SALARY EXCHANGE FOR PENSION CONTRIBUTIONS (SEPC)

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What is Salary Exchange for Pension Contributions (SEPC)?

The Universities Superannuation Scheme (USS) introduced changes to the scheme rules to enable institutions to introduce salary exchange for pension contributions and, indeed, implemented salary exchange for pension contributions for its own staff with effect from 1 September 2007. Since then several HEIs have implemented similar arrangements.

SEPC is a way to contribute to USS or SAUL that will save both you and the College National Insurance Contributions (NIC). It will therefore increase your take home pay and assist the College in meeting the increased costs of final salary pension arrangements at the College.

Presently your pension contributions are paid before tax, directly into one of the above pension schemes. From 1 November 2008, the College is proposing that this will change. Instead of making monthly pension contributions, you agree to give up an amount of your contractual gross pay equal to your pension contributions. In return, the College increases its contributions to the pension schemes by the same amount.

Please note…

SEPC will not affect any other salary-related payments or benefits that you receive from the College, such as salary increases, bonuses and overtime. These will be based on your **'reference salary'** which is your annual salary before **SEPC.** Your pensionable salary will be based on your reference salary including any other earnings as recognised by USS or SAUL as pensionable.

Your reference salary will also be the amount used in any personal official letters issued by the College on your behalf e.g. mortgage letters, loan applications or job references etc.

By participating in SEPC you are agreeing to a change in your terms and conditions of employment with effect from 1 November 2008.

So why the change?

The College is committed to making your pension contributions work more efficiently.

Through the introduction of SEPC both you and the College can make savings, which means contributing to either the USS or SAUL is even more worthwhile.

By agreeing to reduce the contractual gross pay by the value of your monthly pension contributions, the amount both you and the College pay in NIC reduces. As your NIC decreases, your take-home pay increases.

The savings made by the College will assist in meeting the increased costs of the pension schemes and/or improve the College's financial position.

SEPC will not affect your income tax position.

Should everyone participate?

Most USS and SAUL members will benefit under SEPC and you will automatically be opted into the scheme.

However, there may be a few members for whom it is not advantageous and we explain this in more detail on page 5. If you fall into this category, you will be fully protected by being automatically opted out of SEPC, and will continue to pay your monthly contributions in the usual way. We will let you know if this applies to you.

The College will ensure that no member of staff in the SEPC will have a net take home pay less than they would have, had they not joined. If this was found to be the case, the College would correct and make good such an error as quickly as possible. As explained later in this document, there are systems in place to ensure that this situation should not arise.

In addition, if you personally decide not to participate you need to complete a SEPC opt-out form which you can get from the Payroll Office. This must be completed and returned to the Payroll Office , no later than 31 October 2008. There will also be the opportunity for staff to opt-out of the scheme on an annual basis.

This booklet seeks to provide as much information as we can but if you are unsure about whether or not you should participate in SEPC, you should seek your own independent financial advice.

How does it work?

- You will no longer pay your normal pension contributions directly
- Your contractual gross pay will be reduced by an amount equal to your pension contributions, 6.35% (USS) or 6% (SAUL)
- In return, the College will increase its contributions by the same amount, which will be paid over to USS or SAUL
- You and the College will pay lower NIC
- Your actual take home pay will increase
- SEPC will not affect your income tax position
- If you pay Additional Voluntary Contributions (AVCs), these are not included in SEPC and you will continue to pay these under current arrangements.

Your pensionable salary will be based on your reference salary, including any other earnings as recognised by USS and SAUL as pensionable. Your basic state pension will not be affected.

Note: members over state pension age do not pay any NIC and as a result will not make an NIC saving. However, you will still be included in SEPC as the College will still make savings on the NIC it pays.

Who might not benefit from SEPC?

Although most employees will benefit from SEPC there are some who may not for various reasons. These include:

- Members who earn less than the Earnings Threshold for National Insurance, £5,435 for the 2008/09 tax year. This is because you would not make any savings and may see your State benefits affected.

- Although the College does not pay below the National Minimum Wage (NMW), there may be staff whose pay could fall below the NMW by participating in other benefits such as our childcare voucher scheme that operate in the same way as SEPC. These staff will not be able to participate, as it is illegal to reduce an employee's pay below the NMW.

