



SALARY EXCHANGE CAN BOOST EMPLOYEE PENSION CONTRIBUTIONS BY ALMOST 20%, SAYS FIDELITY INTERNATIONAL

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London, 3 July 2008: Companies are embracing salary exchange so that employees can boost the money they pay into their defined contribution (DC) pensions, says Fidelity International. In certain circumstances this can mean employees increase contributions by as much as 19.5%* without a reduction in net pay.

Salary exchange, also known as salary sacrifice, sees both employer and employee contributing to the company pension scheme, but the employee does so by reducing their pay by the same amount they would normally contribute to their pension.

Because the amount sacrificed is no longer being paid as salary, the employer pays a reduced national insurance (NI) bill and the employee a reduced tax bill. For employees of companies that reinvest their savings back into the pension scheme, pension contributions could be increased by as much as 19.5%*, in most cases at no additional cost to either employer or employee.

Although a minority of companies with DC schemes offer salary exchange**, Fidelity is nonetheless seeing a general rise in the number of companies interested in implementing it***.

Julian Webb, Executive Director of DC Business Development at Fidelity International, says, "Salary exchange can be a win-win situation for companies. It means they can save on national insurance and total benefit spend, although we see many paternalistic employers reinvesting these savings back into the pension scheme and boosting employee contributions. In some cases this can mean employees see as much as a 19.5% rise in their overall pension contributions and an increase in their take home pay.

“Salary exchange, a more popular and positive term than salary sacrifice, is simple to set up. Our free factsheets describe how and also offer clear explanations of the figures involved. We have also established a five point plan to get HR directors started.”

Fidelity International’s five steps to implementing salary exchange:

1. Take advice – whilst salary exchange schemes do not require HM Customs and Revenue approval it is crucial they meet HMRC guidelines.
2. Consult the rules of your existing pension scheme and amend contracts of employment appropriately.
3. Consider paying some or all of the company NI savings into the pension scheme.
4. Develop a good employee communication programme to increase likelihood of high take-up.
5. Consult your payroll provider.

More details and copies of the free factsheets are available from Fidelity by emailing: julian.webb@fil.com

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Notes to editors:

* Employee earning £60,000 per annum, exchanging 5% of gross salary to a contract-based DC pension scheme, can boost net pay from £38,968 to £39,598 and reduce NI contributions by £30. The employee could choose to contribute this £30 NI saving and the balance of their increase in net pay (£600) which would immediately be ‘grossed’ up by the provider to £787.50. Together with the employer’s additional contribution of £384, an extra £1,171.50 could therefore be added to the pension. This is an overall increase in contributions of 19.5%. Salary exchange may affect future state benefits.

** 13% of UK DC schemes use salary exchange. Source: Mercer Work and Savings Survey, September 2007

*** Anecdotal evidence. Source: Fidelity, June 2008

**** Source: Fidelity as at 31.03.08.

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