



## PENSION SALARY EXCHANGE

This booklet applies to members and potential members of the Coats DC Pension Scheme (“the DC Scheme”).

Coats Holdings Ltd (“the Company”) operates a Pension Salary Exchange (“PSE”) arrangement for individuals who are members of the DC Scheme. PSE gives you an opportunity to increase your take-home pay without losing any entitlement to pension benefits. This booklet explains how PSE works.

### What is PSE?

PSE means that instead of making a direct employee pension contribution into your pension scheme, you exchange some of your salary for an additional employer pension contribution, equivalent to the salary that you exchange. As a result:

- You will not pay National Insurance (“NI”) Contributions on the amount of salary that you exchange for an additional employer pension contribution.
- Your take-home pay will be more than it would be if you made an employee pension contribution from your net pay.
- The total contribution to your pension scheme will be the same as if you made an employee pension contribution from your net pay.

You can choose to join the DC Scheme, but not participate in PSE. If you choose not to participate in PSE, you will remain a member of the DC Scheme and make direct employee pension contributions from your net pay.

Please note that for the purposes of this document, “Salary” is your basic salary prior to any reduction for PSE. “Actual Pay” is your new contractual pay, after the reduction for PSE.

For example, where an employee earns £20,000 and agrees to exchange 3.5% of that for an additional employer pension contribution, their Salary is £20,000 and their Actual Pay for tax and NI contributions is £19,300.

### How does PSE work?

Under the PSE arrangement:

- You choose how much salary you wish to exchange towards your pension.
- The Company pays this amount directly into your pension scheme.
- The Company also makes the employer pension contribution to the DC Scheme.

The table below summarises the contributions that are paid under PSE.

% of Pensionable Salary			
Level	Your Salary Exchange	Company Contributes An Additional	Total Contribution
Grades 1-14	3.5%	7%	10.5%
Grades 12-14 (Optional)	5%	10%	15%
Grade 15+	0%	15%	15%

(Note that you can choose to exchange any amount above 3.5% of your Salary into your pension. However, the maximum additional contribution the Company will make is 7% for Grade 1-14 members.)

**Continued...**

If different optional contribution categories are available to you, these will be notified to you as part of the terms of your employment contract.

By participating in PSE, you will effectively benefit from tax relief at your top rate of tax through payroll. Higher and additional rate taxpayers who participate in PSE will not need to claim higher or additional rate tax relief through a Self-Assessment tax return.

### Example Payslip – 3.5% Employee Contribution

Here's an example of how your payslip might look. This example is based on someone who is paying the Westminster rate of income tax on a salary of £20,000 per year and who contributes or exchanges 3.5% of their salary. The Company makes a 7% employer pension contribution.

#### Without PSE\*

Earnings	£	Deductions	£		
Salary	1,666.67	Tax	135.80		
		NI	115.76		
		Pension	46.67		
Earnings	£1,666.67	Deductions	£298.23	Net Pay	£1368.44

Employee pension contribution	<b>*£58.33</b>
Employer pension contribution	<b>£116.67</b>
Total pension contribution	<b>£175.00</b>

*\*Standard Life claims tax relief from the Government on your behalf at the basic rate of 20% (regardless of your rate of Income Tax). This means that for every 80p you pay into your pension, you end up with £1.00 in your pension pot. So in this example, the total employee pension contribution is £46.67 + £11.66 = £58.33.*

#### With PSE

Earnings	£	Deductions	£		
Salary	1,666.67	Tax	124.00		
PSE	-58.33	NI	108.76		
Earnings	£1,608.34	Deductions	£232.76	Net Pay	£1375.58

Employee pension contribution	<b>£0</b>
Employer pension contribution	<b>£175.00</b>
Total pension contribution	<b>£175.00</b>

Tax and NI contributions rates are those in force for the 2018/19 tax year.

Under PSE there is an annual saving in NI contributions for the employee of £84.00 (or £7 per month).

### What do I have to do to take advantage of PSE?

New members of the DC Scheme will join PSE automatically unless they choose not to participate, or they are unable to participate in PSE. The "Is PSE Suitable for Everyone?" section below provides details of who may not be able to participate.

If you do not want to participate in PSE, you must complete and return a withdrawal form, available from your local HR team.

