

Has your business realised the pension savings available through salary sacrifice?



John Deacon, Head of Truestone Employee Benefits, explains how a single administrative change to the way you organise your pension arrangements may make a big difference to the costs of running your scheme.

In recent months I have seen a marked increase in businesses looking to reduce their financial commitment to employee benefits. But even in the tough economic environment which prevails today there is reluctance to act.

Only a few months further back employers were seeking to increase choice and improve communications to employees. Of course they wanted their employee benefits packages to be competitively sourced but mostly the focus was on staff retention and engagement. Now, with alternative employment difficult to find the pendulum has swung to managing costs more tightly.

In the current economic climate employers need to identify every method of achieving corporate profitability.

One simple approach with which you may well be already familiar is that of "salary sacrifice" within a pension and employee benefit arrangement.

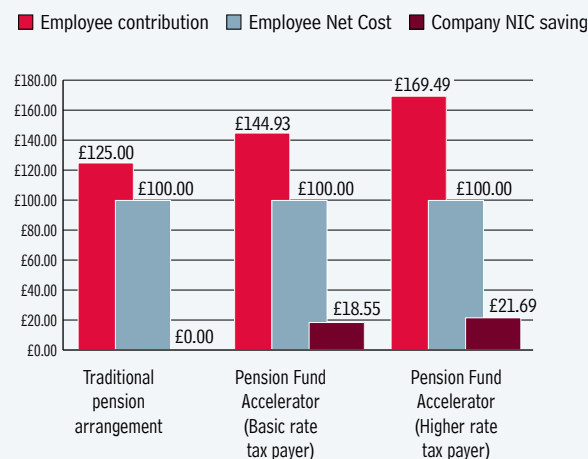
It is my view that offering value and choice for employees can be totally compatible with saving money, and for that matter, managing risks.

Salary sacrifice really could be a win/win option and the benefits can be significant:

- > Employers may be able to realise significant savings on the costs of running a company pension scheme
- > Employees can enhance pension contributions by up to 50% through redirecting their savings in tax and National Insurance Contributions (NICs) and therefore paying the same net amount

Work it out for yourself

The graph below illustrates how much extra salary sacrifice can add to employee pension contributions in a defined contribution (DC) scheme (in this case a Group Personal Pension Plan or GPP) over and above the standard government tax incentive, for each £100 contributed. In addition, your business can benefit from a significant saving in its own NICs. This employer saving can again be used to enhance pension contributions for employees, reduce the cost of your scheme or be redirected to meet cash flow needs elsewhere in the business.



As pension specialists we review many schemes on a regular basis. Whilst the schemes themselves are very different, almost without exception, each one could adopt salary sacrifice to potentially generate savings for the employer and enhance the pension contributions that employees receive.

The examples below demonstrate how much a move to salary sacrifice can add to an employee's pension contributions along with the associated savings available to employers.

How Salary Sacrifice can work

Traditional Arrangement	
£100.00	Deducted from Net pay and sent to insurer
+	
£25.00	Tax incentive added by Government
£125.00 Total Invested	

The Salary Sacrifice Method £100 net monthly pension contribution for a basic rate tax payer	
Employee	Employer
£144.93 Deducted from Gross Pay and sent to insurer	£18.55 Employer NIC saving
Why £144.93?	Why £18.55?
£100.00 Net £28.99 Tax @ 20% £15.94 Employee NIC @ 11%	£144.93 x 12.8% = £18.55
£144.93 Total Invested	£18.55 Saved

The Salary Sacrifice Method £100 net monthly pension contribution for a higher rate tax payer	
Employee	Employer
£169.49 Deducted from Gross Pay and sent to insurer	£21.69 Employer NIC saving
Why £169.49?	Why £21.69?
£100.00 Net £67.80 Tax @ 40% £1.69 Employee NIC @ 1%	£169.49 x 12.8% = £21.69
£169.49 Total Invested	£21.69 Saved

Employer NIC may be retained by the company to deliver significant savings

Truestone can provide your business with an audit of company savings and likely enhancements to employee pension contributions. Call John Deacon on 0845 362 4286 or email john.deacon@truestone.co.uk to find out more.

Please note that any tax reliefs referred to are those currently applying but the levels and the bases of, as well as reliefs from taxation are subject to change.

The graph and the examples contained in this document assume that the pension scheme is a contract based arrangement. Salary sacrifice in a trust based environment is also possible both in terms of increasing pension contributions and allowing employer savings although the application is slightly different. We would be happy to discuss with you how this might work in practice.

Implement voluntary benefits to maintain choice and reduce costs

Ed Smithson, Director at Truestone Employee Benefits explains the rising popularity of voluntary benefit schemes.



Increasing the value of pension contributions whilst reducing costs through salary sacrifice is an impressive start but it does not address the issue of "choice".

Competitive employee benefits packages have always been important for retaining and motivating key employees and we know employees value choice when it comes to employee benefits. However in a tough economic environment it will become increasingly difficult to provide those benefits on a fully funded basis. As a result employers are turning to voluntary benefits to help solve this dilemma.

Voluntary benefits normally comprise a range of specially negotiated deals and discounts which are open to employees to use as they choose. Truestone Employee Benefits uses its negotiating power to put such programmes in place.

Typically businesses will ask us to put together a package of insurances which could include:

- > Life assurance
- > Private medical insurance
- > Critical illness insurance
- > Dental insurance
- > Health cash plans
- > Travel insurance
- > Personal accident cover

However most employers also aim to provide some lifestyle benefits as well, such as health screening, gym membership, bike to work schemes, childcare vouchers plus other retail offers and discounts. All in all employees can end up making some very valuable savings on things that they genuinely need.

Another important consideration is that certain benefits can be taken using a salary sacrifice arrangement which means that for those benefits the employee can save on tax and both the employee and the employer can save paying National Insurance Contributions.

To find out more about implementing a voluntary benefits scheme call Ed Smithson on 0845 362 4286 or email ed.smithson@truestone.co.uk

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For more information on implementing salary sacrifice call Truestone on 0845 362 8426 or email employeebenefits@truestone.co.uk

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