Usdaw Staff Superannuation Fund and Usdaw Staff Defined Contribution Pension Plan – Salary exchange Frequently Asked Questions

What is salary exchange?

Salary exchange is an arrangement which is designed to make pension contributions more affordable for both you and Usdaw *(the Union)*, by reducing the amount of National Insurance *(NI)* payable.

Under salary exchange, employees agree to a reduction in their salary and receive a non-cash benefit in return. In this case, the benefit is an additional employer pension contribution, matching the amount of salary exchanged. This will allow you, as a member of either the Usdaw Staff Superannuation Fund *(the Fund)* or the Usdaw Staff Defined Contribution Pension Plan *(the DC Plan),* to save money because the NI payable will be based on your lower salary. Some examples of how this works are given on pages 2-4.

How does salary exchange work?

Salary exchange is used for pension contributions to take advantage of savings in NI as the contributions are taken before any tax or NI has been paid.

Using salary exchange for making pension contributions means that you will make NI savings whilst you are under State Pension Age *(SPA)*. Your saving will vary between 2% and 8% of the amount of salary you exchange, depending on your pre- and post-exchange earnings. The Union will also make a saving.

Your savings will be as follows:

1. If your pre- and post-exchange earnings are between £12,570 and £50,270, the saving will be 8% of the value of your exchange.
2. If your earnings remain above £50,270 after your exchange, then the saving will be 2% of the value of your exchange.
3. If your pre- and post-exchange earnings fall either side of £50,270, then the saving will be partly at the 8% level and partly at the 2% level.

Examples of this assuming 2024/25 English tax and NI rates for basic rate and higher rate taxpayers are shown overleaf.

Usdaw Staff Defined Contribution Pension Plan examples

Employee contribution: 3%

Gross salary	£30,000 pa		£60,000 pa	
	Before salary exchange	After salary exchange	Before salary exchange	After salary exchange
Gross salary	£30,000	£29,100	£60,000	£58,200
Gross employee pension contribution	(£900)	-	(£1,800)	-
Less Income Tax	(£3,306)	(£3,306)	(£10,712)	(£10,712)
Less National Insurance	(£1,394)	(£1,322)	(£3,211)	(£3,175)
Take home pay	£24,400	£24,472	£44,277	£44,313
Annual saving	-	**£72**	-	**£36**
Pension contributions				
Gross employee pension contribution	£900	-	£1,800	-
Additional employer pension contribution	-	£900	-	£1,800
Total pension contribution on your behalf	£900	£900	£1,800	£1,800

Employee contribution: 4%

Gross salary	£30,000 pa		£60,000 pa	
	Before salary exchange	After salary exchange	Before salary exchange	After salary exchange
Gross salary	£30,000	£28,800	£60,000	£57,600
Gross employee pension contribution	(£1,200)	-	(£2,400)	-
Less Income Tax	(£3,246)	(£3,246)	(£10,472)	(£10,472)
Less National Insurance	(£1,394)	(£1,298)	(£3,211)	(£3,163)
Take home pay	£24,160	£24,256	£43,917	£43,965
Annual saving	-	**£96**	-	**£48**
Pension contributions				
Gross employee pension contribution	£1,200	-	£2,400	-
Additional employer pension contribution	-	£1,200	-	£2,400
Total pension contribution on your behalf	£1,200	£1,200	£2,400	£2,400

Employee contribution: 5%

Gross salary	£30,000 pa		£60,000 pa	
	Before salary exchange	After salary exchange	Before salary exchange	After salary exchange
Gross salary	£30,000	£28,500	£60,000	£57,000
Gross employee pension contribution	(£1,500)	-	(£3,000)	-
Less Income Tax	(£3,186)	(£3,186)	(£10,232)	(£10,232)
Less National Insurance	(£1,394)	(£1,274)	(£3,211)	(£3,151)
Take home pay	£23,920	£24,040	£43,557	£43,617
Annual saving	-	**£120**	-	**£60**
Pension contributions				
Gross employee pension contribution	£1,500	-	£3,000	-
Additional employer pension contribution	-	£1,500	-	£3,000
Total pension contribution on your behalf	£1,500	£1,500	£3,000	£3,000