Please note that you can still be a member of the DC Scheme even if you do not participate in PSE.

### Is PSE suitable for everyone?

PSE may not be suitable for lower paid employees.

## Continued...

### *Lower paid employees*

In particular, you will not be able to participate in PSE if:

- the amount that you wish to exchange would take your Actual Pay below the level of the Primary Earnings Threshold for NI contributions (£8,424 per annum for the 2018/19 tax year); or
- the amount that you wish to exchange would take your Actual Pay below the level of the National Minimum Wage (currently £7.38 for workers aged 21 and over) or the National Living Wage (currently £7.83 for workers aged 25 and over).

If you cannot participate in PSE, you can still be a member of the DC Scheme, but not on a salary exchange basis. Instead, you will make employee pension contributions from your net pay.

If you are not able to participate in PSE due to your Actual Pay falling below the National Minimum Wage/National Living Wage (as applicable) or the Primary Earnings Threshold for NI contributions, we will contact you to let you know the next steps.

### *Individuals above State Retirement Age*

Additionally, some of our employees may choose not to participate in PSE once they reach State Retirement Age.

Once you reach State Retirement Age, you will not have to pay employee NI contributions on any earnings you receive from your employment. If you do not pay any employee NI contributions, participating in PSE will not generate any savings for you. You can choose to withdraw from PSE from the date you reach State Retirement Age.

### *Individuals making large pension contributions*

You should note that there are limits on the amount of tax relief available. The standard limit in the 2018/2019 tax year is £40,000 (plus any unused allowance from the last three years), however smaller limits may apply to higher earners or anyone who has already accessed their pension savings in a 'flexible' manner. You would pay tax on any pension savings that you make in each year that are above that amount.

Pensions savings include both:

- Employee and employer pension contributions to all defined contribution pension schemes of which you are a member; and
- Any increase in the value of accrued benefits in defined benefits schemes (including, for example, pension schemes from former employers)

Please note this limit applies whether or not you participate in PSE.

## **What happens if I am auto-enrolled into a pension scheme?**

From 1 May 2014, the Company is required to automatically enrol certain employees into a qualifying workplace pension scheme. You will receive information from the Company on how auto-enrolment affects you.

If you are auto-enrolled into the DC Scheme, you will also be enrolled in PSE. This means that when you are auto-enrolled, you will not make any employee pension contributions from your net pay. Instead you agree to a reduction in your salary in exchange for the Company making an additional employer pension contribution on your behalf.

Once enrolled, you can choose to withdraw from PSE:

- once a year at the annual renewal period; or
- on a "lifestyle event".

## Continued...

Please see below for an explanation of these terms.

If you withdraw from PSE, you will participate in the DC Scheme on a non-salary exchange basis. You will make employee pension contributions from your net pay and no employee NI savings will be available.

If you opt out of pensions auto-enrolment and do not join the DC Scheme, you will not be enrolled in PSE.

### **Does participating in PSE change my terms and conditions?**

Participating in PSE does constitute a change to your terms and conditions of employment. For that reason, we are giving all affected employees written notice of the changes that will come into effect and the opportunity to choose not to participate in PSE. If you do not withdraw from the arrangement by completing and returning a withdrawal form, you will be deemed to have accepted the changes to your terms and conditions of employment.

### **When can I change the amount of salary that I exchange, or cease to participate in PSE?**

Once you have begun to participate in PSE, you will only be able to change the amount of salary that you exchange at certain times. There will be an annual renewal every 12 months. The next annual renewal period will be in May 2019. You will generally only be able to vary the amount of salary you exchange or withdraw from PSE at the renewal date.

You will also be able to vary the amount of salary you exchange, or stop participating in PSE, during the year if you experience a "lifestyle event". A lifestyle event is an exceptional event which has a major impact on your lifestyle. Examples of lifestyle events include:

- Marriage / Civil Partnership / Divorce / Separation
- Birth/Adoption of a child
- Starting or returning from maternity, paternity, adoption or long term sick leave
- Change in working hours
- Reaching State retirement age
- Any other significant event, at the Company's discretion.

If a lifestyle event has occurred which affects your participation in PSE and you wish to withdraw from the arrangement, or amend the level of salary you exchange, it will be your responsibility to notify your local HR department and to request that your PSE arrangements are changed.

