Smart Pensions salary exchange

what it means to you...

Hanson
HEIDELBERGCEMENT Group

How the salary exchange agreement works

Smart Pensions is a salary exchange agreement which allows both you and the company to make National Insurance Contribution (NIC) savings on payments to your pension fund, increasing your take-home pay.
It means:

- you do not make any payments (including any additional voluntary contributions) directly into the pension scheme
- your basic pay is reduced by an amount equal to your pension contributions
- the company pays your pension contributions direct to the scheme.

As a result both you and the company pay less in NIC and your take-home pay increases.

If you participate in Smart Pensions, your current gross pay becomes known as basic pay. Your new rate of pay from which tax and NIC are deducted is known as reduced basic pay. Basic pay is used to calculate your salary-related benefits including pay reviews, overtime payments, etc and does not change as a result of your participation in Smart Pensions. Any mortgage reference letters will also refer to your basic pay (ie inclusive of your pension contribution). Redundancy pay would be unaffected.

Table 1	**Before Smart Pensions**	**With Smart Pensions**
Basic pay	£31,500	
Reduced basic pay		£30,000
Employee net pension contribution	£1,500	£0
Employer pension contribution*	£3,000	£4,500
Total annual pension contribution	£4,500	£4,500
Amount exchanged	£0	£1,500
Reduced basic pay		£30,000
Annual employee NIC saving (12% of the amount exchanged)	£0	£180

However, your reduced basic pay will be the figure used to calculate any earnings-related benefits issued by the government. This is explained in the questions and answers section. Smart Pensions represents a change to your terms and conditions of employment, but only relating to pay and benefits. It does not affect your pension benefits at retirement.

Here's how it works:

Example 1 – basic rate taxpayer

Claire earns £31,500 a year and is a basic rate taxpayer. Before Smart Pensions, she was making a pension contribution of £1,500 and receiving a cash salary of £30,000 before tax. Under Smart Pensions, Claire's basic pay is reduced by £1,500 and the company increases the contribution it makes directly into Claire's pension by the same amount. Table 1 above shows the savings under Smart Pensions. The net result is that Claire's take-home pay increases by £180 because the salary exchanged is paid into her pension as an employer contribution, which is exempt from NIC.

Table 2	Before Smart Pensions	With Smart Pensions
Basic pay	£52,500	
Reduced basic pay		£50,000
Employee net pension contribution	£2,500	£0
Employer pension contribution*	£5,000	£7,500
Total annual pension contribution	£7,500	£7,500
Amount exchanged	£0	£2,500
Reduced basic pay		£50,000
Annual employee NIC saving (2% of the amount exchanged)	£0	£50

* The employer contribution in both these examples is for illustrative purposes only.

Example 2 – higher rate taxpayer

Luke earns £52,500 a year and pays higher rate tax. Before Smart Pensions, he was making a pension contribution of £2,500 and receiving a cash salary of £50,000 before tax. Under Smart Pensions, Luke has agreed to forfeit £2,500 of his basic pay and the company increases the contribution it makes into Luke's pension by the same amount. Table 2 above shows the savings under Smart Pensions.

The net result is that Luke's take-home pay increases by £50 because the salary exchanged is paid into his pension as an employer contribution, which is exempt from NIC.

The company has introduced a **pay protection limit** of £6,000 a year as the minimum to qualify for Smart Pensions. This ensures those who are unlikely to make savings from participating, or where state benefits could be at risk, are automatically excluded. This limit will be reviewed to ensure it remains appropriate.

Why is the change for a minimum of 12 months?

Because it is easier for the payroll department to administer. But you can opt out of Smart Pensions if you experience a significant change in your personal circumstances (a lifestyle change). Lifestyle changes include:

- marriage/civil partnership
- legal separation/divorce
- death of a dependant
- birth/adoption of a child
- redundancy of spouse/partner
- long-term unpaid leave
- change in contract from full-time to part-time hours
- long-term absence due to illness or injury.

In addition, if your pay drops below the **pay protection limit** (see left) or the national minimum wage as a result of participating in Smart Pensions, you will automatically be opted out to ensure you are no worse off. If you choose to leave the pension scheme, your pay will return to the basic pay level.

Will Smart Pensions affect my death in service benefits?

No. It will not affect your life assurance benefit or your spouse/partner's pension. If you are a member of a section of HIPS that allows a refund of your contributions in the event of your death, the company will calculate a notional value equivalent to the amount you would have received had Smart Pensions not been introduced.

Will I have to put anything on my tax return or inform the tax office?

No. Pension contributions made by employers are not taxable benefits.

