

Coats DC Pension Scheme Pension Salary Exchange

This leaflet explains, in brief, how the Pension Salary Exchange (PSE) arrangement will work. This is intended as an easy guide to PSE – full details of the arrangement are available in the Pension Salary Exchange booklet, available on the Coats Pensions website at coatspensions.co.uk/dc

What is PSE?

“Salary Exchange” (or salary sacrifice as it is often referred to) is a common arrangement used by employers. Briefly, you exchange part of your salary for a benefit that is usually exempt from tax and/or National Insurance (NI).

- Voluntary employee contributions are deducted from net pay, after tax and NI have already been deducted.
- PSE reduces the employee’s gross salary by the same amount, before tax and NI are deducted.
- **Comparatively, PSE leads to higher take home pay than contributions taken from net pay.**

Employee contributions to the Coats DC Pension Scheme are optional. If you choose to contribute, with PSE, you agree to exchange an amount of your salary for an additional pension contribution of the same value. That pension contribution is then made by your employer on your behalf. See “**How does PSE work?**” below.

How do I join PSE?

New members of the DC Scheme will join PSE automatically unless they choose not to participate (see below), 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.

I wish to make voluntary contributions to the DC Scheme. Do I have to take part in PSE?

No, you can choose not to participate and still contribute to your pension. If you do not want to participate in PSE, you must complete a Withdrawal Form, available from your HR department.

You can choose not to participate in PSE and still remain a member of the DC Scheme. If you choose to do this, your pension contributions will be taken from your net pay.

How does PSE work?

- Instead of making a direct contribution into the DC Scheme, your salary is reduced by an amount equal to the voluntary employee pension contribution that you would have made.
- Your employer then makes a contribution of that same amount on your behalf (as well as their normal employer contributions).
- Employer pension contributions are not subject to NI, so because **all** of the contributions are now made by the employer, taking part in PSE means:
 - You will not pay NI contributions on the amount of salary that you exchange;
 - **In most circumstances, your take home pay will be more than it would be if you made an employee pension contribution from your net pay.**

How will PSE affect my take home pay and my pension contributions?

This depends on your salary and the amount (if any) you choose to contribute to the DC Scheme. If you do not make contributions to the DC Scheme, your take home pay is not affected by PSE.

The following example shows how much someone paying the Westminster rate of income tax on a salary of £24,000 a year (or £2,000 a month), who chooses to contribute (or exchange) 5% into the DC Scheme would save by using PSE.

Without Salary Exchange*

	Employee	Employer Pension Contribution	Total Pension Contribution
Salary	£2,000.00		
NI	126.14		
Pension Contribution	80.00	£240.00	£340.00
Tax	190.20		
Take home pay	£1,603.66		

*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 £80.00 + £20.00 = £100.00.

If you cannot, or choose not to, participate in Salary Exchange then you will be responsible for claiming any additional tax relief due, via self-assessment.

With Pension Salary Exchange**

	Employee	Employer Pension Contribution	Total Pension Contribution
Salary	£2,000.00		
PSE	-100.00		
Actual Pay (after PSE)	£1,900.00		
NI	112.89		
Pension Contribution	N/A	£340.00	£340.00
Tax	170.20		
Take home pay	£1,616.91		

**Tax and NI contributions rates are those in force for the 2023/2024 tax.

Under PSE, tax relief is granted at your marginal rate, and there is a monthly saving in NI contributions.

Is PSE suitable for everyone?

PSE will not be suitable for all employees and you will be taken out of the arrangement automatically if:

- the amount that you wish to exchange would take your actual pay below the level of the Primary Earnings Threshold for NI (£12,570 per annum for the 2023/24 tax year); **or**
- the amount that you wish to exchange would take your actual pay below the level of the National Minimum Wage or National Living Wage (currently £10.42 for workers aged 23 and over).

There are some other circumstances where employees may decide not to participate in PSE, for example, if you are above the State Retirement Age. More information about this is included in the booklet.

If you cannot participate in PSE, or decide not to participate in PSE, you will still be able to participate in the DC Scheme, but not on a salary exchange basis. Instead, if you wish to make employee pension contributions, these will be deducted from your net pay.

Is there anything else I should know?

Although your salary is reduced by the amount of your pension contribution, your entitlement to Company salary-related payments and benefits will continue to be based on your salary before PSE. This means that life cover, salary reviews, bonuses and overtime payments - if they apply - are not affected by participating in PSE.

If you apply for a mortgage, lenders are used to the idea of Salary Exchange (or salary sacrifice) arrangements. We can tell them your salary before the reduction and they will then take this higher figure into account when working out your mortgage.

Your State pension entitlement will not be affected by PSE.

For more information, please see the booklet.

How can I find out more?

We understand that this is a complex subject and we recommend you read the booklet for further information on PSE. If you have more questions, please contact your HR department. Please note that we cannot offer any financial advice. If you believe your State benefit entitlement or personal tax position might be affected by PSE, we recommend that you contact an independent financial adviser.