Please note that if you do choose to stop participating in PSE, this will constitute a further change to your terms and conditions of employment. After your participation has ceased, your Actual Pay will be based on your Salary (without any reduction for salary exchange) and you will no longer participate in PSE (although you may make employee pension contributions from your net pay). It will only be possible for you to rejoin PSE at a subsequent annual renewal or a further lifestyle event. If you choose to leave the DC Scheme altogether, you can do so at any time and will cease to participate in PSE from your date of leaving the DC Scheme.

### **If I choose not to participate in PSE, can I join later?**

If you choose not to participate in PSE, you will be able to join at a later date, but only on the next annual renewal date or a lifestyle event.

### **What if I want to vary the amount of salary I exchange during the year?**

You will be able to vary the amount of salary that you exchange at each annual renewal period. You cannot otherwise vary the percentage of salary that you exchange except on a lifestyle event.

## What happens at salary reviews?

When you join PSE, you will choose the percentage of salary that you wish to exchange for an additional employer pension contribution. At salary review, the same percentage will be applied to your new salary and the amount that you exchange will be updated accordingly.

If you do not wish the amount you exchange to be updated at salary review, you should contact your local HR department.

## How will PSE affect my other Company pay-related benefits?

By participating in the PSE arrangements, you agree to a reduction in your contractual salary, equal to the employee pension contribution that you would otherwise have made.

However, your entitlement to Company salary-related payments and benefits will continue to be based on the level of your salary before the salary exchange. This amount is shown as "Salary" on your payslip.

For example, the following Company benefits and payments, if they apply, will continue to be based on your Salary:

- Pensionable salary – used to calculate employer pension contributions to the Pension Scheme
- Overtime
- Shift premiums
- Holiday pay
- Bonuses
- Life cover

## Does PSE affect my entitlement to state benefits?

Under PSE, your Actual Pay will be lower. Your entitlement to State benefits is based on your Actual Pay rather than your Salary. However, participating in PSE will not affect your entitlement to State pension.

Participating in PSE can potentially affect an individual's entitlement to the following:

- Statutory Maternity Pay ("SMP")\*
- Statutory Adoption Pay ("SAP")\*
- Statutory Paternity Pay ("SPP")\*
- Statutory Shared Parental Pay ("ShPP")\*
- Statutory Sick Pay ("SSP")

\*Wherever the information provided in this Booklet applies to all of these four types of pay, the term "Statutory Parental Pay" will be used going forward.

To receive any of these statutory payments you must earn above the Lower Earnings Limit ("LEL") for NI contributions. This is £6,032 for the 2018/19 tax year. If your Salary is close to the LEL, there is a risk that you might lose your entitlement to these benefits by participating in a salary exchange arrangement. In addition, there may be a reduction in your statutory payments if your Actual Pay is more than the LEL but less than the weekly payment rates (currently £145.18 for Statutory Parental Payments and £92.05 for Statutory Sick Pay).

If participating in PSE would reduce your Actual Pay below the PET (which is £8,424 per annum for the 2018/19 tax year, and higher than the LEL), you will not be able to participate in the salary exchange arrangements. As a result, for the majority of our employees participating in PSE, there will be no impact on the availability of State benefits.

## Is there any impact on my entitlement to tax credits?

Participating in PSE should have no impact on your entitlement to tax credits, because tax credits are calculated on your Actual Pay after employee pension contributions have been deducted. This amount will not change because of your participation in PSE.

## Is there any impact on my student loan repayments?

If you make student loan repayments, you may find that the reduction in your Actual Pay due to participating in PSE will decrease the amount you have to pay each month for student loan repayments. This means that it may take longer to repay your student loan.

## What happens if I am on parental leave?

For the first six weeks of statutory maternity/adoption leave and the two weeks of statutory paternity leave, you are entitled to Statutory Parental Pay equivalent to the **higher** of:

- 90% of your average earnings (based on Actual Pay); or
- £145.18 (from 6 April 2018)

For the next 33 weeks of your parental leave, you are entitled to parental pay equivalent to the **lower** of:

- 90% of your average earnings (based on Actual Pay); or
- £145.18 per week (from 6 April 2018).

