



Salary Exchange - Q & A

Issued 16 October 2014

This factsheet summarises some of the most common questions that were raised at the Salary Exchange presentations which took place at all sites during September and October 2014.

- 1 Will Crown confirm that pensionable pay will be based on pre-exchange salary?

This is confirmed in the Salary Exchange Guide.

- 2 What will the payslips show? Will there still be evidence of the pre-exchange salary on the payslip?

Your payslip will continue to show your pre-exchange salary, as now.

- 3 If I have pay rises in future years will the increase be pegged to the initial pre-exchange salary?

Your pre-exchange salary will continue to be recorded and will be increased each time a pay increase is awarded, as now.

- 4 Which salary basis is used for redundancy payments?

Pre-exchange salary will be used, as now.

- 5 I'm on tax credits - what salary should I now quote for my claim - pre-exchange or post-exchange?

Relevant income for calculating tax credits is reduced by any employee pension contributions. In Salary Exchange, instead of employee pension contributions, your post-exchange salary is reduced by your Salary Exchange Pay reduction. So the relevant income is no different. Therefore there should be no effect on eligibility for, or the level of, Tax Credits. However, eligibility for tax credits can be complicated so you may wish to confirm this by telephoning the HMRC tax credit helpline (0345 300 3900).

- 6 If I don't opt out of Salary Exchange before November, can I do this later?

Yes. You can also opt back in again if you change your mind.

- 7 Will the Salary Exchange amount be based on a % of pay and so vary from month to month?

Yes - for contributions to the DB and DC Section, as now.

- 8 Will AVCs remain a fixed amount each month?

Yes

- 9 If I increase my AVCs they are a fixed amount whereas my NI savings will be a different amount each time I am paid due to overtime. Can they be linked?

This is not possible.

- 10 Will both my Standard Life and Equitable Life AVCs be paid via Salary Exchange?

Yes, unless you opt out of the Salary Exchange payment method.

11 Can HR just increase my pension payments by the amount of my NI savings?

This is not possible, you will need to complete a contribution changes form (DC or AVC as appropriate)

12 I'm over 65 and don't pay NICs anyway - will I benefit from salary exchange?

No

13 Some employees already make salary exchange payments, (child care vouchers). Which payment will be deducted first under pension salary exchange, or will they simply be added together and then deducted?

The National Insurance savings will take both into account.

14 Will Salary Exchange be stopped by the Government as they are losing National Insurance Contributions from employees and employers?

The principles of Salary Exchange for pension contributions are well established. However, as noted in the Salary Exchange Guide, HMRC rules could change in the future.

15 Will lower National Insurance Contributions affect the National Health Service?

The Company has no influence over how National Insurance Contributions are used by the government or how it raises revenue to fund the National Health Service.

16 Why does someone on £50,000 a year in your example only save at 2% - it doesn't seem fair?

The current rates of National Insurance Contributions are explained in the Salary Exchange Guide and set by the government. As the rate National Insurance contributions is higher on earnings between £7,956 and £41,868 per annum than on earnings above £41,868 per annum, the saving will be lower for higher earners.

17 Why does DB booklet state that S2P may increase under salary exchange whereas the DC booklet states that S2P may decrease?

This is complicated.

The current state pensions are made up of two parts:

- *basic state pension*
- *earnings related state pension*

Prior to 6 April 2002 the earnings related state pension was called the State Earnings Related Pension Scheme (SERPS). From 6 April 2002 it has been called the State Second Pension (S2P).

DC section

Members of the DC Section are "contracted in" to the earnings related state pension. This means that they pay National Insurance contributions at the full rate and earn rights towards both the basic state pension and the earnings related state pension.

S2P accrual is a fixed amount in respect of earnings up to the HMRC Lower Earnings Threshold (currently £15,100) and a percentage of pay in respect of earnings between this and the HMRC Upper Accrual Point (currently £40,044). If these earnings reduce then the percentage of S2P earned will be based on a lower amount.

DB Section

Members of the DB Section are "contracted out" of the earnings related state pension. This means that they pay National Insurance contributions at a reduced rate. This means that they earn rights towards the basic state pension but do not earn very much earnings related state pension, if any.

The government keeps a notional record of what S2P accrual would have been had the individual paid full rate national insurance contributions. It compares this to how much SERPS pension would have been earned, had the earnings related state pension still been calculated in that way. If the notional SERPS pension is less than the notional S2P pension a top up is added to their state pension.

Because of the way that SERPS and S2P is calculated, the top up required is larger for people whose earnings are nearer the HMRC Lower Earnings Threshold than if they were nearer to the HMRC Upper Accrual Point. As salary exchange reduces earnings, this means that the top up needed can increase.

