

Getting you set up for **salary exchange**



THIS IS FOR EMPLOYER USE ONLY AND SHOULDN'T BE RELIED UPON BY ANY OTHER PERSON.

Now that you've decided to add salary exchange to your workplace pension scheme there are a few things you need to think about before setting it up.

To help you get to grips with what's involved, within this guide, we'll show you how to:

- **successfully set up** salary exchange and what you'll need to consider along the way
- **engage with your employees** and give you all the support you need.

Your adviser or Royal London contact can discuss what's involved, and work with you to agree the best route for you and your pension scheme.

Setting up your arrangement

To make sure you're set up correctly from the off – we've detailed the things you'll need to think about, and the decisions you'll need to make when setting up your arrangement. Before you start, it's always a good idea to check with your payroll provider so you know what they can and can't support.



Decide who's joining your salary exchange scheme

Your first decision will be who you're going to offer salary exchange to. You can set it up so that some or all your employees can join. You just need to make sure that anyone who decides to do this, won't see their take-home pay fall below the National Minimum Wage or National Living Wage afterwards.

Salary exchange might not be suitable for all your employees. You'll find a full list of things to consider at employer.royallondon.com/salary-exchange.



Work out what to do with your savings

A key decision when setting up your arrangement is to decide if you'll:

- keep all of your National Insurance contribution (NIC) savings;
- reinvest all your NIC savings into your employees' pension plans; or
- a bit of both – keep some for you and the business, but also pass some back to your employees.

Keeping all of your NIC savings gives you the option to help reduce your costs and reinvest in your business, whereas reinvesting some or all of the savings you make back into your employees' plans, can help increase your scheme take up, and improve your employee benefits package.



Decide if you'll set a salary exchange limit

Setting a limit can be a simple and effective way of ensuring any employees who decide to exchange part of their salary, keep their final take home pay above the National Minimum Wage or National Living Wage.

Any contributions paid into the plan will follow the usual tax rules.



Consider making salary exchange your default

Once you've decided you want to introduce a salary exchange arrangement, you can choose to make it the automatic default option for your pension scheme. If you do, it means that when you take on new employees, they'll automatically become part of this arrangement, assuming it's written into their employment contract first.

If you don't want to do this, you'll need to adjust your employees' contracts with an agreement letter or opt-out form.



Update employment contracts

You have a legal requirement to update your existing employees' employment contracts, to make it clear that a salary exchange arrangement is in place. If you take on any new employees in the future, you may want to consider building this into your recruitment processes and their initial contract of employment.

It's important to update the contracts before any salary is exchanged as HM Revenue & Customs (HMRC) may decide not to accept your arrangement, and it could result in both you and your employees paying additional NI contributions and income tax. Contributions should therefore be taken from your employees' pay after tax has been deducted until the updated contract is in place.



How to update employment contracts

There are a number of ways to update employment contracts - you can do this with:

- an agreement letter
- an opt-out form or
- a new contract of employment.

Agreement letter

The simplest way to update existing employment contracts is with an agreement letter, which can be used to exchange salary or contractual bonuses. You'll need separate agreement letters for each, and one for every employee.

Both you and your employee need to sign the letter and it must include:

- Employee's name
- Salary or bonus details before and after the exchange
- The date the exchange will take effect from and in what circumstances it will end.

Within the letter you can decide if you want to include details about how your employees can opt out of the agreement, and how and when they can end it. Regardless of whether you include this in the letter or not, you'll need to have a process in place to minimise opting in and out happening too frequently and the administration work that it would involve.

If an employee has previously opted out of the agreement and wants to opt back in at a later date, you can outline in the letter how they do this - for example, in writing or by email.

Opt-out form

Alternatively, you can use an opt out form to record requests from employees who don't want to be included in the salary exchange arrangement. This should contain the same level of detail as an agreement letter.



Give your employees the choice

Although you've chosen to offer salary exchange on your scheme, regardless of your scheme's default, your employees can still decide if they want to opt out or not join.

You can also give them the option to invest their own NI savings in their pension plan or add them to their take-home pay although this flexibility will increase your administration.

Some employees may have experienced a change in their personal circumstances, for example a divorce or change in their finances, and decided that they no longer want to be included in the salary exchange arrangement.

You'll need to make sure you've a clear process in place to deal with employees who opt in or out of the arrangement.

Once they've opted out of salary exchange, and assuming they're not opting out of the scheme altogether, their pension contributions will continue but on the relief at source basis, after tax has been deducted.



