

Salary Exchange for Pensions

What is it?

Salary exchange is a mechanism by which employees exchange an amount of their salary for an employer pension contribution of equal value. Such arrangements allow employees to make pension contributions tax efficiently and depending upon the scheme set up, can also be used to boost the level of saving at no additional cost.

How does it work?

- Employees exchange part of their gross salary or bonus in exchange for a non-cash benefit
- This “exchanged” amount never goes through PAYE
- There is no liability to National Insurance for either Employer or Employee

The benefits for you

- Saving on employer National Insurance on the exchanged salary
- Flexibility to use the saving to boost employees’ savings levels making the scheme stand out from competitors
- A competitive pension scheme is an effective tool in the recruitment and retention of high calibre individuals – especially at senior levels where expectations are higher
- Salary Exchange can be used to partially offset the additional employer pension costs brought about by the recent reforms

Example - Employer Saving

100 employees with average salary of £20,000, 5% employer contribution & 5% employee contribution.
Employer operates a Group Personal Pension Scheme:

- Pre Exchange Total Cost to Employer per Employee = £22,784
- After Exchange Total Cost to Employer per Employee = £22,646
- **Total Annual Saving for 100 employees = £13,800**

Based on 2011/12 rates and allowances and correct at time of print.

The benefits for your workforce

- Employees make a saving on National Insurance on the exchanged salary
- Higher rate tax-payers receive full higher rate relief at source removing the need to re-claim through self assessment
- Employees can choose to use the saving to increase their take home pay or boost their level of pension contribution
- The compounding effect of the tax and NI relief, with all other factors remaining equal, could enhance growth in fund values leading to a higher pension in the long term

Example - Employee

Based on £20,000 salary, 5% employer and 5% employee contribution

	Pre Exchange	Post Exchange
Gross Salary	£20,000.00	£19,000.00
Income Tax	£2,505.00	£2,305.00
National Insurance	£1,532.64	£1,412.64
Net Annual Payment to Pension	£800.00	£0.00
Net Pay	£15,162.36	15,282.36
Gross Employee Pension Contribution	£1,000	£1,000

Based on 2011/12 rates and allowances, correct at time of print and provided for illustrative purposes only. Individual circumstances will vary.

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