

Aberystwyth University

SALARY EXCHANGE FOR PENSION

This information pack gives details of Salary Exchange for pension, the arrangement by Aberystwyth University. It provides an opportunity for the majority of employees who are members of the AUPP or USS to increase their take home pay whilst maintaining existing levels of pension benefits.

The information pack explains how Salary Exchange for pension works and aims to answer any questions you may have. If you have any queries that are not covered by the details enclosed please speak to the HR department or the Payroll department (or e-mail payroll@aber.ac.uk)

In addition, you may wish to take independent financial advice on how the Salary Exchange for pension arrangement may impact on your personal position.

SALARY EXCHANGE FOR PENSION– INFORMATION PACK

Contents

A: Salary Exchange for pension- to understand how Salary Exchange for pension works.

B: My Aberystwyth University benefits - Salary Exchange for pension will not reduce any benefits you receive from Aberystwyth University or affect future pay reviews.

C: Savings Examples – illustrations of potential savings to be made under Salary Exchange for pension.

D: My State benefits - Salary Exchange for pension and your State benefits.

E: Who should not participate - a small number of employees may not benefit from Salary Exchange for Pension.

F: What you need to do now - to participate in Salary Exchange for pension you do not need to do anything.

G: Frequently asked questions -

A: Salary Exchange for pension

Salary Exchange for pension is designed to increase employees' take home pay and reduce NI costs for both the employee and Aberystwyth University.

If you participate in Salary Exchange for pension this means:

- Aberystwyth University will pay the employer and employee contribution equal to your normal pension contribution, directly to the Aberystwyth University (AUPP) Scheme or USS on your behalf.
- Your current salary will be known as total gross pay and your contractual gross pay will be reduced by the amount that you used to pay into the pension scheme.
- As a result, your take home pay will increase because you are paying less NI

THIS PART OF THE TERMS AND CONDITIONS OF EMPLOYMENT.

B: MY ABERYSTWYTH UNIVERSITY BENEFITS

Salary Exchange for pension will not reduce any salary related payments or benefits that you receive from Aberystwyth University.

We will use the term “**total gross pay**” to mean your pay before taking account of any Salary Exchange for Pension adjustment.

All future pay rises will continue to be based on your total gross pay.

All your pay related benefits will also be calculated on your total gross pay, including any overtime, bonuses, pensions and life assurance benefits and so on.

Therefore no Aberystwyth University benefits you receive will be affected by Salary Exchange for pension.

Mortgage reference letters will always refer to your **total gross pay**.

C: SAVINGS EXAMPLES:

Currently

Let us assume your salary is £20,000 per year and your normal employee pension contributions are 6.35% (£1,270.00) per year.

Under Pension Exchange

You will stop making your normal contributions of £1,270.00 per year; your total gross pay, which determines other pay related benefits and future pay rises is £20,000 however your gross contractual pay will reduce to £18,730.00; (£20,000 - £1,270.00) and Aberystwyth University will now make £1,270.00 per year of additional employer contributions to the pension scheme on your behalf. The tables below highlight the difference between pension scheme members who participate in Salary Exchange for pension, and those who opt-out.

Out of Salary Exchange for pension for AUPP members

Payments	Amount £	Deductions	Amount £	Take home pay per year £
Salary	20,000	Tax	1,878.00	
		NI	1,432.80	
		Pension	1,270.00	
Gross Pay	20,000	Total	4,580.80	<u>£15,419.20</u>

In Salary Exchange for pension

Payments	Amount £	Deductions	Amount £	Take home pay per year £
Total gross pay	20,000	Tax	1,878.00	
		NI	1,280.40	
Salary Exchange for pension	-1,270			
Gross Pay	18,730	Total	3,486.88	<u>£15,571.60</u>

You can see from the above that your take home pay goes up, in this example, by £152.40 per year.

The amount of income tax you pay will not change as a consequence of you participating in Salary Exchange for pension.

Please note that for the tax year 2015-16 – AUPP and USS member will be paying a different National Insurance contribution as AUPP is contracted in, where USS is contracted out (see D).

D: MY STATE BENEFITS

State Pension:

Your State pension comprises two parts;-

- Basic State pension (BSP)
- State Second Pension (S2P) – previously known as SERPS and additional to the BSP

Salary Exchange for pension will not affect your BSP.

USS is contracted-out of S2P and therefore your S2P entitlement is replaced by the USS scheme.

