participating in salary exchange you would reduce your pay below the Lower Earnings Limit (£5,564 a year for the 2012/2013 tax year) you would potentially be giving up valuable State benefits which may not be in your best interests. Anyone with earnings close to these limits will not be invited to participate.

**If you do not want to use salary exchange for your pension contributions you need to tell us by completing the relevant section of the application form.**

## Next steps

If you choose to be a member of the Proposed Plan then you will make your contributions by salary exchange automatically and therefore you do not need to do anything. If you have any questions then please contact us:

By email at [fennerpension@hymans.co.uk](mailto:fennerpension@hymans.co.uk)

By phone on **0141 566 7651**.