



## Reward and Retirement Provision

### Assignment 4 Notes

*(Part 3 - Flexible Benefits and Salary Sacrifice*

*Chapter 3 – Salary and Bonus Sacrifice*

*Chapter 4 – Other Benefits)*

*Recommended Time: 3 hours*

1. Write an article for the annual newsletter to the members of a DC 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 NI saving with the members by providing a DC contribution to the pension schemes 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 £40,000 – one who does not participate in the salary sacrifice arrangement and one who does. Your examples should also show how much NI contributions are payable by the employer in respect of the same two members.

*(The relevant employee/employer contracted in NIC rates between the Primary Threshold /Secondary Threshold (£8,164) and the Upper Earnings Limit (£45,000) are 12% and 13.8% respectively.)*

35 marks

Format: Newsletter

Style: Informal and in plain English. Assume no knowledge of the subject.

Answer should cover:

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

Illustration:

Employee NICs without sacrifice =  $(£40,000 - £8,164) \times 12.0\%$  = £3,820.32 pa

Employer NICs without sacrifice =  $(£40,000 - £8,164) \times 13.8\%$  = £4,393.37 pa



Under a salary sacrifice arrangement, the individual earns £38,000 per annum, rather than £40,000 per annum. The revised NIC savings are as follows:

Employee NICs with sacrifice =  $(£38,000 - £8,164) \times 12.0\%$  = £3,580.32 pa

Employer NICs with sacrifice =  $(£38,000 - £8,164) \times 13.8\%$  = £4,117.37 pa

(Relevant sections of the manual are part 3 chapters 3.1, 3.2 [for an explanation of how it would operate] and 3.6 for an example of the NIC saving which should be adapted for this example member and 3.8.)

2. **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**

Format: Briefing paper – introductory paragraph, analysis of information, summary

Style: Formal and assume some knowledge of the subject

Answer should cover:

- Aim of a salary sacrifice arrangement
- Consideration of key items to meet employer's aim i.e. salary definitions amendments, refund of contributions options, opt in/opt out, share NIC saving between employer and employer
- Interaction with automatic enrolment requirements

(Relevant section of the manual is part 3 chapter 3.5.)

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
- Core benefits
- holiday allowance in excess of this

(Relevant sections of the manual are part 3 chapter 2.4.5 and chapter 4.1.1.)



**4. Explain the difference between a career break and a sabbatical and the advantages of offering each.**

**10 marks**

Answer should cover:

- Definition of sabbaticals, when they can be useful and any conditions an employer may wish to include
- Definition of career breaks, reasons for their use, conditions an employer may wish to include and rights on return to work

(Relevant section of the manual is part 3 chapter 4.1.1.)

**5. Outline three examples of non contractual benefits that may be offered as part of a benefits package.**

**15 marks**

Answer should cover:

- Benefits provided at a cost to employee either through salary sacrifice schemes or voluntary benefits schemes;
- For each example provided identification under the relevant type of scheme.
- Examples include childcare provision; green transport; dental cover; discounted goods and retail vouchers.

(Relevant sections of the manual are part 3 chapter 4.2.1 and chapter 4.2.2.)

**6. Your client (a medium-sized company) already has a pension salary sacrifice arrangement in place and wants to extend this to childcare provision and dental cover. Write an email describing such arrangements and how they can be provided via the current salary sacrifice arrangement.**

**15 marks**

Format: Short email providing a summary of information in clear paragraphs.

Style: Formal and assume some knowledge of the subject.

Answer should cover:

- Forms of childcare provision and their tax advantages
- Forms of dental cover

(Relevant part of the manual is section 3 chapter 4.2.1.)