

## **Pay Plus for pensions**

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### **1. Introduction**

Pay Plus for pensions is an HM Revenue and Customs (HMRC) approved 'salary sacrifice' scheme for members of the Universities Superannuation Scheme (USS) and The University of Sheffield Pension Scheme (USPS). It results in National Insurance (NI) savings for both staff and the University. The University obtained clearance from HMRC for the scheme in April 2008.

#### **Salary sacrifice**

Under Pay Plus for pensions, a member of staff's salary before any salary sacrifice reductions (i.e. their "Annual Salary") and any other elements of Pensionable Salary are reduced by either 6.35% for USS members or 6.8% for USPS members. (For the few members paying a different rate eg married women paying the reduced rate, their salary is reduced by this rate.) An equivalent additional employer pension contribution is then made by the University into their pension scheme.

#### **An Opt out scheme**

Pay Plus for pensions was launched on 1 June 2008. It is an opt-out scheme ie it is assumed that members of USS and USPS will participate in Pay Plus for pensions and they have to opt out if they do not wish to participate. At the initial launch, staff on long term absence or over state retirement age were not included in the scheme and were given the opportunity to opt in.

From 1 June 2008, all staff who become members of either of the two pension schemes are assumed to be participating in Pay Plus for pensions. They are given the opportunity to opt out at the time of joining the pension scheme.

All staff are allowed by HMRC to opt out from or opt in to salary sacrifice schemes on an annual basis or at other times if they have experienced one of a number of defined Lifestyle Events.

- For Pay Plus for pensions the annual date agreed is 1 April.
- If staff are making the change on the basis of a Lifestyle Event, they must opt in or out within three months of the event. The change becomes effective in the month following the notification.

#### **Lifestyle events**

The following events are the Lifestyle Events agreed at Sheffield:

- Notification/commencement of maternity/adoption leave
- Birth/adoption of a child
- Return from maternity/adoption leave
- Start of marriage/civil partnership
- End of marriage/civil partnership/long term relationship
- Material change in partner/dependant's circumstances
- Commencement of a period of long term absence or secondment
- Return from a period of long term absence or secondment
- Significant change in working hours, job or contractual terms of employment
- Joining/Leaving the pension scheme
- Reaching state retirement age
- Reaching 3 months' pensionable service
- Reaching 2 years' pensionable service.

Opt-out and opt-in forms are available on the Pay plus for pensions website [www.shef.ac.uk/payplus/pensions](http://www.shef.ac.uk/payplus/pensions) by email from [payplus@shef.ac.uk](mailto:payplus@shef.ac.uk).

## **2. Eligibility**

All members of USS and USPS are eligible to participate in Pay Plus for pensions, provided their reduced pay does not fall below the National Minimum Wage (NMW).

If in any month participation in the arrangements would bring their reduced pay to below the NMW, staff will be excluded from participation for that month.

Similarly, to ensure that entitlement to state benefits is not affected, staff will be excluded from participation in any month where their reduced pay would fall below the National Insurance Lower Earnings Limit (LEL).

### **Staff for whom membership may not be advantageous**

- Low earners may not benefit, as explained above.
- Staff over state retirement age who do not pay National Insurance contributions do not benefit personally. However, the University continues to pay National Insurance for these staff, so that their departments or research projects still benefit if they join.
- Staff who leave the pension scheme with between three months' and two years' pensionable service will have reduced options for their pensionable service.

Alongside options to transfer their pensionable service (USS and USPS) and deferred pension rights (USS), staff with between 3 months' and two years' pensionable service, who are **not** participating in Pay Plus for pensions can request a refund of their pension contributions with a deduction to buy them back into the State Second Pension (S2P), if they decide to leave the pension scheme.

Under Pay Plus for pensions, the refund of contributions for the period during which they have been participating in Pay Plus for pensions and not paying any contributions is **nil**. They are still bought back into S2P.

If staff leave within the first three months, regardless of their Pay Plus position, it is possible, at the University's discretion, for staff to have their pension position reinstated as if they had never joined.

It is up to staff in the first two years of pension scheme membership to decide whether membership of Pay Plus for pensions is appropriate for their personal situation. It may be necessary for them to take independent financial advice.

- Staff paying lower National insurance contributions (eg married women paying the reduced rate) will still see a benefit, but it will be less.

### **3. Payroll considerations**

All pay elements such as overtime, shift allowances etc will be calculated with reference to the pre reduction salary.

Participation in Pay plus for pension leads to a reduction of 6.35% for USS members and 6.8% for USPS members in all elements of pensionable salary, except for minority groups of members, who are paying a different agreed contribution rate (eg staff paying the married women's rate, staff paying the enhanced USS rate and staff over state retirement age). There is no impact on non-pensionable salary.