  If your earnings currently or in the future fall below £6,500 or the NMW, you would not be able to participate and would be taken out of SEPC automatically. Therefore we are only including individuals whose annual pay is in excess of £6,500 a year to ensure no employees are worse off under SEPC. You will continue to pay your monthly pension contributions in the usual way.

- In addition, members who work less than 16 hours a week may find their Job Seekers Allowance affected. You will need to decide whether this is an issue for you and whether you wish to participate in SEPC or not. Members in this situation may need to seek further advice.

If you are in receipt of other benefits, you must check with the relevant authority to explore any impact there may be on those benefits.

Please note that if your salary increases over the above thresholds, you will automatically be opted into SEPC with effect from the beginning of the next payroll period, unless you have permanently opted out. A letter will be sent to you confirming this.

What happens next?

From 1 November 2008, all existing pension members in both the USS and SAUL will be automatically enrolled into SEPC unless you choose to opt-out, you earn less than £6,500 a year or your earnings would fall below the National Minimum Wage if you were to participate.

Change in terms and conditions of employment

Please note that by participating in SEPC you are agreeing to a change in your terms and conditions of employment with effect from 1 November 2008.

If you do not wish to participate in SEPC, you can opt-out by completing an opt-out form which you can get on request from the Payroll Office. The completed form must be received by 31 October 2008. There will also be the opportunity to opt-out of the scheme on an annual basis.

You will be deemed to have accepted the change if you do not complete and return an opt-out form before 31 October 2008.

This booklet seeks to provide you with as much information as we can but if you are unsure about whether or not you should participate in SEPC, you should seek your own independent financial advice.

Remember, however that SEPC is designed so that most members will benefit from taking part.

Frequently Asked Questions

This document explains how Salary Exchange for Pension Contributions (SEPC) works and aims to answer any questions you may have. Please note that all amounts shown in this booklet are calculated as at 1 May 2008 in respect of the 2008/09 tax year and are subject to future changes in line with legislation, which is typically reviewed on an annual basis with effect from 6 April each year.

We have set out below answers to some questions that you may have in relation to the introduction of SEPC and how the arrangement will affect you.

1. How does SEPC work?

- You will stop making your current employee pension contributions (currently 6.35%) to the Universities Superannuation Scheme (USS) and (currently 6%) to the Superannuation Arrangements of the University of London (SAUL) Pension Schemes.
- The College will pay an amount equal to your employee pension contribution (currently 6.35% directly into USS or 6% directly into SAUL) plus the employer pension contributions previously paid (currently 14% in USS and 13% in SAUL).
- Your contractual gross pay will be reduced by the amount that you used to pay into USS or SAUL.
- As a result your take home pay will increase because you are paying less National Insurance Contribution (NIC). This is because the employee pension contributions that you previously paid were subject to NIC whereas the employer contributions that will be paid in the future are not. The College will also make NIC savings in the same way.
- The overall level of contributions to USS or SAUL remains unchanged.
- Your level of USS or SAUL pension will not be affected. The pension benefit you receive on retirement will remain unchanged.
- Pay rises, overtime etc will not be affected.
- Your full Pensionable Salary will remain unchanged and you will be able to quote this for all external purposes, for example when quoting your salary for mortgage applications.
- Additional Voluntary Contributions (“AVCs”) do not presently form part of SSUSP therefore you will continue to pay any AVCs in the same way as you do currently. This aspect, however, is currently under review by the Trustees of USS and SAU

2. Why is the College introducing SEPC?

SEPC will increase your take home pay by reducing your NIC. At the same time SEPC will allow the College to make employer's NIC savings which will help to reduce costs.
The increase in your take home pay under SEPC depends on your Annual Salary. The table below provides an indication of the annual NIC savings available to employees making contributions of 6.35% to USS or 6% to SAUL.

Annual Salary (£)	Annual USS members NIC Saving (£)*	Annual SAUL members NIC Saving (£)*
20,000		113
25,000		141
28,000		158
30,000	179	169
33,000	197	186
35,000	209	198
38,000	227	214
40,000	239	
45,000	29	
50,000	32	

*These savings are based on tax and NIC rates for 2008/09

NIC savings are smaller for higher earners because the rate at which NIC is paid reduces from 9.4% to 1% for earnings over the NIC Upper Earnings Limit (£40,040 per annum for 2008/09). **However, an announcement was made in this year's Budget which confirmed that the Upper Earnings Limit will be raised significantly over the next couple of years, such that with effect from April 2009 the level at which employees will start paying the lower rate of NIC is expected to be £43,000.** This will mean an opportunity for higher paid employees to make greater NIC savings through SEPC.

