



Group Personal Pension Scheme

SALARY **EXCHANGE**

Salary Exchange Frequently Asked Questions



Once you are enrolled into your workplace pension, you are entitled to make contributions via **Salary Exchange** should you wish to. Salary Exchange is a method of how your pension contributions are deducted from your salary, and differs to the conventional method whereby contributions are taken from your pay after tax. This booklet explains how the arrangement works so that you can decide whether it is right for you.

What does Salary Exchange mean?

Salary Exchange is where employees 'exchange' their salary in return for an employer pension contribution. Your exchanged contribution is deducted from your salary **before tax**, therefore you do not pay income tax or national insurance (NI) on this portion, neither does your employer.

Why might Salary Exchange be beneficial to me?

When making your pension contributions via Salary Exchange, for the majority of employees, your **take-home pay will be higher** than if you make contributions directly from your pay. This is because you will pay less National Insurance (NI), as does your employer.

What happens to my basic salary?

This will be reduced by an amount equivalent to your employee pension contributions, but your **full salary will be used for all pay review purposes**, and to calculate other benefits that CFH may provide to you. Your full salary will also be shown on your payslip as normal.

What happens to my pension contributions?

CFH will contribute the combined amount as an employer contribution. This will **include the amount you contribute via Salary Exchange, plus CFH's standard 4% contribution**.

Can you confirm my benefits will still be based on my reference salary?

Your reference salary, or salary before your salary exchange has been deducted, **will be used** to calculate benefits paid by CFH, pension contributions and sick pay.

Will my reference salary be used for mortgage or loan applications?

Yes - any letters sent by CFH to mortgage lenders or financial institutions will provide details of your earnings **before the salary exchange** deductions.

Most, if not all, lenders will be familiar with this arrangement and should accept your gross salary for borrowing or loan purposes.

How will maternity pay be affected by Salary Exchange?

You will have the option to **opt out of Salary Exchange when you go on maternity leave**. If you choose to do this, CFH will enhance your Statutory Maternity Pay (SMP). This means for the first 6 weeks; you will receive your full weekly earnings. For the remaining 33 weeks, it will be paid at the current rate of SMP.

If you remain contributing via Salary Exchange, your maternity pay will be based on your lower (taxable) salary for the first 6 weeks. For the remaining 33 weeks, it will be paid at the current rate of SMP.

These points assume that you qualify for maternity leave/pay. Contact your HR/payroll team for more information on how to opt out of Salary Exchange if required in future.

How will my State Pension entitlement be affected?

The Government introduced a new, single tier, State Pension from 6th April 2016. Anyone reaching State Pension Age (SPA) from this date will receive the New State Pension. Your right to the State Pension should not be affected as long as your pay after Salary Exchange remains above the threshold for this and other State Benefits and you continue to pay sufficient National Insurance contributions.



Will Salary Exchange affect Universal Credit/Child Tax Credit Payments?

Salary Exchange reduces your taxable cash earnings. So your entitlement to tax credits could increase as a result of you participating in Salary Exchange.

If you are in doubt, you can call the **HM Revenue & Customs (HMRC) tax credit helpline on 0345 300 3900**.

Will Salary Exchange affect my Student Loan repayments?

Employees with Student Loan repayments could find that a reduction in their taxable basic salary will take them below the earnings threshold, which could potentially delay repayments from starting or being completed.

Check the Gov.uk website for the current thresholds for this tax year.

How do I join the group pension scheme and make contributions via salary exchange?

If you wish to join the scheme and make contributions via Salary Exchange, please complete through Cascade during the annual window in February.

If I want to pay more than 5% of my basic salary into my pension account, can this be via Salary Exchange?

Yes, **your full contribution percentage can be exchanged via Salary Exchange**. Check your reduced salary does not negatively impact your eligibility for State Benefits or drop below national minimum wage limits.

You can make amendments to your pension contributions throughout the year.

I am a higher rate taxpayer - should I still be claiming my additional tax relief on contributions?

As noted, you can choose to sacrifice any percentage of your basic salary through Salary Exchange. As a result, you will no longer need to claim higher or additional rate tax relief on this contribution.

As your basic salary is being reduced, you will pay less tax and National Insurance, so effectively are obtaining tax relief directly through payroll.

How Flexible is the arrangement?

If you join Salary Exchange, and remain working for CFH, you may only be able to opt out or cease your membership each February. You can amend the % you contribute throughout the year.

The reduction in your basic salary will continue until your next opportunity to opt out. You may be able to opt out more frequently if you experience a **lifestyle event**. Lifestyle events are often described as circumstances which cause a significant change in your financial circumstances, such as:

- Birth of a child/adoption
- Marriage/Civil Partnership
- Divorce
- Death of dependent/partner
- Period of unpaid leave

Discuss with your HR department if you are unsure as to whether you are eligible to opt out of the arrangement.

What salary figure will show on my P60?

Your P60 will only show your earnings that are subject to tax, which will decrease with Salary Exchange. Your payslip will show your reference salary.

Who wouldn't benefit from Salary Exchange?

Lower earners may face disadvantages with Salary Exchange, as it **could reduce their salary below the National Minimum Wage**. Additionally, ensure your salary remains above the threshold for certain state benefits. For eligibility details, visit the Gov.uk website.

If you are beyond state pension age, Salary Exchange provides fewer savings since National Insurance is no longer applicable.

Consider consulting a financial planner to determine if Salary Exchange suits your situation.



What if HM Revenue & Customs changes legislation in the future to stop Salary Exchange?

The government announced that the income tax advantages of some employee benefit arrangements offered through Salary Exchange would end for anyone newly joining a scheme in April 2017.

However, Salary Exchange in connection with pension contributions was not included as part of their review and therefore those who currently contribute in this way or wish to start doing so will benefit from the usual tax and NI savings.

If however, future changes are made to Salary Exchange or Pensions legislation we will endeavour to inform you as quickly as possible of any impacts on your own position whilst still a member of the scheme.

Considering financial advice?

Contact our Pension Scheme Advisers, who are Chartered Financial Planners, for more information. Please note services may incur a fee which will not be payable by CFH.

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