Usdaw Staff Superannuation Fund examples

Employee contribution: 9%

Gross salary	£30,000 pa		£60,000 pa	
	Before salary exchange	**After salary exchange**	**Before salary exchange**	**After salary exchange**
Gross salary	£30,000	£27,300	£60,000	£54,600
Gross employee pension contribution	(£2,700)	-	(£5,400)	-
Less Income Tax	(£2,946)	(£2,946)	(£9,272)	(£9,272)
Less National Insurance	(£1,394)	(£1,178)	(£3,211)	(£3,103)
Take home pay	£22,960	£23,176	£42,117	£42,225
Annual saving	-	**£216**	-	**£108**
Pension contributions				
Gross employee pension contribution	£2,700	-	£5,400	-
Additional employer pension contribution	-	£2,700	-	£5,400
Total pension contribution on your behalf	£2,700	£2,700	£5,400	£5,400

How long has salary exchange been around?

Salary exchange has been used for many years but has substantially increased in popularity over the last few years. It has been adopted by many major companies.

Can I make Additional Voluntary Contributions (AVCs) or Pension Builder Contributions (PBCs) using salary exchange?

If you make regular AVCs or PBCs over and above your standard contribution rate, you can also make these using salary exchange. Unless advised otherwise, the Union will assume that by agreeing to participate in salary exchange, you agree to reduce your salary by an amount equivalent to your standard contribution plus any AVCs or PBCs.

If you do pay AVCs or PBCs using salary exchange, then as with other contributions made using salary exchange, your contributions may only be changed once a year or on a lifestyle event. Further details of this are provided on page 7 of this document.

Will it remain an option?

Salary exchange is an HMRC-approved practice. Whilst the Government has recently limited the range of benefits that attract NI savings as part of salary exchange arrangements, pension contributions continue to attract these savings and there is currently no intention to withdraw the facility. If it ceased to be advantageous or if the Union were no longer able to operate the arrangement, then you would be advised accordingly.

How long will the arrangements last?

If you are eligible for salary exchange it will continue to run indefinitely. If at any time the Union believes that this is no longer beneficial, it reserves the right to revert you to the traditional method of making pension contributions. Until that point, you would have benefited from an increase in your take home pay.

Will taking part affect my pension benefits?

No.

Your contributions will continue to be based on the same salary and any final salary benefit will be based on your 'Full Reference Pay', that is your salary before any exchange. The only change is that the entire contribution will be paid by the Union instead of being paid by you and the Union.

Will taking part affect payments such as salary increases, redundancy payments, death in service benefit or overtime?

No.

Your current gross salary will be reduced by an amount equal to your employee pension contributions. However, as mentioned above, the Union will implement a 'Full Reference Pay' definition, which is your salary before any exchange. This is the salary that will be used when calculating entitlement to all other salary-related employee benefits, including pay awards and redundancy. As such, salary exchange has been introduced in a way which means that, in terms of your benefits, you will be no worse off by participating.

Do my earnings have to be a certain level to use salary exchange?

Yes.

By law, we have a responsibility to ensure that our employees are paid at least the National Minimum Wage *(NMW)* and National Living Wage *(NLW)*. Therefore, pension salary exchange must not reduce your pay below this.

Will taking part affect my NI contribution record?

The importance of your NI contribution record is to ensure that you pay sufficient NI in any given tax year to maintain your eligibility and entitlement to various State benefits. Different State benefits interact differently with NI contributions; the impact, if any, of salary exchange will depend on the State benefit under consideration.

Which State benefits could be affected?

Salary exchange may have an impact on entitlement to certain State benefits, as it will impact on the salary on which benefits are based. If you believe that you may be affected by this, you should carefully consider this before deciding whether or not to participate.