- 18 Why hasn't salary exchange been introduced earlier?

Legislation changes in 2006 resulted in salary exchange becoming more popular to employers. The Company has reviewed the option on a number of occasions and has now decided to introduce it.

- 19 What is the employer saving going to be used for? Will Crown use their National Insurance Contribution saving to make up some of the DB deficit? Why isn't some of the saving being passed on to employees?

The employers National Insurance savings will be used towards the overall business operation costs.

- 20 If my contributions are called "employer" contributions does that mean that Crown can take them away for their own use?

No

- 21 What will happen if the employer decides to take a contribution holiday? Will employee contributions cease because they are now regarded as employer contributions.

The Company cannot "decide to take a contribution holiday". The rate at which the Company is required to contribute to the Scheme is agreed as part of the valuation process and so requires the agreement of the Trustee.

The contribution holiday that took place in the past came about because the scheme had a substantial funding surplus at that time, i.e. it had more assets than it needed to pay benefits. This meant that the surplus could be used towards the cost of benefits that were being "earned" by current members at that time and no additional employer contributions needed to be made to the Scheme.

By 2003 this was no longer the case and the Company started to pay contributions towards future service benefits. In addition to this, in January 2011 the Company started to pay deficit recovery contributions to top up the funds required to pay benefits that had been earned in the past.

The rate of Salary Exchange contributions paid by the Company is determined by the rules of the Scheme and contribution rate choices made by Members and are not related to the outcome of a valuation.

- 22 Is Salary Exchange a way of Crown moving towards closing the scheme or reducing future benefits?

No

- 23 What assurances will be given to employees that the pension scheme will not be changed without consultation? Are the terms and conditions legally binding?

The scheme has changed many times since it was set up in 1929. Sometimes this has been due to things that are out of the control of either the Trustee or the Company including new legislation, changes to the UK tax regime, changes to the requirements of the Department for Work and Pensions (DWP) and so on.

Some changes can be made by the Company alone, some may require the agreement of the Company and Trustee, and some changes can be made by the Trustee alone. The Company can also obtain the direct consent of Members to certain changes.

Where the Trustee has power to make a change to benefits the Trustee has to take account of the advice and recommendations given by its professional advisers before doing so. For example, the various actuarial factors set by the Trustee and used in the calculation of DB Section benefits have changed many times in the past following such advice. Changes such as this can be made without prior notification and consultation.

However, UK pension legislation does require that an information and consultation exercise is carried out with relevant Members before certain significant benefit design changes are made unless the change is to comply with legislation, follows a determination by the Pensions Regulator or has no lasting effect on pension rights. Examples include changing the rate of future accrual, closing the Scheme to future accrual, increasing Normal Retirement Age or increasing Members contributions.

If such changes were to be proposed, the Company would consult with as many affected Members as reasonably practicable and with the Unions as required by legislation. Such consultation would provide as much information as necessary to enable those affected to understand the implications of the proposal and to provide their views on the proposed changes.

24 Why was there no HR or Trustee presence at the presentations?

The company arranged a number of presentations at sites. In all 98 presentations have taken place over a 3 week period. It was not possible for HR to attend all of these. Salary Exchange is being introduced by the Company, not the Trustee hence the presentations were arranged by the Company.

25 Why weren't the presentations given by a financial adviser?

Life Academy is an organisation that provides help to employees to understand pensions and plan for retirement. One of the reasons the Company decided to use Life Academy is because they do not promote or market any financial products and are independent from the Company, the Trustee and their advisers.

26 Can we have more benefits changed to Salary Exchange?

Child care vouchers are available via salary exchange. The Company may consider suitable future opportunities if they arise in the future.

27 If I leave pensionable service within 2 years, can I still have a "short service" refund?

Yes. Contributions that have been paid via Salary Exchange will be refunded via Payroll. Contributions not paid in this way will be refunded via Equiniti.

28 Can you provide a matrix of potential National Insurance savings for those who pay higher AVCs?

See below

The table below gives examples of annual NI savings based on a salary of £50,000 per annum for an employee who pays 5.6% of Earnings to the DB Section and a range of contributions to the AVC Plan.					
	£50,000	£50,000	£50,000	£50,000	£50,000
Pre Exchange annual Salary	£50,000	£50,000	£50,000	£50,000	£50,000
5.6% of Earnings, plus	£2,800	£2,800	£2,800	£2,800	£2,800
AVCs	£600	£1,200	£6,000	£12,000	£18,000
Salary Exchange pay reduction	£3,400	£4,000	£8,800	£14,800	£20,800
Annual NI saving (increase to take home pay)	£68	£80	£243	£895	£1,531