

## UNIVERSITY OF NOTTINGHAM

### Contributory Pension and Assurance Scheme

#### SALARY EXCHANGE

#### What is Salary Exchange?

This is an arrangement whereby an employee takes a reduction in salary and the University pays a corresponding amount to a pension arrangement.

The advantage of this arrangement is that the employee will not have to pay National Insurance Contributions (NIC) on the earnings forgone.

To enter an arrangement of this kind there must be a change to the Contract of Employment, or an exchange of letters, between the University and the Employee.

#### How does Salary Exchange for Pension Contributions work?

- You stop making your employee pension contributions (currently 6%) to CPAS.
- Instead your contractual gross pay will be reduced by the amount that you used to pay into CPAS.
- The University of Nottingham will pay an amount equal to your employee pension contribution directly into CPAS on your behalf.
- As a result your take home pay will increase because you are paying less National Insurance Contributions (NIC). This is because the NIC that you previously paid were based on the full salary before deduction of pension contributions, whereas after Salary Exchange NIC are based on the lower revised salary. The University will also make NIC savings in the same way.
- **Your 'reference salary' for any overtime, subsequent pay awards, death in service benefits, pension benefits and all other benefits that the University provides remains unaltered.**
- Your payslip will still show your salary as now but a line will be added below noting the amount of salary exchanged. The deductions column will no longer show employee pension contributions.
- We have obtained agreement from HM Revenue & Customs to implement such arrangements and we understand there are currently no plans for the Revenue to change the legislation for such arrangements.

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Example – shows increase in net take home pay of £141 a year for an employee on £25,000:

Pre CPAS SALARY EXCHANGE		Post CPAS SALARY EXCHANGE	
Basic Salary	£25,000.00	Reference Salary	£25,000.00
Less Pension Contributions 6%	(£1,500.00)	Less Salary Exchange	(£1,500.00)
		Revised Salary	£23,500.00
Less Income Tax	(£3,405.00)	Less Income Tax	(£3,405.00)
Less NIC	(£1,812.79)	Less NIC	(£1,671.79)
<b>Net Take Home Pay</b>	<b>£18,282.21</b>	<b>Net Take Home Pay</b>	<b>£18,423.21</b>

To calculate the saving for your own salary – the calculation is salary x employee contributions (6%) x National Insurance rate (9.4%).

So using the above example: £25,000 x 6% x 9.4% = £141

You should note that the saving potential is reduced if you earn above the Upper Earnings Limit which is £41,865 a year for the tax year 2014/2015.

**Please note that it will not be advantageous for you to participate if any of the following apply to you:**

- Your earnings are close to the National Minimum Wage, or
- Your earnings are close to the NIC Lower Earnings Limit

If you believe that you may fall into one of the above categories, please contact the Pensions Office on 0115 846 7190 or email [pensions@nottingham.ac.uk](mailto:pensions@nottingham.ac.uk)

## Other points to note:

### Over State Pension Age

If you are over the State pension age (currently age 65 for men; for women see below) you will not pay NIC on your earnings and as a result you will not benefit from any NIC savings through participating.

Note that the State pension age for women is gradually moving to 65 from April 2010 – for more information see:

[http://www.direct.gov.uk/en/Pensionsandretirementplanning/StatePension/DG\\_4017919](http://www.direct.gov.uk/en/Pensionsandretirementplanning/StatePension/DG_4017919)

### Reduced Rate NIC

If you pay NIC at the reduced rate for married women and widows (applicable to those employees who chose this option prior to 12 May 1977), you pay NIC at a reduced rate, therefore any savings from Salary Exchange will be smaller.

## Maternity

The rules surrounding Statutory Maternity Pay (SMP) are very complex and any member who is pregnant or becomes pregnant should contact the Payroll section to discuss Salary Exchange and the impact it may have. In the unlikely event that there is any adverse impact on your SMP from Salary Exchange, the University will ensure that you are compensated accordingly.

## Tax Credits

Participation in Salary Exchange will not impact on any HM Revenue & Customs Tax Credits.

## State Pension

CPAS is currently contracted out of part of the State pension scheme (currently the State Second Pension and previously known as SERPS). This means that you currently earn a no State earnings related pension and CPAS provides this benefit instead. Since CPAS benefits will continue to be based on an unchanged 'reference salary', Salary Exchange has no negative impact on your State pension.

## Child Maintenance

Child maintenance payments to the CSA are calculated with reference to your net income i.e. your pay after the deduction of pension contributions, tax and NIC. Under Salary Exchange your net income increases because you are paying less NIC and your child maintenance payments may therefore increase as a result.

If you decide to opt for Salary Exchange you should notify the CSA of the change in your net income. Contact details for the CSA and further details can be obtained from the CSA's website at [www.csa.gov.uk](http://www.csa.gov.uk).

## **Opting-Out and Opting-In to Salary Exchange**

If you decide to participate in CPAS Salary Exchange you will not be able to opt-out until the Anniversary Date, unless you experience one of the following "lifestyle events":

- marriage or civil partnership
- birth/adoption of a child
- separation/divorce
- commencement of or return from long-term sickness
- notification of pregnancy
- return from maternity/unpaid leave
- material changes in partner circumstances (for example redundancy)
- changes in working hours (for example from full-time to part-time)

**In these cases you may, subject to the University's consent, opt-out of Salary Exchange but again subject to the above change in circumstances you will not be able to re-join until the next Anniversary Date.**

# FACTSHEET 6

## Contributory Pension & Assurance Scheme

### CPAS SALARY EXCHANGE – OPT-IN FORM

This form constitutes a change to your Contract of Employment.

<b>Personal details</b> <i>Please complete the following boxes in capital letters</i>		
<b>Title</b> (Mr/Mrs/Miss/Ms)	<b>Forenames</b>	<b>Surname</b>
<b>Payroll Number *</b>		
* <b>Your payroll number is shown on your payslip.</b>		

#### OPT-IN TO SALARY SACRIFICE

I confirm that I wish to participate in CPAS Salary Sacrifice. (Please tick box).

***Please complete the Opt-In Form and keep a copy for your record, then return the form to the Payroll Department, University of Nottingham, King's Meadow Campus, Lenton Lane, Nottingham NG7 2NR.***

Signed ..... Date .....

19 January 2015