



## **Reward & Retirement Provision**

### **Assignment 4 Notes**

(Part 3 – Flexible Benefits and Salary Sacrifice)

(Chapter 3 Salary and Bonus Sacrifice - Chapter 4 Other Benefits)

**1. Write an article for the annual newsletter to the members of a defined contribution pension scheme to explain the introduction of a salary sacrifice arrangement. The key details of the arrangement are:**

- **The member contribution rate is currently 5%**
- **The arrangement will be voluntary, i.e., members need to opt in**
- **The employer will share 50% of the employer National Insurance (NI) saving with the members by providing a contribution to the pension scheme equivalent to this amount**

**Your article should include an explanation of salary sacrifice and how such an arrangement would operate.**

**You should also include examples of the amount of NI contributions payable by two pension scheme members with pensionable salaries of £36,000 – one who does not participate in the salary sacrifice arrangement and one who does. Your examples should also show the NI contributions that are payable by the employer in respect of the same two members.**

**(The relevant employee/employer contracted in NI contribution rates between the Primary Threshold (£9,500), Secondary Threshold (£8,788) and the Upper Earnings Limit (£50,000) are 12% and 13.8% respectively.)**

**35 marks**

Answer should cover:

- Explain how salary sacrifice operates and the advantages of such arrangements.
- Provide example illustrations with and without sacrifice – showing impact on NI Contributions (NIC) (see below)
- Explain how contributions to the defined contribution scheme increases
- Mention any adverse implications on state pension



**Illustration:**

Employee NICs without sacrifice =  $(£36,000 - £9,500) \times 12.0\% = £3,180.00$  pa

Employer NICs without sacrifice =  $(£36,000 - £8,788) \times 13.8\% = £3,755.26$  pa

Under a salary sacrifice arrangement, the individual earns £34,200 per annum, rather than £36,000 per annum.

**The revised NIC savings are as follows:**

Employee NICs with sacrifice =  $(£34,200 - £9,500) \times 12.0\% = £2,964.00$  pa

Employer NICs with sacrifice =  $(£34,200 - £8,788) \times 13.8\% = £3,506.86$  pa

**2. Outline the main reasons why a company may wish to adopt salary sacrifice for their pension scheme.**

**10 marks**

Answer should cover:

- Promote employee participation
- Assist Recruitment and retention
- Platform for introducing a flexible benefits package
- To take advantage of NIC savings

**3. Outline the minimum requirement for annual leave and how it may be incorporated into a flexible benefit arrangement.**

**5 marks**

Answer should cover:

- EU Working Time Directive and statutory minimum holiday levels, noting potential changes post Brexit
- Core benefits
- Holiday allowance in excess of this



- 4. To encourage a higher take up rate of membership of the pension scheme, your client has decided to introduce pension salary sacrifice. Draft a briefing paper to the Benefits Manager setting out the main items to be considered when designing a salary sacrifice arrangement.**

**20 marks**

Answer should cover:

- Aim of a salary sacrifice arrangement
- Consideration of key items:
  - salary definitions amendments
  - refund of contributions options
  - opt in/opt out
  - sharing NIC saving between employer and employer
- Interaction with automatic enrolment requirements

- 5. The HR Manager in your company is concerned that some employees' state benefits may be adversely impacted by a new salary sacrifice pension arrangement. As Benefits Manager, write an email in response, explaining how salary sacrifice can impact certain state benefits of employees.**

**15 marks**

Answer should cover:

- Salary sacrifice is a reduction in pay
- Some State benefits calculated by reference to pay
  - Incapacity Benefits and Job Seekers Allowance
  - Statutory Sick/Maternity Pay, and other "statutory" pay
  - Working/Children's Tax Credits/Universal Credit
  - Impact if earnings fall below Lower Earnings Limit (LEL)
- For the Tax Credits, salary sacrifice could actually increase the benefit payable



**6. Explain the difference between a career break and a sabbatical and why an employer may offer them to employees.**

**10 marks**

Answer should cover:

- Definition of sabbaticals:
  - When they can be useful
  - Any conditions an employer may wish to include
- Definition of career breaks:
  - Reasons for their use
  - Conditions an employer may wish to include
  - Rights on return to work

**7. Outline the two types of dental cover that companies may offer employees as part of their benefits package.**

**5 marks**

Answer should cover:

- Capitation plans
  - Can be offered by both private and NHS dentists
  - Designed to meet the cost of all dental care
  - Individual is assessed on the state of their oral hygiene and this then determines the monthly cost of the cover
  - Typically set up on an individual basis
- Dental insurance:
  - Covers both NHS and private dentistry
  - The level of cover can be on a number of bases, i.e. to cover NHS costs or different levels of private dentist costs
  - Can be extended to include the employee's family
  - Dental insurance is typically offered as part of a voluntary benefits plan or within a flexible benefits plan