



ST MARY'S UNIVERSITY PENSION PLAN

Salary Exchange – Questions and Answers

This document explains how Salary Exchange works and what it might mean for you.

What is Salary Exchange?

'Salary Exchange' and 'Employee Payments' are the two methods by which employees can make their payments to the Plan. Salary Exchange is generally considered the more efficient method, as it normally attracts National Insurance (NI) savings for both the employee and the University.

Salary Exchange is also known as 'Salary Sacrifice'. Other examples of Salary Exchange arrangements in common use in the UK include childcare vouchers¹ and cycle to work.

How does it work?

Salary Exchange is an agreement between you and the University, affecting your terms and conditions of employment with regards to pay and benefits. Through Salary Exchange, your contractual salary is reduced in exchange for company pension payments, rather than you making payments directly as employee payments. As pay is reduced, neither you nor the University pay NI on the amount of the salary exchanged.

Will I be included in Salary Exchange?

Your payments into the Plan will normally be made via Salary Exchange. You may choose to make your payments via the Employee Payment method instead by completion and return of a form which is available from Human Resources.

However, Salary Exchange can't take your salary below the National Living Wage (overs 25s) / National Minimum Wage (under 25s).

Can I change the method by which I make my payments?

Yes, you can change the method by which you make your payments at any time by completion and return of a form which is available from Human Resources.

If I make my payments via Salary Exchange, can I change the level of my payments?

Yes, you may change the level of your payments via Salary Exchange at any time by completion and return of a form which is available from Human Resources.

¹ Available to employees who signed up to a childcare voucher arrangement before 5 October 2018. Since this date, childcare voucher schemes have been replaced with the Tax Free Childcare Scheme. Further details are available via www.gov.uk/get-tax-free-childcare.

How am I affected if I am currently in receipt of statutory payments only?

If you're currently in receipt of statutory payments only, e.g. Statutory Maternity Pay or Statutory Sick Pay, you can't begin to make your pension payments via Salary Exchange or increase the level of your pension payments via Salary Exchange.

Is there a maximum level of payments that I can make via Salary Exchange?

Yes, the maximum level of payments that you may choose via Salary Exchange is normally 20%.

The University operates Salary Exchange for the beneficial effects of NI savings, and is keen to limit any possible disadvantages from significant reductions to pay through high levels of exchange. For example, with the limits people can pay into pension plans (called the Annual Allowance – for details see www.gov.uk/tax-on-your-private-pension/annual-allowance), the University would not want significant pension contributions to adversely impact on an individual's tax affairs. Also, by making significant contributions by Salary Exchange, it may result in your pay falling below certain NI limits, which could impact on your eligibility for some State Benefits. There may be other possible disadvantages too and we would need to consider these on a case by case basis.

The University will consider requests to make contributions over the discretionary cap. If you wish to contribute at a rate higher than 20% via Salary Exchange, please contact Human Resources.

How will my pay be shown on my payslip?

If you're paying via Salary Exchange, then your contractual salary will be reduced. However, your payslip will show your pre-exchange 'reference' salary. You could therefore use your payslip to evidence your reference salary, e.g. for any loan or mortgage applications.

Will Salary Exchange affect the income tax I pay?

No, although tax and tax relief will work in a different way and the timing can be different, the net effect on income tax is normally the same.

If you're a higher rate taxpayer, then paying via Salary Exchange will mean there is no higher rate tax relief to claim on your payments, as you're not taxed on the salary exchanged.

How is NI calculated?

Your and the University's NI depends on the level of your earnings. The rates of NI for the tax year commencing 6 April 2020 are set out in the following table:

Yearly Earnings	Employee NI rate	University NI rate
Below £8,788	0%	0%
£8,788 - £9,500	0%	13.8%
£9,500 to £50,000	12%	13.8%
Above £50,000	2%	13.8%

I have reached State Pension Age, how am I affected?

If you have reached State Pension Age, you don't pay NI. However, the University continues to pay NI. (Note: State Pension Age for both men and women will be increased to 66 by October 2020.)