3. How will my salary be affected if I participate in SEPC?

From 1 November 2008 SEPC will operate on the basis that all normal contributions are paid by the College.

Therefore, with effect from 1 November 2008, you will no longer pay employee pension contributions directly from your salary. Instead your salary will be reduced by the amount of pension contributions that you pay into USS or SAUL. In exchange for this reduction in your salary, the College will make an equivalent additional employer contribution to USS or SAUL.

We will use the term Pre-exchange Salary to mean your basic salary before taking account of any SEPC adjustment and the term Post-exchange Salary to refer to your basic salary after the SEPC adjustment.

Example 1 – SAUL member

The example below highlights the pre- and post-exchange position of an employee earning £25,000 per year and contributing £1,500 (being 6% of Pensionable Salary) per year into SAUL. Under SEPC the employee's Pre-exchange Salary remains at £25,000 although the amount paid via payroll to take account of the salary exchange become £23,500.

Pre-SEPC	£	Post-SEPC	£
Basic Salary	25,000	Pre-exchange Salary	25,000
Less Pension Contributions	1,500	Less Pension Exchange	1,500
		Post-exchange Salary	23,500
Less Income Tax	3,612	Less Income Tax	3,612
Less NIC	1,827	Less NIC	1,686
Net Take Home Pay	18,061	Net Take Home Pay	18,202

The employee's net take-home pay has increased by £141 per annum from £18,061 to £18,202. Total contributions to SAUL have remained the same.

Note: Example based on 2008/09 tax and NIC rates and a standard tax code of 543L. Net pay will depend on an individual's personal tax code

Example 2 – USS member

The example below highlights the pre- and post-SEPC position of an employee earning £40,000 per year and contributing £2,540 (being 6.35% of Pensionable Salary) per year into USS. Under SEPC the employee's Pre-exchange Salary remains at £40,000 although the amount paid via payroll to take account of the salary exchange becomes £37,460.

Pre-SEPC	£	Post-SEPC	£
Basic Salary	40,000	Pre-exchange Salary	40,000
Less Pension Contributions	2,540	Less Pension Exchange	2,540
		Post-exchange Salary	37,460
Less Income Tax	6,404	Less Income Tax	6,404
Less NIC	3,237	Less NIC	2,998
Net Take Home Pay	27,819	Net Take Home Pay	28,058

The employee's net take-home pay has increased by £239 per annum from £27,819 to £28,058.

Note: Example based on 2008/09 tax and NIC rates and a standard tax code of 543L. Net pay will depend on an individual's personal tax code

Example 3 – USS member

The example below highlights the pre-and post-SEPC position of an employee earning £50,000 per year and contributing £3,175 (being 6.35% of Pensionable Salary) per year into USS. Under SEPC the employee's Pre-exchange Salary remains at £50,000 although the amount paid via payroll to take account of the salary exchange becomes £46,825.

Pre-SEPC	£	Post-SEPC	£
Basic Salary	50,000	Pre-exchange Salary	50,000
Less Pension Contributions	3,175	Less Pension Exchange	3,175
		Post-exchange Salary	46,825
Less Income Tax	9,354	Less Income Tax	9,354
Less NIC	3,341	Less NIC	3,309
Net Take Home Pay	34,130	Net Take Home Pay	34,162

The employee's annual net take-home pay has increased by £32 from £34,130 to £34,162. Total contributions to USS have remained the same.

Note: Example based on 2008/09 tax and NIC rates and a standard tax code of 543L. Net pay will depend on an individual's personal tax code

4. How do I participate in SEPC?

In order to participate in SEPC, the College will need to make amendments to your Terms and Conditions of employment. It is important that you understand the changes to your basic pay. If eligible to participate in SEPC you will automatically be included (see FAQ 24).

5. Will my Pensionable Salary remain the same?

Your Pensionable Salary will continue to be calculated as at present i.e. based on your Pre-exchange Salary.

