



# **INEOS Group Personal Pension Plan (GPPP)**

## **Pension Salary Sacrifice Including Bonus Sacrifice**

### **Employee Guide**

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### Glossary of Terms

<b>DC Pension Scheme</b>	Defined Contribution Pension Scheme
<b>GPPP</b>	Group Personal Pension Plan
<b>NI</b>	National Insurance
<b>Members</b>	Contributing Member(s) of the GPPP
<b>Pensionable pay</b>	Your gross taxable earnings from your employer excluding any item of pay which INEOS has deemed to be non-pensionable.
<b>HMRC</b>	Her Majesty's Revenue & Customs (previously Inland Revenue)

## Pension Salary Sacrifice

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### 1. Introduction

Salary sacrifice is designed to make pension contributions more efficient and will reduce National Insurance (NI) costs for you and for INEOS.

This arrangement applies to members of the **INEOS Group Personal Pension Plan (GPPP)**.

If you are already making pension contributions, you will benefit by receiving an increase in your take home pay due to the reduction in NI.

Under pension salary sacrifice, you will no longer make any pension contributions. Instead, your salary will be **reduced** by a sum equivalent to the pension contribution you would have made (plus the basic rate tax relief you would have received on the contribution). INEOS will then pay your contribution (including basic rate tax relief) on your behalf so that the same gross amount is paid into the pension scheme. You will however retain your original ("Notional") salary for the purpose of calculating pay rises, mortgage reference letters and other benefits such as Death in Service. The same principle applies to a sacrifice of bonus into your pension scheme.

This document explains how pension salary sacrifice and bonus sacrifice works and aims to answer any questions you may have. If you have queries after reading it, please speak to the HR Team.

Please read this document including the Frequently Asked Questions (FAQ) in section 8 to gain a general understanding of pension salary sacrifice and how it works. This should not be regarded as comprehensive advice. Specific queries about your individual pension arrangements should be directed to an independent financial adviser.

## Pension Salary Sacrifice

### 2. What is pension salary sacrifice?

Pension salary sacrifice is designed to reduce NI contributions for members of the GPPP and for INEOS. As this has no impact on your employment-related benefits from INEOS, pension salary sacrifice is a beneficial arrangement for members of the GPPP and for INEOS.

If you participate in pension salary sacrifice, this means:

<b>You</b>	will no longer make pension contributions to the GPPP from your pay.
<b>Your</b>	Gross pay will be reduced by the amount that INEOS pays into the GPPP on your behalf (including the associated basic rate tax relief).
<b>INEOS</b>	will instead pay an amount (as an employer contribution) equal to your pension contributions plus basic rate tax relief directly into your personal pension plan.
<b>As a result</b>	your take home pay will increase because you will be paying less NI contributions. This is because NI contributions are now calculated on your lower gross salary.

**In agreeing to pension salary sacrifice, you will be consenting to a change to your Terms and Conditions (T&Cs) of employment as pension salary sacrifice will reduce your gross pay.**

Your contractual annual basic pay ("Notional Pay") will be reduced by the annual amount you used to contribute into your pension (plus the appropriate tax relief you would usually receive).

As a result, your take home pay (your net pay) will increase, because you are paying less tax and NI on your reduced salary. The amount you save will depend upon the level of your salary, the level of your pension contributions and current NI rates.

INEOS will then pay an amount, equal to your pension contribution, and associated basic rate tax relief, directly into your pension Scheme.

**Previously, once you had joined pension salary sacrifice, you would have been required to continue in the scheme for a period of at least one year and would not have been able to opt out during this time (unless there was a 'lifestyle event', see the FAQ in section 8 for the definition of a 'lifestyle event'). However, as the Company is now operating under the new Workplace Pensions rules; you will now be allowed to opt out of pension salary sacrifice at any time during the year. If you would like to opt out of pension salary sacrifice, please speak to the HR team and complete the pension salary sacrifice opt out form.**

**Please note that, in line with the Company's policy, you are only permitted to increase your pension contribution (and hence the amount of your salary sacrifice deduction) once a year at the Company's annual review period (May). You can however decrease your contributions at any point in the year by contacting the HR team.**