The salary reduction is shown on the payslip as 'Pay Plus USS' or 'Pay Plus USPS' (or a different suffix for minority groups).

A record will be retained on the HR/Payroll system of which staff are participating in Pay Plus for pensions.

### **4. HR processes**

#### **Contracts of employment**

Prior to 1 June 2008 participating members of Pay Plus received notification of the changes to their terms and conditions and contract of employment. Subsequently staff receive this notification when they join the pension scheme. At this point they can choose to opt out by completing an opt-out form.

#### **Pay increases**

All salary increases continue to be based on the pre-reduction salary as defined on the University of Sheffield Grading Scheme.

#### **Mortgage application letters**

When requests are received to confirm salary, the pre-reduction salary will be quoted.

### **5. Pensions processes**

The USS and USPS Trust Deed and Rules have been amended to ensure that pension contributions and pension benefits are based on the pay figure before the Pay Plus for pensions reduction or any other salary sacrifice reductions. Therefore, Pensionable Salary is the same as if salary sacrifice had not taken place.

#### **Death in service benefits and spouse's/dependant's pension**

These benefits will not be affected by Pay Plus for pensions.

### **Leaving the pension scheme**

If staff leave the pension scheme, but continue to be employed by the University, they must also opt out of Pay Plus for pensions, otherwise they will continue to have their pay reduced by the pension contribution they would have paid as a member.

### **Refund of contributions**

By participating in Pay Plus for pensions staff will not make any pension contributions. Therefore, they will not be able to take any refund of their contributions.

If staff withdraw from the pension scheme within the first three months of membership, the University will still receive a refund of the University's contribution. It will, therefore, be possible (at the University's discretion) to provide staff with a sum equivalent to the difference between their salary and their reduced salary less tax and National Insurance.

Other staff with less than two years' pension scheme membership will only be able to take a nil refund of contributions for the period in which they have been a member of Pay Plus for pensions. They will, however, still be bought back into the State Second pension (S2P). The other options available to staff not participating in Pay Plus for pensions will also be available to them: transfer of service or deferred pension (USS) and transfer of service (USPS).

### **Additional Voluntary Contributions (AVCs)**

Staff can pay AVCs whether or not they participate in Pay Plus for pensions. Pay Plus for pensions has no impact on the AVC processing or payments.

## **6. State benefits and related University policies**

### **State Benefit entitlements**

Most State Benefits are means tested and are not related to National Insurance contributions, so that they are not affected by Pay Plus for pensions.

A few State Benefits are based on having paid/paying National Insurance contributions eg Job seekers allowance. These benefits are not affected as long as earnings are kept above the Lower Earnings Limit.

### **University and Statutory sick pay**

University defined sick pay is based on pre reduction pay.

Statutory sick pay is calculated with reference to the reduced salary and this is the amount the University can claim back. The University pays the same sick pay to a member of staff whether or not they are participating in Pay Plus for pensions. This may mean that there is a small additional cost to the University for staff participating in Pay Plus for pensions.

### **University maternity pay and Statutory maternity pay**

The standard maternity arrangements apply: University defined maternity pay is based on pre reduction pay, and the University pays the same amount to staff whether or not they are participating in Pay Plus for pensions.

During any periods of Statutory maternity Pay, this is calculated with reference to the reduced salary and defines the amount the University can claim back. The University pays the same statutory maternity pay to a member of staff whether or not they are participating in Pay Plus for pensions.

In total, this may mean that there is a small additional cost to the University for staff participating in Pay Plus for pensions.

### **University paternity pay**

The University will continue to pay full pay for the two weeks' paternity leave.

### **University adoption pay and Statutory adoption pay**

These payments replicate University maternity pay and Statutory maternity pay.

### **Periods of unpaid leave**

Periods of unpaid leave will continue to be dealt with as they would without Pay Plus for pensions.

### **Working Tax Credit including Child Tax Credit**

These Tax Credits may be affected by participation in Pay Plus for pensions. Staff are recommended to contact the Tax Credits helpline on 0845 300 3900.

### **Basic State Pension and State Second Pension (S2P)**

Basic National Insurance payments through an individual's working life buys a basic state pension at state retirement age (currently 60 for women and 65 for men). This benefit is preserved so long as earnings are kept above the Lower Earnings Limit.

Individuals qualify for an additional state second pension (S2P) by paying a higher National Insurance contribution (based on earnings between the Lower and Upper Earnings Limits).

Members of USS and USPS are contracted out of S2P, so that there is no impact from Pay Plus for pensions on S2P.