

BARNARDO'S SALARY EXCHANGE

Barnardo's Salary Exchange is a different way of paying for pension contributions which enables pension members to receive additional take-home pay and at the same time, provide savings to Barnardo's.

Introduction

All staff are subject to auto-enrolment into the Barnardo's Retirement Savings Plan (BRSP) scheme. Barnardo's currently operates a slightly enhanced form of this in addition to operating a 3 month deferment period. If you meet Barnardo's qualification rules you will be auto enrolled into the pension scheme and contributions are likely to start only in your 4th calendar month of employment. If you have opted out of pension scheme membership you will be re-enrolled every 3 years forcing you to review your opt out decision.

Barnardo's will seek to apply Salary Exchange to all pension scheme members where it seems applicable in order maximize the benefit from this scheme. If members do not wish to partake they will need to subsequently opt out of Salary Exchange. Opting out of salary exchange does not remove you from the pension scheme it just reverts you back to a normal method of paying pension contributions. Opting out of the pension scheme must be done separately. Barnardo's will review the applicability of Salary Exchange for pension scheme members each year, and as a result may either; Opt people in, Opt people out or warn people that membership may no longer be in their best interest.

How does Salary Exchange work?

Barnardo's Salary Exchange requires you, as a member of staff, to voluntarily reduce your gross salary (and vary your terms and conditions relating to pay accordingly).

In return, Barnardo's will pay your pension contributions as well as the employer's pension contributions. This means neither the employee nor the employer pay national insurance on these pension contributions. The result is that employees will receive more take-home pay every month, while their pension contributions will continue at the same levels. Barnardo's also makes a National Insurance saving. Because members in salary exchange are now getting equivalent pension contribution tax relief in their pockets it does mean that this amount does not go into their pension savings.

Examples (contracted in to State 2nd pension)

Example A Salary £23,000 pa

	Without Salary exchange	With Salary exchange
Your gross annual salary is:	£23,000.00	£21,619.92
less: National Insurance	£ 1,892.64	£ 1,727.04
Income Tax:	£ 3,103.20	£ 2,827.20
Example Pension Conts at 6%	<u>£ 1,380.00</u>	<u>£ 0.00</u>
Your take home pay is:	£16,624.16 a year.	£17,065.68 a year

Pension contributions:

Employee	£1,380.00	£ 0.00
Tax relief added by Aviva	£ 345.00	£ 0.00
Employer	<u>£1,380.00</u>	<u>£2,760.00</u>
Total	£3,105.00	£2,760.00

Notes

Under Salary Exchange, Barnardo's pays your pension contribution of £1,380.00 on your behalf. By not paying National Insurance contributions on this sum, your take-home pay increases by £441.52 a year. The amount of tax paid reduces by £276.00, however as exchanged contributions are now considered an employer contribution the amount of tax which Aviva can reclaim for your pension pot is reduced by £345.00 a year. If you wish to ensure the total contributions to your pension fund are unchanged, you can pay extra pension contributions. Further details of contribution rates are set out below.

Example B Salary £35,000 pa

	Without Salary exchange	With Salary exchange
Your gross annual salary is:	£35,000.00	£32,900.04
less: National Insurance	£ 3,332.64	£ 3,080.64
Income Tax:	£ 5,503.20	£ 5,083.20
Example pension Conts at 6%	<u>£ 2,100.00</u>	<u>£ 0.00</u>
Your take home pay is:	£24,064.16 a year.	£24,736.20 a year

Pension contributions:

Employee	£2,100.00	£ 0.00
Tax relief added by Aviva	£ 525.00	£ 0.00
Employer	<u>£2,100.00</u>	<u>£4,200.00</u>
Total	£4,725.00	£4,200.00

Notes

Under Salary Exchange, Barnardo's pays your pension contribution of £2,100.00 on your behalf. By not paying National Insurance contributions on this sum, your take-home pay increases by £672.04 a year. The amount of tax paid reduces by £420.00, however as exchanged contributions are now considered an employer contribution the amount of tax which AVIVA can reclaim for your pension pot is reduced by £525.00 a year. If you wish to ensure the total contributions to your pension fund are unchanged, you can pay extra pension contributions. Further details of contribution rates are set out below.

The above figures in examples A & B are illustrative only and based on National Insurance contribution and Income Tax rates applicable for 2011/2012.