The following notes provide some further information on the various types of State benefits and the way in which they may be impacted by participation in salary exchange.

There are three classes of State benefits available to individuals:

1. Contribution-based benefits, which require you to earn (or be treated as earning) equal to, or in excess of the NI Lower Earnings Limit *(LEL)* (£6,396 for the 2024/25 tax year).
2. Earnings-related benefits, which are based in part on the level of taxable earnings.
3. Means-tested benefits, which take into account a range of factors including earnings and personal, family or household circumstances.

Further detail on each of these classes of benefits is provided below.

1 – Contribution-based state benefits

As entitlement to these benefits requires you to earn (or be treated as earning) over the NI LEL in a given tax year in order to retain entitlement to these benefits, it is important that your salary does not fall below this amount.

The state benefits that require earnings above the LEL are:

- New State Pension
- Statutory Sick Pay
- Employment and Support Allowance *(ESA)*
- Jobseeker’s Allowance (contribution-based element)
- Widowed Parent’s Allowance
- Bereavement Allowance
- Universal Credit

2 – Earnings-related benefits

As the name suggests, the level of entitlement to these benefits may decrease if earnings levels decrease post-exchange. Examples of these benefits are:

- Maternity benefits (i.e. statutory maternity pay *(SMP)*, statutory adoption pay *(SAP)* and statutory paternity pay *(SPP)*)
- Maternity allowance *(MA)* – entitlement to maternity allowance could decrease as a result of salary exchange. Those affected would be employees ineligible for SMP, but with sufficient earnings to participate in the salary exchange arrangement. If any employees believe that they may be affected by this, then we would recommend that they consider opting out of the salary exchange arrangement.

3 – Means-tested benefits

This group of benefits is based on an individual's personal circumstances and, in some cases, those of their family or household. The benefits include:

- Working Tax Credit
- Child Tax Credit
- Income Support
- The income-based element of Jobseeker's Allowance
- Universal Credit

Recipients of tax credits should inform HMRC of any changes in circumstances, including a change in salary. Using salary exchange may increase the amount of tax credits payable; conversely, opting out of the arrangement may decrease entitlements. Tax Credit guidance is available on the Directgov website at: www.gov.uk/browse/benefits/tax-credits.

The above information has been prepared based on our understanding of the current rules around benefit payments. These rules and your entitlement to any benefits may change in the future and the Union cannot accept responsibility for any decisions made by employees who rely on this information if changes have occurred. Individuals should consider their own personal circumstances and contact the relevant government department with any questions if in doubt.

Will taking part affect Statutory Maternity Pay (SMP)?

If your average weekly earnings (for SMP entitlement purposes) during the 'relevant period' fall below the LEL, you will lose your entitlement to SMP. If this happens you may still be entitled to Maternity Allowance, which is an earnings-related benefit. For women on maternity leave, the gross amount of SMP received may be slightly reduced if they are participating in a salary exchange arrangement during the 'relevant period'. For further information on this, please visit the HMRC website at: www.gov.uk/salary-echange-and-the-effects-on-paye.

To avoid the risk of losing any entitlement to SMP, you need to consider carefully whether you would like to remain in the salary exchange arrangement whilst you are pregnant. It is advisable that, should you fall pregnant, you contact the payroll supervisor at the Union's Head Office as soon as possible so you can discuss whether you should opt out of the salary exchange arrangement.

Will my student loan repayments be affected?

If you are paying a student loan taken out with the Student Loans Company through PAYE, your student loan repayments will be reduced, and the repayment period may increase as a result of participating in salary exchange.

How do I participate?

When you are automatically enrolled into the DC Plan, or when you join the Fund, you will immediately be put into the salary exchange arrangement providing your earnings are above a certain level; specifically, provided your post-exchange earnings exceed the NMW or NLW, as well as the NI Primary Earnings Threshold of £12,570.