## Pension Salary Sacrifice

### 3. How will pension salary sacrifice affect my take home pay?

The increase in your take home pay will depend on your current pay and pension contributions. Some examples based on 2%, 4% and 6% contributions are shown:

#### Annual increase in take home pay

Pensionable Pay	Pension Contribution		
	2%	4%	6%
<b>£20,000</b>	£48	£96	£144
<b>£30,000</b>	£72	£144	£216
<b>£40,000</b>	£96	£192	£288
<b>£45,000**</b>	£18	£36	£54
<b>£50,000**</b>	£20	£40	£60
<b>£60,000**</b>	£24	£48	£72

Please note that all amounts shown in this document are rounded and are calculated in respect of the 2016/17 tax year and are subject to future changes in line with legislation.

\*\* Any earnings above the NI Upper Earnings Limit (for 2016/17, £43,000) are subject to National Insurance contributions at 2% and therefore the savings are correspondingly lower.

## Pension Salary Sacrifice

### Example 1: Basic Rate Taxpayer (2% Contribution)

Let's assume your contractual pay is £30,000 per year and your total pension contributions are 2% of your pensionable pay (equating to contributions of £600 per year).

Without salary sacrifice	£	With salary sacrifice	£
<b>Contractual pay</b>	<b>30,000</b>	<b>Notional pay</b>	<b>30,000</b>
		Pension salary sacrifice adjustment	(600)
<b>Contractual Pay</b>	<b>30,000</b>	<b>Contractual pay</b>	<b>29,400</b>
Tax (20%)*	(3,680)	Tax (20%)*	(3,680)
NIC Due (12% over £8,060)	(2,632)	NIC Due (12% over £8,060)	(2,560)
	23,687		23,159
Pension contribution (2%)	(600)		
<b>Take Home pay</b>	<b>23,087</b>	<b>Take Home Pay</b>	<b>23,159</b>

\* Tax is calculated at 20% after deducting the 2% pension contribution and the annual tax free personal allowance of £11,000 (2016/17) and all figures shown are rounded to the nearest pound.

#### Employee savings

**Increase in annual take home pay      £72**

## Pension Salary Sacrifice

### Example 2: Basic Rate Taxpayer (6% Contribution)

Let's assume your contractual pay is £30,000 per year and your total pension contributions are 6% of your pensionable pay (equating to £1,800 per year.)

Without salary sacrifice	£	With salary sacrifice	£
<b>Contractual pay</b>	<b>30,000</b>	<b>Notional pay</b>	<b>30,000</b>
		Pension salary sacrifice adjustment	(1,800)
<b>Contractual Pay</b>	<b>30,000</b>	<b>Contractual pay</b>	<b>28,200</b>
Tax (20%)*	(3,440)	Tax (20%)*	(3,440)
NIC Due (12% over £8,060)	(2,632)	NIC Due (12% over £8,060)	(2,416)
	23,927		22,343
Pension contribution (6%)	(1,800)		
<b>Take Home pay</b>	<b>22,127</b>	<b>Take Home Pay</b>	<b>22,343</b>

\* Tax is calculated at 20% after deducting the 6% pension contribution and the annual tax free personal allowance of £11,000 (2016/17) and all figures shown are rounded to the nearest pound.

#### Employee savings

**Increase in annual take home pay      £216**



## Pension Salary Sacrifice

### Example 3: Higher Rate Taxpayer (2% Contribution)

Let's assume your contractual pay is £60,000 per year and your total pension contributions are 2% of your pensionable pay (equating to £1,200 per year.)