Other State benefits:

Entitlement to some State benefits, such as incapacity benefit and jobseekers allowance, are based on whether you have been credited with making National Insurance Contributions (i.e. your earnings must exceed the Lower Earnings Limit (LEL) of £8,060 for 2015/16).

If your pay falls below the LEL during any pay period you will automatically be opted-out of

Salary Exchange for pension from that date until the next renewal date. Provided your pay exceeds the LEL at the end of the renewal date, and unless you tell us otherwise, within the annual renewal opt out period you will automatically be put back into Salary Exchange for pension for the following year.

E: WHO SHOULD NOT PARTICIPATE

Aberystwyth University has structured Salary Exchange for pension so that nearly all employees who are a member of the AUPP or USS scheme will benefit. However, there are some situations where we cannot completely guarantee that all employees will benefit.

Before the implementation of Salary Exchange for pension Aberystwyth University will identify and advise those employees directly for whom it may be more beneficial not to participate.

F: WHAT YOU NEED TO DO NOW

How do I participate in Salary Exchange for pension?

Salary Exchange for pension is an implied consent scheme. This means that all AUPP and USS members are enrolled automatically in Salary Exchange unless they specifically choose to opt out.

You do not need to complete any additional forms to participate. Enrolment in Salary Exchange will take place when you join the University, AUPP or USS (whichever is the later), unless you fall into one of the following categories:

- Participation in Salary Exchange for pension would bring your Adjusted Salary (after the Salary Exchange for pension reduction) to below the National Minimum Wage (which means you are not eligible to participate, as per HMRC guidance); or
- Your total gross pay would fall below the Lower Earnings Limit (LEL) of £8,060 for 2015/16.

If the University believes your Adjusted Salary is likely to fall below the National Minimum Wage (£6.50 per hour for workers aged 22 years and older), or your total gross pay is below the PPL you will **not** be enrolled in the scheme and you will be contacted separately to confirm this.

If you would like to participate in salary exchange for pension, you do not need to take any further action as it will be included automatically.

If you wish not to participate then you will need to complete an opt-out form available from (<http://www.aber.ac.uk/en/hr/employment-information/financial-information/pension/>) or from the University Payroll Section (tel no 01970 622033) and return this along with your signed contract of employment.

If you opt-out of Salary Exchange for pension you can decide to opt-in from April each year by contacting the University Payroll Section before the 15th of April.

If you participate in Salary Exchange for pension, you will not be able to opt-out again until the beginning of the next Salary Exchange for pension year, i.e. April (note you will need to inform payroll by the 15th of April) unless you have one of the following lifestyle changes:

- Marriage/ Divorce/Civil Partnership
- Redundancy of spouse

- Change of employment
- Change of hours
- Maternity/Paternity/Adoption
- Extended sick leave
- Sabbatical
- Relocation
- Bereavement.

In these cases you may, with the agreement of Aberystwyth University, opt-out of Salary Exchange for pension by completing a form which can be obtained from [Human Resources]. In addition, Aberystwyth University also reserves the right to review each personal situation to determine whether other substantial lifestyle changes warrant a move in/out of Salary Exchange for pension.

G: FREQUENTLY ASKED QUESTIONS

Q1: HOW MUCH WILL MY TAKE HOME PAY INCREASE BY?

The increase in your take home pay depends on your current pay and normal pension contributions. Some illustrative examples based on normal contributions are shown based on 2014/15 tax/NI rates:

Basic salary (per year)	Annual increase in take home pay assuming a 6.35% Pension Contribution
	£
£8,000	5.28
£10,000	76.20
£15,000	114.30
£20,000	152.40
£25,000	190.50
£30,000	228.60
£35,000	266.70
£40,000	304.80
£45,000	-

Q2: HOW LONG WILL SALARY EXCHANGE FOR PENSION LAST?

Salary Exchange for pension arrangements have been in the market place for a significant number of years and for many employers have become the preferred method for funding employer pension schemes.

Aberystwyth University intends to run Salary Exchange for pension for as long as either legislation allows us to do so, or it is commercially prudent to continue. In light of this, Aberystwyth University reserves the right at its absolute discretion to withdraw Salary Exchange for pension, with or without notice, in the future.

You will then revert back to your current contribution basis (i.e. pre Salary Exchange for pension basis) and your **total gross pay** will no longer be adjusted. You will then make pension contributions to your pension arrangement as you are doing at present, subject of course to there being no increase in contribution rates because of other reasons.

YOU WILL NOT HAVE TO PAY BACK ANY OF THE SAVINGS YOU HAVE MADE.