Be clear about the exchange arrangement

You can decide whether you want to let your employees exchange just their salaries, or whether you want to also give them the option to exchange any contractual bonuses you may award. It won't change how the scheme is set up, but you'll need to give your employees a separate letter for contractual bonuses.



Calculate salary exchange amounts

You'll need to review your payroll system to understand what support it can provide for administering salary exchange, including calculating pension contributions and take-home pay, and any opt out refunds.

If your payroll system doesn't support this, you'll need to decide how to calculate this and if additional resource will be required.



Update your employee payslips

Employee's payslips need to mirror what's happening and need to be updated to reflect a salary exchange contribution – regardless if it's a salary or a bonus payment.

If you don't update the payslips to show this information, HMRC won't recognise it as a salary exchange arrangement and it could lead to admin issues further down the line. The payslip is also a way to check that the arrangement details have been set up correctly.



Know your legal obligations

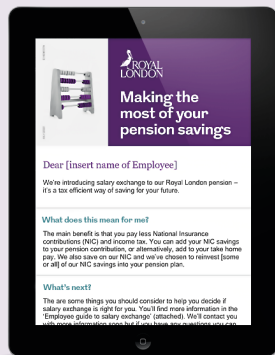
Before you set up a salary exchange arrangement, it's important to make sure you've got everything in place that's needed. This includes making amends to your employees' contracts of employment so they meet legal requirements. As this is a matter of employment law, you should speak to your legal advisers.

The information in this guide is based on Royal London's understanding of current legislation and HMRC requirements. These could change in the future.

Engaging your employees

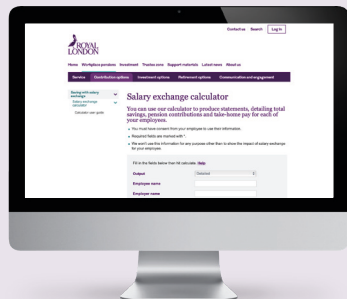
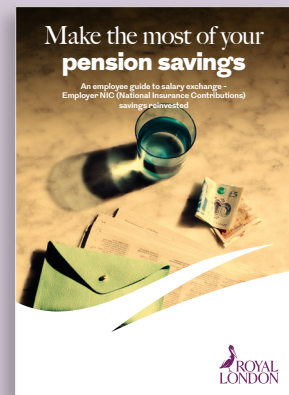
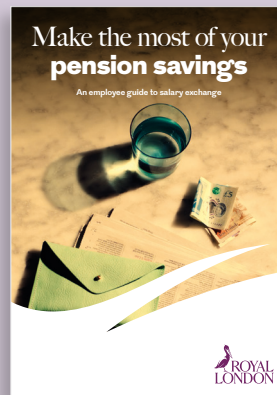
To help make sure your arrangement's a success, you'll need to communicate it to your employees, clearly outlining the benefits and the considerations. You can get copies of this material from your adviser or by visiting employer.royallondon.com

Raising awareness of salary exchange



We've created a suite of materials you can use to raise awareness of your arrangement including posters, postcards and email banners.

To give your employees more information about how salary exchange works and what it means for them, we've created a couple of employee guides. We explain in a clear and simple way, how salary exchange works, how it can affect their pension contributions and take home pay, and detail some of the things they'll need to consider before making a decision.



There's also a salary exchange calculator to share with your employees which creates personalised illustrations based on their individual circumstances. It shows how their pension contributions and take-home pay could change if they opted to exchange part of their salary and/or bonus.

Supporting you along the way

If you're setting up salary exchange for the very first time, or you're adding it to an existing Royal London scheme, once you've decided how you want to use the savings, and the contracts are updated, we'll help get you set up.

Setting up a new scheme with salary exchange

Our online system will help you run your scheme and has the added benefit of being able to record your salary exchange employees.

If you have employees opting in or out of salary exchange at different intervals, we'll support you by updating their details, making it easy for you to keep track of who's using salary exchange, and who's not.

As part of getting your scheme set up, your dedicated implementation manager will show you how to add your salary exchange details each time you go online to make your contribution, and give you all the training you need on our online systems, to make sure you're comfortable running the scheme yourself.

We'll also give every member included in your salary exchange arrangement, confirmation of what's being paid into their plan.

Adding salary exchange to an existing scheme

If you're looking to add salary exchange to your existing Royal London pension scheme, speak to your financial adviser or Royal London contact to find out more.

Need to know more?

To find out more about how we can help you with your workplace pension scheme and set up a salary exchange arrangement, speak to your adviser or Royal London contact, or visit [our website](#) for more information.



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Royal London, 22 Haymarket Yards, Edinburgh, EH12 5BH

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