Salary Exchange – an example

We illustrate below a simplified example of an employee (non-Scottish Taxpayer) with earnings of £24,000 each year and making payments of 5%, which are matched by company payments of 10%. We show the differences in pay and pension payments between the two methods of making payments, using tax and NI rates and the standard tax allowance for the tax year 2020/21.

Pay	Employee Payment method	Salary Exchange method
Reference salary	£24,000	£24,000
Salary exchanged	£0	- £1,200
Contractual salary	£24,000	£22,800
Tax	- £2,300	- £2,060
NI	- £1,740	-£1,596
Employee payments	£960	£0
Take home pay	£19,000	£19,144

Pension payment	Employee Payment method	Salary Exchange method
Employee	£960	£0
Employee (tax relief)	£240	£0
University (standard)	£2,400	£2,400
University (exchange)	£0	£1,200
Total payment	£2,400	£3,600

In this example, the employee's NI saving is £144 each year (12% of the exchanged salary). The total pension payment is unaffected by Salary Exchange.

Income tax works in a different way but overall it is neutral - under the employee payments method £240 tax relief is applied to the employee's pension account, whilst under the Salary Exchange method the tax deducted from the employee's pay is £240 lower.

Please note the tax treatment depends on your individual circumstances and may be subject to change in the future.

Is Salary Exchange suitable for all employees?

Salary Exchange will reduce your contractual salary, however the University will aim to ensure you're not disadvantaged in the benefits it provides, e.g. life assurance and pay increases. If you wish to clarify the impact, if any, on pay-related benefits provided by the University, please contact Human Resources.

Entitlement to some State benefits is based on the amount of NI you pay, and others on the amount of your earnings, so making your payments via Salary Exchange may affect your entitlement. We describe below the main benefits that may be affected.

NI-based benefits

Your entitlement to some State benefits (e.g. State Pension, Statutory Maternity Pay, Statutory Sick Pay, Employment and Support Allowance and Jobseeker's Allowance) can depend on your NI record. Exchanging salary to a low level (below £6,240 for the tax year 2020/21) can affect your NI record and therefore also your entitlement to these benefits.

Statutory Maternity Pay

Statutory Maternity Pay (for the first six weeks at least) is based on your average earnings over a fixed period before you begin to receive it. As paying via Salary Exchange will reduce your salary, it can reduce the level of these payments.

Universal Credit and Child Benefit

Universal Credit and Child Benefit are payments from the Government. Those on low incomes may be eligible for Universal Credit, whilst those responsible for a child under 16 (or under 20 if they stay in approved education or training) may be eligible for Child Benefit.

Exchanged salary reduces pay, which in turn could increase the Universal Credit or increase or maintain entitlement to Child Benefit.

Student loans

Repayment of student loans is dependent on pay and can therefore be affected by exchanging salary. The level of repayments may reduce, and in consequence the length of the repayment period may increase.

What happens whilst I am on paid maternity, adoption or paternity leave?

The University will continue its pension payments via Salary Exchange at the same level as was being paid immediately before your leave. Your pay will not be reduced below any statutory level.

If you wish to clarify the impact on pay during any period of paid parental leave, please contact Human Resources.

What happens whilst I am on paid sick leave?

In the case of paid sickness, pension payments that you and the University make via Salary Exchange will be based on your actual salary received during the absence.

What happens whilst I am on agreed unpaid leave?

No pension payments will be made during any period of unpaid leave. Unpaid leave will cover unpaid absences such as, parental leave, sick leave, active service in the Territorial Army or Reserves or voluntary public duties.

Want more information?

For more information about how Salary Exchange works and the possible effects, please contact Human Resources or visit the Government website at www.gov.uk/salary-sacrifice-and-the-effects-on-payee.

If you're in any doubt about whether Salary Exchange is suitable for you, you may wish to contact a financial adviser. If you don't have a financial adviser the website www.thepfs.org/yourmoney/find-an-adviser can help you find one in your local area.