Are there any potential disadvantages?

Yes. You should consider carefully the effect, or potential effect, that any adjustment in your pay arrangements may have on your entitlement to:

- state benefits, including work-related payments, contribution-based benefits and earnings-based benefits
- Working Tax Credit or Child Tax Credit.

The impact on your state benefit entitlement depends on how much you earn:

- If you already earn below £5,668 (for 2013/14), you do not accrue any entitlement to state benefits and joining Smart Pensions would therefore have no impact.
- If your earnings fall below £5,668 (for 2013/14), you will lose an entitlement to state benefits that you may previously have enjoyed.
- If you earn between £5,668 and £40,040 (for 2013/14), paying less NICs (because you have exchanged salary to receive benefits) may impact on your entitlement to some state benefits, for example the State Second Pension (S2P).
- If your earnings are above £40,040 (for 2013/14), you stop accruing an additional entitlement to S2P and so reducing the amount of NICs you pay will not impact your entitlement to this benefit.

The company has also introduced a pay protection limit (see previous page).

Payment of statutory maternity, paternity, adoption and sick pay will continue to be based on basic pay.

What happens if I am off sick?

If you receive occupational or statutory sick pay, or have made a permanent health insurance claim, your Smart Pensions arrangement would remain in operation as normal, providing you receive at least the statutory minimum sick pay. This would not impact your entitlement to statutory sick pay.

If you have sick leave on an unpaid basis, or you are receiving sick pay at below the statutory minimum, your pension contributions would cease.

What about contribution-based benefits?

Contribution-based benefits such as incapacity benefits and jobseeker's allowance are provided to everyone who pays NIC, regardless of salary level. To pay NIC, you must be earning more that £5,668 for the 2013/14 tax year. You should therefore check that your salary will not fall below this level before deciding to participate in Smart Pensions. The company has imposed a pay protection limit to guard against this.

Will Smart Pensions affect my entitlement to a state pension?

There are two types of state pension: the basic state pension (BSP) and the state second pension (S2P). Providing you are still paying NIC on your salary from the company (ie you earn more than £5,668 in 2013/14), there will be no impact on your entitlement to the BSP.

Your entitlement to the S2P is based on the amount of NIC you pay, up to a £40,040 limit (for 2013/14). Therefore, if you earn below £40,040 and reduce

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Questions and answers

your salary through salary exchange, you will potentially reduce your entitlement to this benefit. If you have any questions or concerns, you should consult an independent financial adviser.

Is the maximum contribution I can pay into the pension fund affected?

Payments which exceed annual earnings or what is known as the annual allowance could lead to a tax charge. The annual allowance for 2013/14 is £50,000. If you have been contributing to a pension scheme registered with HMRC in the previous three tax years and the total contributions are less than £50,000 per year, any unused allowances can be rolled forward. The annual allowance will go down to £40,000 from April 6, 2014. The lifetime allowance is currently £1.5 million, reducing to £1.25 million from next year.

How does this fit with auto-enrolment?

Employees who have been auto-enrolled into the pension scheme can switch to Smart Pensions and enjoy the benefits.

What happens if I die before retiring?

No change. Your estate would still receive a death in service payment. Death benefits will continue to be based on your basic pay.

Will Smart Pensions have any impact on the high income child benefit charge?

The salary you exchange will count as a reduction in your adjusted net income. This may mean the impact of the charge is reduced or removed altogether.

What about student loan repayments?

It may reduce the amount of student loan deductions we make. These deductions are calculated using your reduced basic pay, which will be lower than your current basic pay.

Who cannot participate?

Those whose salary level would fall below the national minimum wage. If you have reached the state retirement age you should consider whether to participate as you are no longer liable for NIC.

What happens if I go on maternity leave?

You will keep the same arrangements you had before you went on leave, unless you choose to opt out of Smart Pensions as a result of your lifestyle change. You should speak to your usual HR contact to discuss your options.

What happens if I already pay reduced rate NIC?

If you are a married or widowed female who has elected to pay reduced rate NIC, you will still make savings with Smart Pensions but they will be less than if you were paying full contributions.

Can I change my mind?

Yes, you can advise the company in writing that you wish to withdraw one month before the anniversary date.

How do I know Hanson will pay my contributions?

Smart Pensions is a change to your employment contract under which Hanson is obliged to make the payments. Your total contributions will appear on statements issued by HIPS.

What do I do now?

Nothing, unless you want to opt out, in which case you must complete the employee opt-out form and return it by November 20.

If you need more information on Smart Pensions, please contact:

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