6. Am I eligible to participate in SEPC?

If you are currently a member of USS or SAUL, you are eligible to participate in SEPC. You will not be able to participate in SEPC if it would bring your Post-exchange Salary to below the National Minimum Wage. The National Minimum Wage is currently £5.52 per hour, or around £10,046 per annum for an employee working a standard 35-hour week. We will monitor pay levels and advise you if you are likely to be affected, however if your circumstances change and you think you might fall into this category you should contact Ian Doyle, Financial Accountant on extension 3143 or e-mail i.doyle@bbk.ac.uk.

7. If I agree to participate in SEPC will it affect any other payments?

All future pay rises will continue to be based on your Pre-exchange Salary. All of your salary related pay and benefits from the College e.g. overtime will also be calculated on your Pre-exchange Salary. However Statutory Maternity Pay may be affected (see Question 16).

8. What about Death in Service and Spouse's Pension?

These benefits are unchanged and will continue to be based on your Pensionable Salary which is not affected by SEPC.

9. Will I still get the same pension at retirement?

Yes. Your pension at retirement is based on your service in USS or SAUL and your Pensionable Salary. Your Pensionable Salary will be based on your Pre-exchange Salary therefore your pension benefits will be unchanged.

10. Will participation in SEPC affect my overtime?

Any overtime you may receive will not be affected by your participation in SEPC, it will be calculated on your Pre-exchange Salary which will use the same hourly rate as before.

11. How will SEPC be shown on my payslip?

Your payslip will look slightly different. There will be a Pay Element to show that you are participating in SEPC, this will be displayed as "SEPC (Sal Exch)" on your payslip. See payslip examples on page 5.

12. Will SEPC affect the amount of tax relief I receive?

No, the amount of tax relief received will not be affected.

13. Are there any circumstances where it may not be advantageous to participate?

It will not be advantageous for you to participate if any of the following apply:

- Your earnings are close to the National Minimum Wage (see question 6)
- Your earnings are close to the Lower Earnings Limit £4,680 per annum for 2008/09
- If you plan to leave USS or SAUL and get a refund of contributions (see questions 18 and 19)

If we think either of the first two categories apply to you, we will contact you separately. However, if you believe that you may fall into one of the above categories, please contact Ian Doyle, Financial Accountant, on extension 3143 or e-mail i.doyle@bbk.ac.uk.

14. I am over the State retirement age and therefore do not pay NIC. Can I participate in SEPC?

If you are over the State retirement age (currently age 60 for women and 65 for men) you will not pay NIC on your earnings and as a result you will not benefit from any NIC savings through participating in SEPC. You may still participate in SEPC however, and will continue to be included in the arrangements unless you contact the Payroll Office to request an opt-out form which will need to be signed and returned. You will be no worse off or better off through continuing to participate in SEPC.

15. I pay NIC at the reduced married women's NIC rate. Will I benefit from NIC savings?

If you pay NIC at the reduced rate for married women and widows (applicable to those employees who made this election prior to 12 May 1977), you pay NIC at a reduced rate of 4.85% (rather than 9.4%) on earning between £105 to £770 per week for 2008/09 (£5,435 to £40,040 per annum) and 1% on earnings above £770 per week (£40,040 per annum).

You will still make NIC savings from participating in SEPC but your savings will be based on these rates rather than the amounts referred to elsewhere in this document. If you would like to discuss the potential level of NIC savings available to you in further detail, please contact Ian Doyle on extension 3143 or e-mail i.doyle@bbk.ac.uk.

16. Will SEPC affect Maternity Pay?

The College provides occupational maternity pay over and above Statutory Maternity Pay (SMP). Your eligibility for occupational maternity pay and the level of occupational maternity pay you will receive depends on your length of service and your terms and conditions of employment. Any occupational maternity pay you are eligible to receive will be calculated based on your Pre-exchange Salary, therefore you will be no worse off. Unless you apply to opt-out of SEPC under a lifestyle event (see paragraph 26), you will continue to exchange an amount equivalent to 6.35% (USS member) or 6% (SAUL) of your maternity pay, during any period you are in receipt of occupational maternity pay. This is on the basis that this does not reduce your Post-exchange Salary to below SMP.

