

United Reformed Church Final Salary Scheme A Guide to Salary Sacrifice

In the recent announcement regarding the review of pension arrangements (dated 18 March 2016), the United Reformed Church ('URC') announced as part of the consultation that it is introducing a "Salary Sacrifice" facility for all salaried members with effect from 1 October 2016. As noted in the previous communication, this guide explains how Salary Sacrifice works.

Salary Sacrifice is effectively a change in the way pension contributions are made. The purpose of Salary Sacrifice is to reduce the National Insurance Contributions ('NICs') payable by both employees and the Employer.

How does Salary Sacrifice work?

Salary Sacrifice is designed to increase your take home pay by reducing your NICs and, at the same time, reducing your employer's NI costs. If you don't currently pay NI because, for example, you are over the State Pension Age, your take home pay will be unchanged by Salary Sacrifice.

If you take part in Salary Sacrifice, this will constitute a change to your Terms and Conditions of Employment because you will be giving up salary in return for an additional contribution from your employer paid to the United Reformed Church Final Salary Scheme ('the Scheme').

This is how it works:

- You cease to make personal contributions to the Scheme.
- You give up salary equal to the gross amount you would otherwise pay to the Scheme.
- Your employer will pay its contributions and the salary you have given up to the Scheme.
- The amount of salary you give up never becomes part of your pay and as you do not pay NICs on the salary you give up, your take-home pay increases slightly.
- The level of salary you give up will be fixed, with an option to change your participation (opt in or opt out) each 1 October or earlier, if you experience a 'Life Event' (defined later in this guide).

Which members are affected by the proposal to introduce Salary Sacrifice?

Salary Sacrifice will become the default option for you if you meet all of the following criteria:

- You are a salaried Home member (currently paying contributions to the Scheme of 6% of Pensionable Pay)
- You are not a 'foreign' member (as these members participate in the Scheme on a non-contributory basis)
- You are not a minister on stipend within the Scheme

You will be given the option to opt-out of Salary Sacrifice if you wish to do so, and continue to pay contributions to the Scheme in the same way you currently do.

How does Salary Sacrifice affect my pay?

Salary Sacrifice will not reduce any salary-related payments that you receive from your employer. It will reduce your NICs, leaving you with increased take-home pay. The amount of NI that you can save by taking part in Salary Sacrifice is dependent on how much you earn.

If you earn up to the Upper Earnings Limit (£43,000 per annum), you will save 12% NI on any salary you give up. If you earn above the Upper Earnings Limit, you will save 2% NI on any salary you give up above the Upper Earnings Limit.

Please refer to Appendix 1 to get an indication of the level of NI saving you may receive.

Does this affect the level of tax that I have to pay?

No. As a member of the Scheme, you already pay no income tax on your pension contributions, and this will continue to be the case if you take part in Salary Sacrifice as you will no longer be earning the salary that you 'sacrifice'.

Hence, you will pay the same level of income tax regardless of whether you are in Salary Sacrifice or not.

How will Salary Sacrifice affect my pension benefits?

The Scheme Document will be amended to ensure that there is no reduction to the benefits payable from the Scheme.

In future, your benefits will be calculated with reference to a **Reference Salary**, which is your pay before the reduction for Salary Sacrifice is applied.

How will Salary Sacrifice affect my other benefits provided by your employer?

As with your pension benefits, Salary Sacrifice will also not reduce any benefits that you receive from your employer. All benefits and pay elements provided by your employer, including your life assurance benefit, will be based on your **Reference Salary**. Any mortgage reference letters will also be based on **Reference Salary**.

Will Salary Sacrifice affect the maximum pension contributions I can make?

Participation in Salary Sacrifice will not impact on the assessment of the value of your Scheme benefits for both the Lifetime Allowance and the Annual Allowance.

However, if you make personal contributions to other pension plans, you will only receive tax relief on contributions up to 100% of your actual (not Reference) UK earnings, subject to the Annual Allowance.

How does Salary Sacrifice affect the tapered Annual Allowance?

A tapered Annual Allowance, restricting tax relief on pension saving for higher earners was announced in the Budget on 8 July 2015. Participation in Salary Sacrifice will not have any effect unless you have a total taxable income (excluding pension contributions) above a threshold of £110,000.

What is a 'Life Event'?

