

Salary Sacrifice – Implications for 2015 Scheme Members

What impact will entering into (or continuing with) a salary sacrifice arrangement have on my 2015 Scheme benefits?

A salary sacrifice arrangement is an agreement between an employer and an employee, where the employee gives up some of their contractual entitlement to cash earnings in return for non cash benefits.

In a Career Average Revalued Earnings (CARE) scheme, like the 2015 HSC Pension Scheme, pension benefits are built up on a year by year basis based on your actual pensionable earnings in each year. Therefore entering into any salary sacrifice arrangement (e.g Childcare Vouchers, Lease Car Schemes etc) that reduces your gross pensionable earnings will have a negative effect on the amount of pension you are able to build up in that year. The overall effect from participating in any salary sacrifice scheme would be to reduce the amount of final benefits you earn.

Below is a simple example to illustrate how salary sacrifice could affect the amount of pension benefits you build in the 2015 Scheme (all figures are rounded to the nearest pound for illustration purposes only):

Tom earns £18,000 a year. For the purpose of this example we assume that Tom's pay doesn't change year on year.

	Year 1	Year 2	Year 3
Year 1 Pension	£333	£345*	£357*
Year 2 Pension	N/A	£333	£345*
Year 3 Pension	N/A	N/A	£333
Total Pension	£333	£678	£1,035

Now lets presume Tom obtains child care vouchers through a Salary sacrifice scheme for the same three years, which reduces his pensionable earnings by £1200 a year reducing his annual pensionable earnings to £16,800. His pension benefits would be:

	Year 1	Year 2	Year 3
Year 1 Pension	£311	£322*	£333*
Year 2 Pension	N/A	£311	£322*
Year 3 Pension	N/A	N/A	£311
Total Pension	£311	£633	£966

* revalued at 3.5% assuming 2% CPI + 1.5%

So you can see from the example the reduction in pension benefits payable that being part of salary sacrifice will cause.

If you are unsure as to how any salary sacrifice arrangement you are currently a member of, or wish to join may affect you then please talk to your employer.