17. What if I am asking for a reference for a mortgage or a loan?

We will advise lenders of the amount of your Pre-exchange Salary.

18. What happens to my pension if I leave USS /SAUL or the College?

If you leave the College and/or USS/SAUL with two or more years' qualifying service there will be no change. You will have the choice of a deferred pension and lump sum, or a transfer value to another pension arrangement.

If you leave with less than two years' qualifying service you have similar options (a deferred pension and lump sum or a transfer value) as above plus the option of a refund of your member contributions. However, you will not be able to select a refund of contributions made under SEPC because these are not members contributions.

19. What about a refund of members contributions

Upon ceasing employment with less than two years qualifying service you can choose to receive a refund of member contributions (less the statutory deductions), but you must bear in mind that you will not receive a refund of any pension contributions for any period during which you have participated in SEPC (because the pension contributions that have been paid for you by the College under SEPC are not member contributions).

A member leaving USS/SAUL with "split service" must think very carefully before choosing a refund of member contributions, as the value of the return of the member contributions less statutory deductions may be much less than the overall value of the period of pensionable service as a deferred pension and lump sum, or as a transfer value (particularly if there is a likelihood of returning to pensionable employment with the College or with another pension arrangement).

20. SEPC impact of my Tax Credits?

Participation in SEPC will not impact on any HM Revenue & Customs Tax Credits.

21. What about State Pension benefits?

USS/SAUL is currently contracted out of the State earnings related pension scheme (currently the State Second Pension (S2P) and previously known as SERPS). This means that you currently earn reduced state earnings related pension and USS/SAUL provides this benefit instead. Therefore SEPC has no negative impact on your State Pension.

22. Will SEPC have any impact on my payments to the Child Support Agency (CSA)?

Child maintenance payments to the CSA are calculated with reference to your net income i.e. you pay after the deduction of pension contributions, tax and NIC. Under SEPC your net income increases because you are paying less NIC and your child maintenance payments may therefore increase as a result.

If you decide to participate in SEPC you should notify the CSA of the change in your net income. Contact details for the CSA and further details can be obtained from the CSA's website at http://www.csa.gov.uk

23. Will my student loan repayments be affected?

If you are repaying a student loan taken out with the Student Loans Company, your student loan repayments may be reduced slightly as a result of participating in SEPC. This is because your repayments are calculated based on your gross earnings, which will be reduced under SEPC by the salary exchange element.

24. Do I have to do anything to participate, e.g. sign forms?

No. You do not need to take any further action as you will be included automatically in SEPC. Unless you opt-out of SEPC by 31 October 2008 we will determine that you have accepted the changes to your Terms and Conditions.

25. What if I do not want to participate in SEPC?

You can request an opt-out form from the Payroll Office ext 3136 which should be completed and returned by 31 October 2008 should you choose not to participate.

If you choose to opt-out of SEPC you will still be able to participate in USS/SAUL but will not be able to take advantage of the NIC savings resulting in an increase in take home pay which is achievable through participating in SEPC.

26. What if I change my mind or my circumstances change?

If you decide to participate in SEPC you will not be able to opt-out until 31 December 2009 and thereafter any subsequent 31 December unless you experience any of the following "lifestyle events" such as:

- Commencement of or return from maternity leave
- Commencement of or return from long term sickness
- Significant changes in working hours e.g. move from full-time to part-time
- Commencement of or return from sabbatical or unpaid leave
- Commencement of or return from an overseas secondment
- Moving from a fixed term contract to a permanent contract
- Withdrawing from USS or SAUL within three months of joining the scheme

In these cases you may, subject to the agreement of the College, opt-out of SEPC.

If you decide to opt-out of SEPC you will have the opportunity to review your decision and elect to participate in SEPC with effect from 1 February 2009 and thereafter any subsequent 1 February.

27. How long will the new arrangements last?

It is planned that SEPC will operate indefinitely. However, the College reserves the right to withdraw SEPC if, for example, tax, National Insurance or pension law or practice changes, or it is no longer viable for the College to operate SEPC.

28. Who can I ask if I have any additional questions?

If you have any additional questions please contact Ian Doyle, Financial Accountant on ext 3143 or e-mail i.doyle@bbk.ac.uk or Peter Westley, Director of Finance on ext 3150 or e-mail p.westley@bbk.ac.uk.