

*Chase de Vere*

*Camunda Group Personal  
Pension:  
Salary Exchange  
Guide*

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*2022/23*

# *Salary Exchange: A different way to make your pension contributions*

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You have been invited by Camunda to change the way that you make your workplace pension contributions by entering into a Salary Exchange arrangement.

This guide has been provided to you, alongside the invitation from Camunda, to help you fully understand how Salary Exchange works; the benefits that it can bring to you; and the potential disadvantages that might mean it is not the best solution for you.

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*The information contained within this guide is based on our understanding of current HM Revenue & Customs' (HMRC) legislation and practice, which is subject to change. Any future changes made by HMRC could be applied retrospectively.*

# What is Salary Exchange?

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Salary Exchange is an agreement between you and Camunda, where you agree to exchange part of your gross (before tax) salary in return for a non-cash benefit, in this instance a pension contribution.

Using Salary Exchange to make your pension contributions is designed to reduce National Insurance costs for both you and your employer.

If you participate in Salary Exchange:

- Your contributions to your pension plan will be the same, but you will change the way you make these. Instead of seeing a deduction from your net (after deductions) pay, your salary will be reduced and Camunda will make the full contribution instead.

For example: If you currently pay 5% of salary to your pension, and Camunda pays 6%, this makes a total amount of 11% paid into your plan. Under Salary Exchange, you exchange 5% of your salary and Camunda pays the full 11% of your notional salary (your salary before Salary Exchange) into your pension, saving on both employee and employer National Insurance contributions.

- Your current, pre-exchange salary will be referred to as your **notional salary** and this will be used for purposes of future salary increases, holiday and sick pay.

- Your paid salary will be equal to your notional salary minus the amount of gross personal pension contribution that you previously paid. This will now be paid by the Company into your pension plan on your behalf.
- As a result, **your take home pay will increase** because you are paying less National Insurance.

**For higher and additional rate (and Scottish intermediate, higher and top rate) taxpayers** under Salary Exchange the full value of the tax benefit will effectively be given via payroll. Consequently, there will be no need to make a claim on an annual tax return and you should therefore receive your higher rate relief sooner.

**If your tax code has been adjusted so as to provide higher rate tax relief automatically, then you will need to advise your tax office that your personal contributions have ceased.**

Salary Exchange is a change to your terms and conditions of employment, unless you opt out, because your salary will be adjusted by the gross amount that is currently being paid by you into your pension plan.

**Salary Exchange is an agreement between you and your employer; you cannot be forced or compelled to participate if you do not wish to.**

*By reducing your National Insurance costs, your take home pay can increase.*

# Example of Salary Exchange in operation

## Before Salary Exchange

An employee with a basic salary (before tax and National Insurance) of £30,000 makes normal pension contributions of 5% (£1,500) per year.

Their contribution is deducted from their monthly salary, after Income Tax and National Insurance has been deducted, as a contribution of 4% (equal to £1,200 a year/£100 per month).

The pension scheme then claims the Income Tax relief from HM Revenue & Customs (equal to £300 a year) and adds this to the amount contributed, making a total employee pension contribution of £1,500 a year (£125 per month).

Their National Insurance Contributions will be based on a £30,000 salary, amounting to **£2,665.90** a year (£222.20 per month).

## After Salary Exchange

The same employee has their basic contractual pay reduced by the percentage (5%) of their gross personal pension contribution (£1,500). This reduces their paid salary (before tax and National Insurance) to £28,500.

They will no longer make a personal contribution directly.

Instead, the Company will make a payment of £1,500 directly to the pension provider on their behalf.

After Salary Exchange their National Insurance Contributions will be based on a salary of £28,500, amounting to **£2,467.15** a year (£205.64 per month).

**A saving of £198.75 a year (£16.56 per month).**

## How will my payslip reflect salary exchange?

Ref.	Employee Name	Process Date	N.I. Number
12345	Ms A N Other	30 Apr 2022	AB 12 34 56 C

  

Payments	Amount	Deductions	Amount
Salary	2500.00	PAYE Tax	290.40
		National Insurance	222.20
		Pension (Employee)	100.00*
<b>Net Pay</b>			<b>1,887.40</b>

\*Employee pension contribution will receive basic rate tax relief, resulting in a £125 gross pension contribution

Ref.	Employee Name	Process Date	N.I. Number
12345	Ms A N Other	30 April 2021	AB 12 34 56 C

  

Payments	Amount	Deductions	Amount
Salary	2500.00	PAYE Tax	265.40
		National Insurance	205.64
Salary Exchange**	-125.00		
<b>Net Pay</b>			<b>1903.96</b>

\*\* In recognition of the exchanged salary the employer will make a gross pension contribution of £125.