Q3: IF MY PAY FALLS BELOW THE LOWER EARNING LIMIT (LEL) FOR A PAY PERIOD AND THEN INCREASES AGAIN FROM THE FOLLOWING PAY PERIOD, WILL I BE ABLE TO REJOIN PENSION EXCHANGE?

No. If your pay falls below the LEL you will be automatically opted-out of Salary Exchange for pension and will not be able to re-join until the next annual renewal date, (provided that your salary has increased to above the LEL). Aberystwyth University has introduced this limit so that participating in Salary Exchange for pension does not negatively impact employees.

Q4: HOW WILL MY PAYSリップ REFLECT SALARY EXCHANGE FOR PENSION?

For members in the salary exchange arrangement, the reduction in total gross pay will show as “Sal ex Adj USS” or “Sal ex Adj AU” depending on which pension scheme you are a member of.

Q5: WHY DOES PARTICIPATING IN SALARY EXCHANGE FOR PENSION RESULT IN REDUCED NATIONAL INSURANCE CONTRIBUTIONS (NIC) BUT NOT A REDUCTION IN TAX?

Employees’ pension contributions into an HMRC approved pension plan already attract income tax relief. Transferring the contribution from employee to employer will not therefore affect income tax payable.

Employee earnings are subject to NIC, whereas no NIC is payable on employer contributions into an approved pension plan. By reducing your contractual gross pay, both you and Aberystwyth University pay NIC on a smaller amount, whilst the total contribution to the Aberystwyth University Scheme or USS is not reduced.

Q6: WILL MY EMPLOYMENT CONTRACT/TERMS AND CONDITIONS CHANGE?

Agreeing to salary exchange **does** entail a change in your terms and conditions of employment.

The proposed amendment does not alter **any other terms** of your contract of employment.

You are accepting a reduced salary and in return Aberystwyth University will make an equivalent employer contribution into your pension scheme. Remember your net pay will increase as a result of Salary Exchange for Pension.

Failure to opt-out of the proposals in writing before the date the variation is to take effect will be deemed to imply consent to the arrangement and its proposals.

Q7: WILL MY PENSIONABLE SALARY REMAIN THE SAME?

Yes. Your Pensionable Salary is made up of your basic salary and, for some members, other pensionable pay elements. Under Salary Exchange for pension, Pensionable Salary will continue to be calculated as the sum of your basic salary and any pensionable pay elements *before* the Salary Exchange for pension reduction.

Q8: IF I PARTICIPATE IN SALARY EXCHANGE FOR PENSION, WILL IT AFFECT FUTURE PAY INCREASES OR ANY OTHER PAYMENTS?

No. All future pay rises will continue to be based on your total gross pay at its pre- Salary Exchange value. Similarly, all pay components which are derived from total gross pay, such as overtime, will continue to be calculated on your pre-Salary Exchange total gross pay.

Q9: WHAT ABOUT HOLIDAY PAY?

Your holiday pay will be based on the existing formulae, using **total gross pay**.

Q10: HOW WILL ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS) BE AFFECTED?

Salary Exchange for pension will not be applied to AVCs. Any AVCs paid into the pension plan will therefore continue to be paid on the pre-Salary Exchange for pension basis.

Q11: WHAT HAPPENS TO MY PENSION BENEFITS IF I LEAVE ABERYSTWYTH UNIVERSITY?

Salary Exchange for pension will not affect any of your pension benefits.

Q12: WHAT HAPPENS IF I AM MADE REDUNDANT?

The University will calculate any redundancy payment you are due on your total gross pay, which will be unchanged by participation in Salary Exchange for pension.

Q13: WHAT ABOUT DEATH IN SERVICE LUMP SUMS AND BENEFITS?

Death in service lump sum and benefits from AUPP and USS remain unchanged as a result of Salary Exchange.

Q14: I'M ON A TEMPORARY CONTRACT AND A MEMBER OF AUPP. HOW DOES SALARY EXCHANGE FOR PENSION AFFECT ME?

If you are an AUPP member, you will participate in Salary Exchange for pension for the duration of your contract, (unless you choose to opt out). When you leave employment, your participation in Salary Exchange for pension will automatically end.

Q15 I'M ON A TEMPORARY CONTRACT AND A MEMBER OF USS. HOW DOES SALARY EXCHANGE FOR PENSION AFFECT ME? WHAT IF I LEAVE THE USS?