Statutory Maternity Leave (SML), Statutory Adoption Leave (SAL) and Statutory Shared Parental Leave (ShPL) can collectively be taken over a 52-week period and can collectively be paid for a total of 39 weeks.

The first two weeks of leave must be taken by the maternal parent as SML or SAL. SML and SAL can then be terminated in favour of ShPL, which can be taken by either parent. However, if SML or SAL are terminated in favour of SPL during the first 6 weeks then any higher rate of pay is forgone.

In addition to the above, the paternal parent can receive two weeks Statutory Paternity Leave during which SPP is payable.

For any periods when you are only in receipt of Statutory Parental Pay, it will not be possible for you to exchange your statutory payment for an employer pension contribution but PSE will continue.

During this period, the Company will continue to make the same total pension contributions as before you went on parental leave including the PSE amount. You will not be required to exchange any of your Statutory Parental Pay for employer pension contributions during this period.

If you choose to use your entitlement to the full 52-week period of Statutory Parental Leave, the final 13 weeks are unpaid. During this period the Company will not make any employer pension contributions.

On your return to work, provided your pay is at the qualifying level, you will continue to participate in PSE based on the amount of salary you exchanged before going on parental leave. As this is a lifestyle event, you can change the amount of salary you exchange when you return to work provided that your earnings for the pay period remain above the qualifying level.

## What happens if I am on sick leave?

During your period of company sick pay entitlement, you will be able to participate in PSE as long as your earnings are at a qualifying level. If you are receiving company sick pay, you can choose to change the level of your salary exchange or withdraw from PSE (as this is a lifestyle event). If you don't, the level of your salary exchange and additional Company pension contributions will continue based on your Salary provided the level of company sick pay is sufficient to fund this.

If you are in receipt of statutory sick pay (SSP) only - i.e. after your company sick pay entitlement ends - you will automatically stop participating in PSE. You can choose to make employee pension contributions from your net pay for this period instead. When you return to work, your participation in PSE will resume, provided your earnings are at a qualifying level.

## **What happens if I take a career break or an extended period of unpaid leave?**

If you take a career break or an extended period of unpaid leave, this will be classed as a lifestyle event and you can choose to withdraw from PSE.

If you do not withdraw from PSE, the Company will automatically remove you from the arrangements when you stop receiving any pay from the Company. No employer pension contributions will be paid to the DC Scheme during your career break/ extended period of unpaid leave.

Once you return to work, your participation in PSE will resume at the level you had chosen prior to your career break, provided your pay is at a qualifying level.

## **What happens if I leave the Company?**

If you leave the Company, you will automatically be removed from the PSE arrangement. The Company will stop making pension contributions to the DC Scheme on your behalf.

## **Will PSE affect my entitlement to State Pension?**

The State Pension changed with effect from 6 April 2016 and the State pension you accrue from that date is not affected by your participation in PSE.

## **What happens if I need to get a financial reference for my mortgage?**

PSE is a common type of arrangement and lenders are familiar with the idea of Salary Exchange. The Company can provide potential lenders with:

- Confirmation that you are participating in a salary exchange arrangement
- Details of your salary before the reduction for PSE.

## **What would happen if the PSE arrangements were withdrawn?**

If the PSE arrangements were withdrawn, you would be able to make employee pension contributions to the pension scheme from your net pay instead so long as the DC Scheme is still offered by the Company to its employees. The reduction in your salary for salary exchange would therefore stop. This would be a further change to your terms and conditions of employment.

If such a change were to be made, pension contributions would be taken from your net pay. Employee NI Contributions would be payable on the amount of your employee pension contributions, so your take home pay would reduce. You would not have to repay any of the benefits that you had previously received through PSE.

## **Do I need to take independent financial advice?**

The Company cannot offer any financial advice and we recommend that you contact an independent financial adviser for advice on how your State benefit entitlement or personal tax position might be affected by PSE. You can find an independent financial adviser by visiting [www.unbiased.co.uk](http://www.unbiased.co.uk)

## **Where can I go for more information?**

If you would like any further information on PSE, please contact your local HR department. You can also find out more about this type of arrangement on the Pensions Advisory Service website: [www.pensionsadvisoryservice.org.uk](http://www.pensionsadvisoryservice.org.uk)

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