You should remember that this is only an example for illustrative purposes only. The value of the tax benefits depends on your individual circumstances; your payslip will reflect your own personal situation regarding contractual pay, contributions, tax and National Insurance; and tax rules may change in the future.

The 2022 Spring Statement announced that from July 2022 the Primary Threshold (the point at which Class 1 National Insurance becomes payable by employees) will be increased from £9,880 to £12,570, effectively reducing the overall National Insurance payable by employees. The figures contained in this guide are based on the current Primary Threshold of £9,880 and, as a result, will differ from July. The increase brings the threshold in line with the income tax Personal Allowance. This won't have an effect on the savings achievable through Salary Exchange as salary exchange is not permitted where it takes earnings below the threshold.

# How will it affect my company and state benefits?

## Company Benefits

Salary Exchange will not reduce any salary related payments or benefits that you receive from Camunda.

The term 'notional salary' means your pay before taking account of any Salary Exchange.

Any future pay rises will continue to be based on your notional salary. As your pension contribution is expressed as a percentage of salary, any increase in salary will be used to increase the pension contribution paid by Camunda on your behalf by the same percentage.

All of your pay related benefits will also be calculated on your notional salary, including life assurance benefits.

## State Benefits

Entitlement to a number of state benefits, including the State Pension, is based on whether you have been credited with making National Insurance Contributions. Your earnings must exceed what is known as the Lower Earnings Limit (LEL) (currently £6,396). Depending on how much National Insurance you pay your state benefits may vary. The main considerations are briefly summarised as follows:

### State Pension

Men born on or after 6 April 1951 and women born on or after 6 April 1953 may be entitled to the New State Pension, which pays a flat rate pension based on the number of qualifying years an individual has accrued prior to reaching State Pension Age.

To benefit from the full new state -pension an individual needs to have 35 qualifying years.

#### New state pension

A qualifying year is accrued every tax year where you earn more than the lower earnings limit ("LEL") (£6,396 in 2022/23).

**Salary Exchange will not affect your entitlement to the state pension provided you are still paying or have been credited with paying enough National Insurance.**

## Other state benefits linked to the LEL

Entitlement to some other state benefits, including 'New Style' and Contribution-based Employment & Support Allowance and 'New Style' and Contribution-based Jobseeker's Allowance, are also based on your National Insurance Contribution record. You could potentially lose your entitlement to these benefits if your paid salary falls below the LEL.

Earnings related benefits such as Statutory Maternity Pay and Paternity Pay can also be affected by a reduction in salary. For more information, please speak with Camunda.

If you are claiming Tax Credits, your paid (reduced) salary will be used and, as with any change in circumstances, you should inform HMRC of the change in your earnings.

## Child Benefit

Child Benefit is reduced where either parent has income over £50,000. The amount received is reduced by 1% for every £100 of income the higher earner of the two has over £50,000. Someone earning over £50,000 could increase the Child Benefit received by using Salary Exchange to reduce their salary, and in doing so become eligible for the full benefit if salary were reduced to £50,000 or less.

# Who should not participate?

While Salary Exchange is beneficial to many, it may not be right for everyone.

As Salary Exchange is a change to your contract of employment, it is a binding agreement, and you should make sure it is appropriate for you and your personal circumstances. If you are unsure you should seek independent financial advice.

## Personal Allowance

Under current UK tax rules, everyone is entitled to a Personal Allowance, an amount below which no Income Tax is payable. This is £12,570 in the 2022/23 tax year.

If your earnings before Salary Exchange are under or very close to this level, and you are therefore paying little or no Income Tax, Salary Exchange may not be in your best interests and may reduce your take home pay.

## National Living Wage and National Minimum Wage

Earnings are not permitted to fall below the National Minimum or Living Wage and this limit applies equally to Salary Exchange.

The current hourly rates are:

Age/Category	Hourly rate
23 and over	£9.50
21 to 22	£9.18
18 to 20	£6.83
Under 18	£4.81
Apprentice	£4.81

Source: www.gov.uk Mar 2022

## Mortgage Borrowing

Salary Exchange may affect your capacity for borrowing, for example, for a mortgage. Even where your employer provides a 'notional' salary figure some lenders may not accept this when calculating the maximum amount they are prepared to lend. You should check with your mortgage or other lender if you are in any doubt before you agree to participate in Salary Exchange.

## State Benefits

You should consider carefully the impact Salary Exchange may have on qualification for State benefits, which may be impacted by the level of National Insurance Contributions you pay.