If you are a USS member, you will participate in Salary Exchange for pension for the duration of your contract, (unless you choose to opt out). When you leave employment, your participation in Salary Exchange for pension will automatically end. If you transfer to another UK university you will be able to continue your membership of USS.

Please be aware that, if you are on a contract of less than two years, it may not be advantageous to you to participate in Salary Exchange for pension.

Under the current arrangements, if you leave USS with **less than two years** of continuous service, you can choose between three options:

- (i) A deferred pension and lump sum which are payable when you retire, or
- (ii) A transfer value, if you elect to transfer your pension fund to another pension

arrangement, or

-(iii) A refund of your employee net contributions.

This third option is only available to staff who do not participate in Salary Exchange for pension. Under the Salary Exchange for pension arrangements, you do not make any personal pension contributions and so the value of any refund will be nil. If you only participate in Salary Exchange for pension for part of the two year period, you can still receive a refund of personal contributions made whilst not in the scheme, but nothing for the period you participated in Salary Exchange for pension. Under option (iii) you are refunded the value of personal pension contributions made less statutory deductions

Options (i) and (ii) are not affected by participating in Salary Exchange. Option (iii) is, however, because if you participate in Salary Exchange, you will not make any employee pension contributions. This means that if you leave USS within two years, the value of any refund of contributions would either be greatly reduced or nil.

If you think that you may leave USS within two years of joining, and that a refund of personal contributions would be your preferred option, participating in Salary Exchange for pension would not be advantageous and you may wish to opt out.

If you rejoin USS within one month of leaving then the two periods of membership will be linked together. In all other cases the two periods will be treated as two separate periods of membership.

If you have two or more years of pensionable service in the scheme and you leave the USS you will either:

- (i) Be entitled to a deferred pension and retirement lump sum which are payable when you retire; or
- (ii) Be entitled to a transfer value if you transfer the value of your USS benefits to the scheme of any new employer or to a personal pension arrangement.

Q16 ARE THERE ANY CIRCUMSTANCES WHERE IT MAY NOT BE ADVANTAGEOUS TO PARTICIPATE?

It will not be advantageous for you to participate in Salary Exchange for pension if any of the following apply to you:

- You plan to leave AUPP OR USS within two years of joining and take a refund of personal pension contributions (see previous question about temporary contracts).
- You no longer pay NIC. In these circumstances there will be no change in your take home pay but the University could still benefit from you participating in Salary Exchange for pension.
- Your earnings for the year are less than the PPL.
- Your earnings are close to the National Minimum Wage (£6.50 per hour for workers aged 22 years and older from 1st October 2014).

If either of the last two categories applies to you, you will not be enrolled automatically in the scheme.

Q17: WILL MY TAX CREDITS BE AFFECTED?

Tax credits will not be affected by Salary Exchange for pension. This is because they are based on the employee's gross income (i.e. before tax and National Insurance) but after deducting pension contributions. Since the amount of the pension contribution and salary exchange are the same, there will be no change to income for tax credit purposes.

Q18: WILL SALARY EXCHANGE AFFECT MATERNITY PAY?

Aberystwyth University provides university maternity pay over and above Statutory Maternity Pay (SMP). Employees who have completed at least 12 months' continuous service with the University before the Expected Week of Childbirth are entitled to receive University maternity pay.

University maternity pay comprises;

- 8 weeks on full pay including Statutory Maternity Pay (SMP)
- followed by 16 weeks on half pay

This is then followed by 15 weeks SMP only finally followed by 13 weeks' unpaid leave.

Any University maternity pay you are eligible to receive will be based on your pre-Salary Exchange for pension salary, i.e. your total gross pay. Where you participate in salary Exchange for pension your statutory maternity pay, however, is based on post sacrifice salary and as a result will be based on this figure rather than on your total gross pay.

Unless you opt out of Salary Exchange for pension under a life style event, you will continue to exchange an amount equivalent to 6.35% of your maternity pay during any period you are in receipt of university maternity pay. Overall your net university maternity pay will not be adversely affected.

When you move onto SMP only (i.e. after the 24 weeks of university maternity pay), it is not possible to sacrifice statutory pay. As a result SMP cannot be reduced under Salary Exchange for pension. Consequently you will automatically be opted-out of Salary Exchange and normal pension contribution rules will apply.

Q19: WILL SALARY EXCHANGE FOR PENSION AFFECT SICK PAY?

