

Nicholas Pearson Associates Ltd

Group Personal Pension Scheme

SALARY EXCHANGE

2025/2026

Salary Exchange Frequently Asked Questions



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' a portion of 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, and 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. In addition, NPA pays their saving into your pension pot as a further contribution.

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 and bonus purposes**, and to calculate other benefits that NPA may provide to you. Your full salary will also be shown on your payslip.

What happens to my pension contributions?

NPA will make all these contributions under Salary Exchange. This will include the amount of salary you exchange as well as the companies normal pension contribution, and the additional contribution due to the employer NI savings!

Will my reference salary be used in connection with mortgage or loan applications?

Yes - any letters sent by NPA 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?

Entitlement to state benefits such as maternity pay **could be reduced** should you choose to pay via Salary Exchange as it is based on your earnings subject to National Insurance contributions. As such you can choose to 'opt-out' of Salary Exchange before going on maternity leave to ensure your Statutory Maternity pay is based on your full reference salary instead of your salary post-exchange. Going on maternity is a 'lifestyle event' (see later on in this document). If you opt out, you will contribute to the pension via net pay (after tax deductions).

Should you wish to opt back in to Salary Exchange on your return, you can do so.

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.

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**.



Frequently Asked Questions

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.

The thresholds for 2025/26 are:

- £26,065 per annum under loan plan 1 (students who commenced study before September 2012)
- £28,470 per annum under loan plan 2 (students who commence study between September 2012 and July 2023)

**Figures may differ for Scotland & EU*

How Flexible is the arrangement?

You can opt in/out of the arrangement 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 dependant/partner
- Period of unpaid leave

You may also be able to amend how much you contribute via Salary Exchange. Contact your HR/payroll representative for further information on this.

I am a higher-rate taxpayer paying contributions into the scheme - should I still be claiming my 40% tax relief?

As noted, you can choose to sacrifice your personal contribution through Salary Exchange for a higher employer contribution. As a result, you will not need to claim higher-rate tax relief on the 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.

If you make personal contributions into the scheme and elect to not pay these via Salary Exchange, you will need to claim higher-rate tax relief on these amounts.

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?

Employees who may be significantly better off by not joining the Salary Exchange scheme will be notified separately. People typically on lower earnings do not benefit from this arrangement as it may impact them negatively.

For example, for someone on a lower salary who opts in for Salary Exchange, it may take them below the National Living Wage of £12.21 per hour (aged 21+). Also, you'll need to ensure that your salary is still above the threshold for certain state benefits. If you are concerned about being eligible for state benefits you can visit the Gov.uk website (<https://www.gov.uk/>).

For those people who work beyond state pension age, Salary Exchange does not offer as many savings as National Insurance payments does not affect such workers.

Still not sure on whether its for you?

To speak to a financial planner for advice on whether Salary Exchange is the best decision for you, you can contact our Pension Scheme Advisers at enquiries@bowmorefp.com. Please note they may charge for their services if personal advice is provided.

