



## AUTO ENROLMENT AND THE EMPLOYER DUTIES – SALARY EXCHANGE FACTSHEET

Salary exchange is one way that employers could reduce the costs of auto enrolment and the employer duties. This factsheet will tell you what you'll need to know about salary exchange. It will also explore some of the areas an employer should consider if they're thinking about using salary exchange for their pension scheme.

We've based this factsheet on our current understanding of the relevant legislation and regulations (including drafts) which might change in the future.

### The background to salary exchange

Salary exchange is an agreement between an employer and a worker that they'll exchange part of their gross salary in return for a non-cash benefit, such as childcare vouchers or contributions to a pension scheme. Salary exchange is treated as a change to the worker's contract of employment.

It is an efficient way of providing workers with benefits as an employer won't pay National Insurance Contributions (NIC) on the amount exchanged. When salary exchange is used with pensions, the amount exchanged by the worker is treated as an employer pension contribution, so corporation tax relief can be claimed on the amount exchanged. In addition, workers pay less income tax and NIC because their gross salary is reduced.

The savings made by the employer and worker can be used to increase pension contributions.

### Using salary exchange with auto enrolment

Salary exchange can be used in auto enrolment schemes as long as certain rules are taken into account.

1. Workers who will be automatically enrolled cannot be forced to sign up to a salary exchange agreement in order to become or remain a member of an auto enrolment scheme.
2. Employers can ask workers if they want to put in place a salary exchange agreement but they must do this before the worker's auto enrolment date.
3. An exchange of salary must be agreed well ahead of when the first amount is deducted from salary.
4. It's not possible to use salary exchange where the worker's salary after the exchange will fall below the level of the National Minimum Wage.

### **Consideration for employers**

- If an employer is thinking about using salary exchange with their auto enrolment scheme, there are a lot of things they need to consider. They should speak to their adviser to make sure they understand the implications. Getting the right processes in place is the key to making sure that salary exchange works with auto enrolment in a compliant, efficient way.

### **The impact of salary exchange on administration**

- The employer will need to make sure that the information they give workers includes both the correct auto enrolment information and salary exchange information.
- Contracts of employment may need to be changed to allow salary exchange and legal advice may be required to make sure this is done properly.
- The employer should ensure they have processes in place to review the salary exchange regularly.
- The employer will need to check that their payroll system and pension scheme provider can cope with salary exchange.

### **The impact of salary exchange on scheme design**

- The employer will need to consider how they will implement the salary exchange agreement to comply with both the salary exchange and auto enrolment rules.
- The employer may need to operate two different joining processes, one for the workers who agree to the exchange and another for workers who do not agree to the exchange.
- The employer should consider aligning the auto enrolment and salary exchange processes with key payroll dates to help make everything run as smooth as possible.

- The employer will need to decide if employer and worker savings will be used to increase contributions to the pension scheme, and if so how much.
- The employer will need to decide whether to offer salary exchange to all of the workforce, or just part of it.
- The employer should consider setting a salary floor to exclude workers whose state or other benefits may be adversely affected by salary exchange.

### **The impact of salary exchange on the workforce**

- Depending on how any employer and employee savings are used, salary exchange can result in an increase in pension contributions.
- Salary exchange can have an impact on benefits that the employer provides, such as death benefits, salary increases and overtime rates.
- Salary exchange can have an impact on certain state benefits so might not be suitable for some workers such as those who are lower paid or those who are just about to go on maternity leave.
- The employer will have to provide effective communication materials for workers that explains what salary exchange is, how it works and the benefits it brings for them.





### **How Royal London can help**

As you can see there is a lot for employers to think about if they are considering using salary exchange for their pension scheme. We're pensions experts and we want to work with advisers to help employers prepare for auto enrolment and the employer duties. To find out more speak to your usual Royal London Contact or visit the auto enrolment area of our website at:

Advisers – **[adviser.royallondon.com/autoenrolment](https://adviser.royallondon.com/autoenrolment)**

Employers – **[employer.royallondon.com/autoenrolment](https://employer.royallondon.com/autoenrolment)**



**Royal London**  
1 Thistle Street, Edinburgh EH2 1DG  
**royallondon.com**

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