Aberystwyth University provides sick pay over and above Statutory Sick Pay (SSP). University sick pay will still be calculated with reference to your pre-Salary Exchange for pension basic salary, i.e. your total gross pay, and will therefore not be affected by participation in Salary Exchange for pension. Unless you opt out of Salary Exchange under a life change event you will continue to exchange an amount equivalent to the relevant percentage of your sick pay during any period you are in receipt of University sick pay. For example when you go onto half sick pay your employee contribution increases to 12.7% of sick pay, for that period there will be a corresponding increase in the salary exchange for pension adjustment.

If however, you are on SSP only, it is not possible to reduce statutory pay. SSP cannot be reduced under Salary Exchange for pension. Consequently you will automatically be opted-out of Salary Exchange and normal pension contribution rules will apply.

Q20: WILL SALARY EXCHANGE FOR PENSION AFFECT MY STATE BENEFITS?

Any State benefits / entitlements that are based on pay subject to NIC could be affected, particularly if your earnings are brought below the National Insurance Lower Earnings Limit (LEL) which is £5,772 in the 2014/15 tax year.

For example, Statutory Sick Pay (SSP) could be reduced.

In most cases the effect will be minimal. The Pay Protection Limit (PPL) has been introduced to minimise any exposure to a reduction in State benefits.

Q21: WILL MY REDUCED BASIC SALARY AFFECT MY CREDIT RATING FOR LOANS, MORTGAGES ETC?

Aberystwyth University will provide certified documents to confirm the arrangements that have been introduced. These will show that your salary is made up of your **total gross pay**. You can then pass this information on to the appropriate lender.

Q22. WILL SALARY EXCHANGE FOR PENSION IMPACT ON PAYMENTS TO THE CHILD SUPPORT AGENCY (CSA)?

Payments to the CSA are based on income, i.e. after deduction of pension contributions, tax and NIC. Under Salary Exchange for pension, your net income will increase as you will be paying less NIC.

However the CSA will not typically change the amount of child maintenance if the change in net weekly income is less than 5%. As net pay changes will be less than 5% under Salary Exchange for pension there should be no change to the level of payments solely by reference to participating in the Salary Exchange for pension.

Q23. WILL SALARY EXCHANGE FOR PENSION IMPACT ON MY STUDENT LOAN REPAYMENTS?

If you are repaying a student loan taken out with the Student Loans Company, your student loan repayments may be reduced slightly and the repayment period may increase as a result of participating in Salary Exchange for pension. This is because your repayments are calculated using your total gross salary less the Salary Exchange for pension reduction.

Q24: DOES THE IDEA REQUIRE APPROVAL BY HER MAJESTIES REVENUE AND CUSTOMS (HMRC)?

The University will seek approval from HMRC for the implementation of Salary Exchange for pension. Once the approval is obtained it will not be necessary for you to notify HMRC of your participation in the Salary Exchange for pension arrangement.

Q25: WHAT ARE THE IMPLICATIONS OF SALARY EXCHANGE FOR PENSION IF I AM ALREADY PARTICIPATING IN CHILDCARE VOUCHERS, OR OTHER BENEFITS, VIA SALARY CONVERSION?

Like Salary Exchange for pension, Aberystwyth University has other benefit arrangements, e.g. Childcare vouchers, which involve you converting part of your **total gross pay**. When considering whether it would be appropriate to take part in Salary Exchange for pension your earnings after the reduction for any other benefits are taken into account. If you then fall into the category who regularly earn below the PPL you will be excluded from Salary Exchange for pension. (Additionally you should note that if your earnings fall below the LEL (£5,772 in the tax year 2014/15) you may lose entitlement to certain State contributory benefits.

Q26: I WAS PREVIOUSLY EMPLOYED BY IGER. HOW DOES THIS CHANGE AFFECT ME?

If you were a member of one of the BBSRC schemes (Classic, Classic Plus, NUVOS or Premium) then when you transferred to Aberystwyth University you will have received a pensionable or non-pensionable uplift to your salary depending on whether you were a member of Classic Plus, NUVOS or Premium (pensionable) or Classic (non-pensionable) This will continue except that the salary exchange will be calculated on Gross pay plus uplift if the latter is pensionable or just on Gross pay if it is not pensionable.

Q27: I HAVE TWO OR THREE PART TIME JOBS WITH THE UNIVERSITY WHICH EACH PAY LESS THAN £6,000 HOWEVER IN TOTAL MY EARNINGS ARE £10,600 PER ANNUM. CAN I STILL PARTICIPATE?

Provided your monthly gross earnings are consistently more than £500 then subject to the minimum wage criterion (question 16) you will be eligible to participate and will be automatically entered in to the scheme.