A Life Event is a significant change in your personal circumstances. If you experience a Life Event, you will be allowed to review your Salary Sacrifice choices immediately, rather than having to wait until the next renewal date.

Life Events are usually those in the list below, but this will be confirmed after the consultation:

- Marriage or civil partnership
- Maternity leave
- Birth/adoption of child
- Death of partner or dependant
- Divorce or permanent separation
- Change in working hours or place of work
- Long term sickness absence of employee or partner

Who shouldn't participate in Salary Sacrifice?

The URC has structured Salary Sacrifice so that nearly all employees will benefit. However, there are some situations where this cannot be guaranteed:

- Any employee whose earnings would fall below the Lower Earnings Limit (£5,824 per annum) as a result of Salary Sacrifice, may lose their entitlement to some State Benefits.

- Employees whose earnings after allowing for all benefits paid via a salary sacrifice arrangement (e.g. childcare vouchers and pension contributions) fall below the National Living Wage (£7.20 per hour for employees aged 25 years or older with effect from 1 April 2016) or the National Minimum Wage (£6.95 per hour for employees aged 21 years or older with effect from 1 October 2016).

Any employees for whom it is not beneficial to participate in Salary Sacrifice will be excluded from the arrangement and will continue to pay contributions to the Scheme in the conventional manner.

Will Salary Sacrifice be around indefinitely?

The URC plans to operate Salary Sacrifice indefinitely. However, it reserves the right to withdraw Salary Sacrifice at any time in future. If it becomes no longer viable or possible for them to operate Salary Sacrifice (for example due to a legislative change) the exchange of pay for employer contributions paid directly to the Scheme will cease, your salary will revert to your **Reference Salary** and you will revert to contributing to the Scheme through PAYE.

Are there other names for Salary Sacrifice?

Yes, other companies use a variety of names for Salary Sacrifice. Other commonly used terms are SMART pension, or pension salary exchange.

Comparing Salary Sacrifice and contributing from pay

The example below shows how your NI is worked out, depending on whether you take part in Salary Sacrifice or not.

The example uses a salary figure of £20,000 and assumes an employee contribution rate of 7.5% in line with the proposed rate from 1 October 2016.

	Salary Sacrifice Member	Contributory member
Salary / Reference Salary	£20,000	£20,000
Salary amount given up	£1,500	Nil
Pension contribution deducted from your pay	Nil	£1,500
National Insurance based on salary amount of	£18,500	£20,000
Income Tax	£1,500	£1,500
National Insurance	£1,253	£1,433
Take-home pay	£15,747	£15,567

From the table, you can see that the increase in take-home pay over each year is £180 (12% of the amount of salary given up, or 'sacrificed').

What happens next?

As you will be aware from the original communication about the consultation on the review of pension arrangements, the consultation around the review of pension arrangements is currently running and you have until 27 May 2016 if you wish to respond.

However, the introduction of the Salary Sacrifice arrangement falls outside the scope of the consultation and so will be introduced from 1 October 2016. You will be given the option to opt out if you so wish.

Further details about the Salary Sacrifice arrangement will be given over the summer, once the consultation around the review of pension arrangements has been concluded.

I've still got more questions, where can I get further information?

Further information about Salary Sacrifice is available on Her Majesty's Revenue & Customs (HMRC) website:
www.gov.uk/salary-sacrifice-and-the-effects-on-pay

Any questions about the proposed changes to the Scheme, should be addressed to:

Rob Seaman,
Pension Fund Manager,
The United Reformed Church,
86 Tavistock Place,
London WC1H 9RT
Email: mom.pensions@urc.org.uk
Telephone: 020 7691 9869

The Pensions Trust is also able to provide assistance in relation to your Scheme benefits and they can be contacted on 0113 394 2552.

Appendix 1 – Example Employee NI Savings

The table below outlines the employee NI savings as a result of participation in Salary Sacrifice at different salary levels.

Pensionable Salary (£)	Contribution (7.5%)	Annual Member Saving (£)
10,000	750	90
15,000	1,125	135
20,000	1,500	180
25,000	1,875	225
30,000	2,250	270
35,000	2,625	315
40,000	3,000	360
45,000	3,375	205
50,000	3,750	75
55,000	4,125	83
60,000	4,500	90

Source: Aon Hewitt