## Pay Protection Limit

Camunda has structured the Salary Exchange arrangement carefully so that all employees who are current members of the pension plan will see a tax benefit. No participant will be allowed to exchange earnings that takes them below the Personal Allowance, Lower Earnings Limit, National Minimum Wage or National Living Wage thresholds.

**In order to protect its staff, Camunda has set a Pay Protection Limit (PPL) of £20,250.**

Anyone earning less than this limit will not be able to enter the Salary Exchange arrangement.

## Salary exchange may not be appropriate if:

- *You pay is near to or under the Personal Allowance.*
- *It reduces your salary below the National Living or Minimum Wage.*
- *You wish to maximise mortgage borrowing and your lender will not accept a Notional Salary figure.*
- *You receive or are likely to require State benefits impacted by your National Insurance Contributions.*

# *Can I change my mind?*

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For the arrangement to satisfy HMRC and consequently qualify for reduced National Insurance Contributions, it must take place by way of an amendment to your contract of employment.

If you are participating in the Salary Exchange arrangement you will be committed for a minimum period of time, which will be set out by your employer.

## **Lifestyle Events**

You may be able to stop or change the arrangement outside of the benefits window in the event of certain 'lifestyle events', for example on marriage or the birth of a child.

Those lifestyle events are determined by Camunda, more details are available from your HR department.

*Salary exchange is an amendment to your contract of employment.*

# Frequently Asked Questions

## By how much will my take home pay increase?

The increase in your take home pay depends on your current pay and normal pension contributions. Some examples are:

Pensionable Salary	Annual Saving		
	% of salary exchanged		
	3%	5%	10%
£15,000	£59.63	£99.38	£198.75
£20,000	£79.50	£132.50	£265.00
£30,000	£119.25	£198.75	£397.50
£40,000	£159.00	£265.00	£530.00
£50,000	£198.75	£331.25	£662.50
£60,000*	£58.50	£97.50	£195.00

\* The rate of employee National Insurance reduces from 13.25% to 3.25% on income above the Upper Earnings Limit of £50,270 (for the tax year 2022/23). The savings for anyone earning more than the Upper Earnings Limit will therefore be significantly reduced.

## Will the Company benefit?

Yes, the Company will also save National Insurance on the exchanged salary amount.

## Who is advising the Company?

Camunda is working in partnership with our pension advisers, Chase de Vere, one of the largest independent financial advisers in the UK.

## Will Camunda continue to offer Salary Exchange?

Camunda intends to run the scheme for as long as legislation allows, and it remains commercially prudent. The company reserves the right at its absolute discretion to withdraw the scheme with, or without notice, in the future. If salary exchange is withdrawn in the future, you will not have to pay back any of the savings you have made.

## What happens to my pension if I leave the Company?

It remains exactly as it is now. Salary Exchange will not affect any of your pension benefits. Please refer to your pension information pack provided before you joined.

## Will my employment contract / terms and conditions change?

Yes. Although Salary Exchange relates only to your pension, it does mean a change to your terms and conditions of employment. The amendment does not alter any other terms of your existing contract of employment.

You are giving up part of your pay that is re-directed into your pension plan as an employer contribution. The Company will therefore become solely responsible for all normal contributions made into your pension plan.

## What happens at pay reviews?

Pay reviews will not be affected by your participation in the Salary Exchange arrangement. All pay increases will be calculated based on your notional (current, pre-Salary Exchange) salary.

## Will my reduced basic salary affect my borrowing limits for loans and mortgages?

Possibly. Camunda has agreed to provide confirmation of the arrangements introduced if requested. This will show your salary is made up of both your revised basic salary, plus the amount exchanged. You can then pass this on to your appropriate lender. Please note that lenders are not obliged to accept the notional (current) salary in their lending decisions and so it is possible that Salary Exchange may reduce the maximum you can borrow. Each lender will have its own lending criteria.



## *Where can I find out more?*

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**If you are unsure about any of the information presented to you, please contact your manager who will be able to assist. Alternatively, if you would like to read further information on Salary Exchange the following website addresses may be of use:**

<https://www.moneyhelper.org.uk/en/pensions-and-retirement> - an independent organisation that provides free information and guidance on how pensions work

<https://www.moneyhelper.org.uk/en/pensions-and-retirement/building-your-retirement-pot/salary-sacrifice-and-your-pension> - Guidance from the above organisation specific to salary exchange

[http://www.hmrc.gov.uk/specialist/salary\\_sacrifice.pdf](http://www.hmrc.gov.uk/specialist/salary_sacrifice.pdf) - a useful guide that contains links to further sources of more detailed information.

In addition, Robert Stewart dipPFS at Chase de Vere can be contacted at:

Email:                    robert.stewart@chasedevere.co.uk

Telephone:            **07802 789 808**