

# Pension Salary Conversion

This document, which should be read in conjunction with the Pension Salary Conversion Q&As document, provides updated worked examples and information for the 2016/2017 tax year.

Please note that all amounts shown in this document are subject to future changes in line with legislation.

The table below provides an indication of the annual NIC savings for the 2016/2017 tax year based on pension salary conversion deductions of 6.35% (AUPS), 8.00% (USS):

Pay (£)	Annual Employee NIC saving (£)	
	6.35%	8.00%
15,000	114	144
20,000	152	192
25,000	191	240
30,000	229	288
35,000	267	336
40,000	305	384
50,000	64	80

## How will this affect my pay?

### *Examples*

The examples below highlight the pre and post Pension Salary Conversion position of an employee:

1. earning £15,000 per year and contributing £953 (being 6.35% of Base Pay) per year into the pension scheme arrangements. Under Pension Salary Conversion the employee's Base Pay remains at £15,000 although the amount they are paid via payroll to take account of the salary conversion adjustment becomes £14,047.

Pre Pension Salary Conversion		Post Pension Salary Conversion	
Basic pay	£15,000	Base Pay	£15,000
Less Pension Contribution after BR tax	(£953)*	Less Pension salary conversion	(£953)
		Adjusted Salary	£14,047
less Income Tax	(£609)*	Less Income Tax	(£609)
less NIC	(£833)	Less NIC	(£718)
Net Take Home Pay	£12,605	Net Take Home Pay	£12,720

\* No tax due on pension contribution.

The employee's net take-home pay has increased by £115 per annum from £12,605 to £12,720. Total contributions to the pension scheme have remained the same.

2. earning £25,000 per year and contributing £2,000 (being 8.00% of Base Pay) per year into the pension scheme arrangements. Under Pension Salary Conversion the employee's Base Pay remains at £25,000 although the amount they are paid via payroll to take account of the salary conversion adjustment becomes £23,000.

Pre Pension Salary Conversion		Post Pension Salary Conversion	
Basic pay	£25,000	Base Pay	£25,000
Less Pension Contribution after BR tax	(£2,000)*	Less Pension salary conversion	(£2,000)
		Adjusted Salary	£23,000
less Income Tax	(£2,400)*	Less Income Tax	(£2,400)
less NIC	(£2,033)	Less NIC	(£1,793)
Net Take Home Pay	£18,567	Net Take Home Pay	£18,807

\* No tax due on pension contribution.

The employee's net take-home pay has increased by £240 per annum from £18,567 to £18,807. Total contributions to the pension scheme have remained the same.

### **Am I eligible to participate in Pension Salary Conversion?**

There is an amount of annual salary below which you must not fall, otherwise you will lose out on State Pension Benefits, and you may already be a member of other salary conversion arrangements, such as the scheme for childcare vouchers. Therefore, you must have a minimum salary of £8,060 pa plus the pension salary conversion (the notional employee

contribution) and the amount of any other salary conversion benefits (e.g. childcare), to participate in Pension Salary Conversion.

Additionally, if your circumstances change and your earnings move close to the National Minimum Wage, then you may be advised that you cannot continue to participate in the flexible benefit arrangement. Your Adjusted Base Pay, less your salary conversion benefits, must not fall below this level. The National Minimum Wage is currently £6.70 per hour (with effect from 1 October 2015) or around £12,717 per annum for an employee working a standard 36.5 hour week.