If you would like to opt out of the salary exchange arrangement, you can do so by completing the opt out form, available from the payroll supervisor at the Union's Head Office.

If you do participate in the arrangement, you should also consider any other salary exchange arrangements you are a member of, such as green car scheme, cycle to work or childcare vouchers.

What if my circumstances change or I want to opt in or out at a later date?

You will have the opportunity to review your participation in the salary exchange arrangement once a year, during each June so that changes are effective each July, or alternatively at a lifestyle event. Lifestyle events include, but are not limited to:

- Notification or commencement of maternity, paternity or adoption leave
- Birth or adoption of a child
- Returning from maternity, paternity or adoption leave
- Start of marriage or civil partnership
- End of marriage, civil partnership or long-term relationship
- Material change in a partner's or dependant's circumstances
- Commencement of a period of a long-term absence or secondment
- Return from a period of long-term absence or secondment
- Significant change in working hours, job or contractual terms of employment
- Reaching State Pension Age

Will taking part change the amount of income tax I pay?

No, you will pay the same amount of income tax as if you made the same pension contributions not through salary exchange.

Are there any other considerations around participation?

For individuals whose earnings are around certain levels, participating in salary exchange may reduce their earnings in a particularly advantageous manner. Potential examples of this include:

- Reducing earnings below the higher or additional rate tax bands (set at 40% and 45% respectively in 2024/25).
- To continue to receive some or all of the child benefit payments, which are subject to a phased withdrawal on earnings.
- Student loans, which require repayment when an individual's earnings are in excess of £24,990 per year[1] (2024/25 tax year).

[1] For Plan 1 student loans. Different earnings thresholds will apply if you have loans in different student loan Plans.

Will my savings increase if NI rates are increased in the future?

Yes.

As the savings you would make are based on the rate at which you pay NI, if this increases in the future, then so will your pension savings.

Will taking part affect a reference for a mortgage or a loan?

Lenders may vary their requirements for evidencing of earnings in relation to mortgages, loans or other borrowing. If necessary, the Union will provide a salary reference to lenders setting out the amount of your higher ‘Full Reference Pay’, which is your salary before any adjustment under salary exchange.

Can I take part if I am over the State Pension Age and therefore do not pay NI?

If you are over the State Pension Age, you will not pay NI and, as a result, you would not benefit from any savings.

What happens if I leave the Union?

Your participation in the Fund or the DC Plan will come to an end automatically, therefore the Union’s contributions to the Fund or the DC Plan on your behalf will also cease.

Fund members

Under the current pension arrangements, employees with less than 2 years' contributions may receive a repayment of employee contributions, less tax, upon leaving the Fund (also applies to those remaining in employment but opting out of the Fund).

In these circumstances, the Union will make an ex-gratia payment equal to the value of the contributions you would have paid, less tax and NI. You may also have the option to transfer your accrued benefits to another pension arrangement; however there is no option to leave your accrued benefits in the Fund to be drawn at a later date.

If you have more than 2 years' contributions in the Fund, the value of your pension benefits can either be transferred to another pension arrangement or be kept within the Fund until you come to draw them.

DC Plan members

If you leave the DC Plan within one month of joining, the Union will make an ex-gratia payment equal to the value of the contributions you would have paid, less tax and NI.

If you leave after one month, your contributions will remain invested in the DC Plan. You may transfer your pension pot to another registered pension scheme but you will not be able to access the pot until your minimum retirement age.

Is there anything else I need to be aware of?

This arrangement is considered to constitute a formal variation of your terms and conditions of employment because your salary will have been in effect ‘reduced’ by your pension contribution amount, which is instead paid by the Union as an additional pension contribution.

Where can I find more information?

Further information can also be found on the HMRC website at: https://www.gov.uk/guidance/salary-sacrifice-and-the-effects-on-paye.

Who can I speak to if I have further questions?

In the first instance, please send your questions to the payroll supervisor at the Union's Head Office.