Joining Salary Exchange

As was mentioned above Barnardo's will seek to apply Salary exchange where it seems reasonable, and each annual review the criteria will be revisited to assess the way the scheme interacts with other state benefits. The criteria applied for 2015 is as follows:-

1. Earnings after pension contribution must not go below the national Minimum wage. Because this goes up in October we estimate the additional increase and so this year we apply 6.63 per hour.
2. A salary on at least scale point which is at least the equivalent of this, and which in 2015/16 is likely to be covered by all scale points.
3. Earnings must be over the Lower earnings limit of £5824 pa
4. Annual earnings "after" pension contribution "ought" to be at least £10,600 in the 2015/16 to gain full benefit of membership.

My Barnardo's benefits

Barnardo's Salary Exchange will not affect salary-related payments or benefits that you receive from the company or the pension scheme, including sick pay and life assurance. All future pay increases will be based on the pre-Salary Exchange earnings as will all references for mortgages. Some benefits, such as maternity pay, will be affected, so please check this with your AD People.

State Benefits

By introducing a minimum earnings limit of £10,600 a year to join the Salary Exchange, we believe that all State benefits will be unaffected. However we cannot cover all circumstances (your earnings may subsequently not reach the expectation etc) or provide financial advice, so if in any doubt you are advised to check with the Department for Works and Pensions or use their benefits adviser website:

http://www.direct.gov.uk/en/Dio11/DoltOnline/DoltOnlineByCategory/DG_172666

Maternity pay

Maternity pay is potentially affected by membership of Salary Exchange. The rate of SMP payable is based on earnings between the 16th and 24th week of pregnancy – any review and change due to this lifestyle event must therefore be complete by the 16th week.

More details can be obtained by contacting the pension department, but as a rough guide :

- BRSP members should be better off staying in Salary Exchange, compared to Opting out during maternity.

(Previously the advice was that members in the BASS scheme might be better of opting out, but with closure of this scheme this is no longer relevant.)

Can I opt-in or opt-out as I wish?

New members of staff can opt-in or opt-out by obtaining and completing and returning the appropriate form.

Subsequent to joining Barnardo's and other than the Opt in Opt out opportunity provided at a 1 April renewal you can subsequently opt in and opt out again at any time as long as your salary is not then subject to a statutory calculation such as SMP.

Once in Salary Exchange it is assumed that your membership will continue through each renewal. If eligible members wish to vary this they will need to obtain the appropriate form from the pensions department themselves.

Only those who we believe would be able to increase their net pay and those who may wish to withdraw from Salary Exchange because they don't meet the minimum criteria will be specifically written to at the renewal each year. The former will be automatically opted in again (with the option to opt out), the later will be given the option to opt out.

What about changing your BRSP contribution rate?

Under BRSP you can choose to contribute either 4% or 6% of Pensionable Pay, which will be matched by Barnardo's. You may also contribute more but this would not be matched by Barnardo's. You can exchange contributions at a maximum of 17.5%. You can change your chosen rate at any time.

What do you need to do now?

If you are a new member of staff, have joined the pension scheme and meet the criteria you will be included automatically. If you will some but not all the criteria and you think you might still benefit from salary exchange please contact the pension department to discuss the issue

If you don't want to join Salary Exchange then you must complete an opt-out form, and this will be applied from the next available payroll.

If you have instead been opted in as a result of a renewal and you do not want to join, then you must complete and return the opt-out form sent which will be again only be actioned at the next available payroll run after its receipt.

PLEASE NOTE:

Salary Exchange involves a reduction of earnings. Although it is expected that most employees will benefit from the arrangements, if you are opted in **your consent to membership will be assumed unless you complete an opt-out form.**

Further information

B-hive

B-hive has various documents available if you search on "salary exchange" and copies of the following documents can be found and down loaded.

- Information leaflet (this document).
- Opt out form
- Opt in form
- Original Salary exchange FAQ's when SE was first introduced.

You can also obtain further information from the HMRC website - www.hmrc.gov.uk/specialist/salary_sacrifice.htm

Contact the pension department

You can contact the pension department via the Pension Help and Information Line

Telephone 020 8498 7088

E-mail PHIL (via Intranet) phil@barnardos.org.uk (via Internet)