CLARE COLLEGE
CAMBRIDGE

March 2023

Dear Employee

This letter is to confirm our recent conversations and your decision to exchange part of your salary for pension contributions which the College will pay to your pension provider on your behalf.

This arrangement known as 'salary exchange' means your salary will be adjusted by the amount you have declared overleaf as being your chosen personal contribution. The College will continue to pay its contributions into the same Workplace Pension plan for you.

Your decision creates a change to the terms of your employment because it will have the effect of exchanging your chosen portion of salary for pension contributions. Consequently, you should keep your own copy of this letter safely with your existing contract of employment.

You are advised to consider the impact that this change in your remuneration might have on your personal financial circumstances before you confirm by signing below that you wish to proceed with salary exchange. The key factors for you to think about were discussed in the recent group presentations and are also described in the attached 'Salary Exchange Explained' document. If you are still in any doubt about what to do then please discuss your concerns with me or my nominee.

If you have chosen to proceed with salary exchange for your pension then please sign two copies of this double-sided document; retain one copy and hand the other to me by 8th March 2023 to indicate your understanding and acceptance of this arrangement.

Yours sincerely

Sally Hewings

Sally Hewings
HR Manager
Tel: 01223 333222
Email: sh435@clare.cam.ac.uk

ACKNOWLEDGEMENT

My signature below indicates that I have read, understood and accepted the arrangements set out in this letter in relation to the salary exchange details which I have completed overleaf.

Name and Signature ....

Date of signing ....

CLARE COLLEGE
CAMBRIDGE

Please fill in your details and tick the boxes which represent your choices.
Deliver your completed form to Sally Hewings before 8th March 2023.

Name ....

CRSID ....

National Insurance number ....

I wish to opt-in to a salary exchange plan and pay my own pension contributions out of my pre-tax pay instead of my after-tax (net) pay.	
OR	
I do not wish to change my current method of making my own pension contributions and I understand that by making this choice I will not receive the national insurance benefits of such a scheme.	

Provided I may do so without breaching the National Minimum Wage requirement, I wish to contribute the following match-doubled percentage of pay into my pension with effect from April 2023 (please tick just <u>one</u> box) :

3 %	
4 %	
5 %	
6 %	
7 %	

Provided I may do so without breaching the National Minimum Wage requirement, I wish to make a larger monthly contribution with effect from April 2023 and, in addition to the percentage ticked above, <u>the extra amount</u>, which the College will not match-double, that I wish to contribute is shown here:

Further amount: State your chosen extra % :	

I understand that:

1 I may make my chosen level of additional contribution (“AVC”s) only where this is permitted by extant legislation / statute;

2 I am required to sign the letter overleaf which amends my employment Terms and Conditions before any opt-in can be effected;

3 Hereafter I may make changes to my own pension contributions each January.

Signature ....

Date of signing ....

SALARY EXCHANGE EXPLAINED

<u>What is salary exchange?</u>

Salary exchange, sometimes called ‘salary sacrifice’, is the name given to an agreement by an employee to give up some salary in return for a non-cash benefit from the employer. Pension contributions fall into the category of non-cash benefits.

<u>Are there advantages to employees of exchanging salary for pension contributions?</u>

Salary exchange can be used to maintain a given level of pension savings while also seeing an increase in the level of take-home pay.

Alternatively, salary exchange can be used to boost pension savings while leaving take-home pay unchanged.

Employees who exchange salary for pension contributions can save National Insurance contributions (NIC) of 12 % on earnings above the primary threshold (which from July 2022 was set at £ 12,576 per year). The saving in NIC on any salary in excess of the upper earnings limit (which for the current tax year is £ 50,268 per year) is 2 % of the amount exchanged.

Employee earnings that would be taxed (salary) can be exchanged for pension contributions which are not taxed (non-cash benefit).

<u>How is salary exchange implemented?</u>

Strict rules are in force and apply to salary exchange to protect employees as well as employers. Certain conditions, set by HMRC, must be met before an employee may adopt salary exchange. These are:

- The employee’s terms and conditions of employment must be revised.
- The revised earnings and the relevant non-cash benefit (such as pension) must be clearly documented.
- Salary exchange may only be used for future amounts and the required process must be complete before changes are effective. Backdating of salary exchange is not allowed.

Are any other factors important?

- Salary exchange could affect an employee's future entitlement to certain state benefits, including the receipt of tax credits.

If an employee's earnings were to fall below a certain level (currently £ 6,396 per year) then that employee would no longer be eligible for:

- statutory sick pay
- statutory maternity, paternity or adoption pay
- incapacity benefit
- jobseeker's allowance

- Tax credits depend on family income and circumstances and they are administered by HMRC. More information about the possible effect of salary exchange on the amount of tax credits is available by calling the HMRC help-line : 0345 300 3900.

- If not enough NIC is paid on earnings, an employee's state pension entitlement benefits may be reduced on retirement so this needs to be considered too. The HMRC website contains a useful prediction tool : Check your State Pension forecast - GOV.UK (www.gov.uk)
- Salary exchange should not reduce an employee's earnings to a level which is less than the national minimum wage which means that, for anyone earning less than about £ 18,000 per year for a full-time job, care should be taken when considering a salary exchange scheme.
- For some individuals, such as those earning less than the annual tax-free earnings limit (the so-called 'personal allowance'), the making of pension payments via a salary exchange scheme might be less tax efficient than the more traditional 'net pay' method used to date for members of our defined contribution schemes.
- There is a very low risk that choosing to switch to a salary exchange method of making pension contributions could have a detrimental impact on the amount of borrowing that the employee might be able to secure. Because the College provides a detailed breakdown of salary on payslips, and provides lenders with references which declare the original 'reference' salary levels, the risk is minimal. Nonetheless staff are advised to consider their probable future needs for loans, overdrafts, mortgages, credit card limits, income protection insurance benefits and redundancy entitlements before making a switch.

Would salary exchange affect any employment benefits which are salary-related?

No. Salary-related benefits, such as life assurance are always based on the 'reference' salary, i.e. the amount before taking into account any value exchanged.

Would employees need to tell HMRC about salary exchange?

An employee might need to tell HMRC if that employee is a member of a Workplace pension scheme (for example the NEST or Prudential Personal Pensions Plans or the USS) and is *also* a higher rate tax payer claiming the additional tax-relief through an adjustment to the PAYE tax code. Any person in that position should contact HMRC to make sure that the tax code is updated appropriately as soon as possible after any salary exchange begins.

Can an employee withdraw from a salary exchange scheme after joining?

Clare College permits employees to make changes to pension arrangements each January and a switch to or from the salary exchange method of making contributions is permissible. Sometimes changes are needed at other times too. Clare College allows a switch to be made at any other time of year if the amendment is linked to a lifestyle event such as:

- The beginning or end of a period of long-term leave including but not restricted to: maternity or adoption leave, illness, secondment, or sabbatical leave;
- The birth or adoption of a child;
- The beginning or end of a marriage or civil partnership;
- A material change in personal circumstances;
- A significant change to working hours or contractual terms of employment;
- Reaching State Pension Age.

An employee can choose to stop making pension contributions at any time but this will affect that employee's membership of the Workplace pension scheme and might also reduce or eliminate the College's contribution as well. Being granted permission to re-join the Workplace pension scheme will be at the College's discretion and any such decision must be made in accordance with extant automatic enrolment legislation.