Without salary sacrifice	£	With salary sacrifice	£
<b>Contractual pay</b>	<b>60,000</b>	<b>Notional pay</b>	<b>60,000</b>
		Pension salary sacrifice adjustment	(1,200)
<b>Contractual Pay</b>	<b>60,000</b>	<b>Contractual pay</b>	<b>58,800</b>
Tax (20%)*	(6,400)	Tax (20%)*	(6,400)
Tax (40%)	(6,320)	Tax (40%)	(6,320)
NIC (12% on £8,060 to £43,000)	(4,192)	NIC (12% on £8,060 to £43,000)	(4,192)
NIC due (2% over £43,000)	(340)	NIC due (2% over £43,000)	(316)
	<b>42,747</b>		<b>41,571</b>
Pension contribution (2%)	(1,200)		
<b>Take Home pay</b>	<b>41,547</b>	<b>Take Home Pay</b>	<b>41,571</b>

\* Tax is calculated after deducting the 2% pension contribution and the annual tax free personal allowance of £11,000 (2016/17) and all figures shown are rounded to the nearest pound.

#### Employee savings

**Increase in annual take home pay      £24**

## Pension Salary Sacrifice

### Example 4: Higher Rate Taxpayer (6% Contribution)

Let's assume your contractual pay is £60,000 per year and your total pension contributions are 6% of your pensionable pay (equating to £3,600 per year).

Without salary sacrifice	£	With salary sacrifice	£
<b>Contractual pay</b>	<b>60,000</b>	<b>Notional pay</b>	<b>60,000</b>
		Pension salary sacrifice adjustment	(3,600)
<b>Contractual Pay</b>	<b>60,000</b>	<b>Contractual pay</b>	<b>56,400</b>
Tax (20%)*	(6,400)	Tax (20%)*	(6,402)
Tax (40%)	(5,360)	Tax (40%)	(5,360)
NIC (12% on £8,060 to £43,000)	(4,192)	NIC (12% on £8,060 to £43,000)	(4,192)
NIC due (2% over £43,000)	(316)	NIC due (2% over £43,000)	(268)
	43,707		40,179
Pension contribution (6%)	(3,600)		
<b>Take Home pay</b>	<b>40,107</b>	<b>Take Home Pay</b>	<b>40,179</b>

\* Tax is calculated after deducting the 6% pension contribution and the annual tax free personal allowance of £11,000 (2016/17) and all figures shown are rounded to the nearest pound.

#### Employee savings

**Increase in annual take home pay      £72**

## 4. How does pension salary sacrifice affect my Company benefits?

Membership of pension salary sacrifice will reduce your gross pay from INEOS. This is a change to your existing terms and conditions of employment. However, in real terms this has no impact on your

## Pension Salary Sacrifice

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employment-related benefits from INEOS.

The introduction of pension salary sacrifice will not affect future pay reviews. Any future pay rises will be based on your notional (pre-sacrificed) salary.

For pension and death in service benefits, the GPPP will continue to use your notional salary.

All your salary-related benefits will also be calculated on your notional salary, including any overtime and bonus (where relevant) and so will not be affected.

Correspondence with 3<sup>rd</sup> parties (other than HMRC), such as mortgage reference letters will also refer to your notional salary where relevant.

### 5. For whom may pension salary sacrifice not be appropriate?

There are very few instances where employees will not benefit from pension salary sacrifice. However, this may be the case where an individual's earnings are close to the lower earnings limit (LEL, for 2016/17 this is £5,824) for NI contributions or the National Minimum Wage and National Living Wage. If you think this may be the case for you, you should contact an Independent Financial Adviser for advice before making a decision.

Additionally, here are some circumstances where inclusion in pension salary sacrifice may have an impact.

#### Child Support

- Child support payments are based on net earnings, so payments may increase as membership of pension salary sacrifice has the effect of increasing your net earnings.

#### Court Judgements

- Court judgments are also based on net earnings and therefore pension salary sacrifice may result in an increase to these payments.

#### Student Loans

- Student loan repayments are based on gross earnings. As pension salary sacrifice will reduce your gross earnings, your student loan repayments may also reduce. With student loans, paying a lower amount may mean you end up paying off the debt over a longer period. You can of course, make additional payments directly to the student loan company if you wish to repay your loan sooner.

If you are concerned about your eligibility for State benefits and how being a member of pension salary sacrifice will affect your potential entitlement (including if you were to lose your job), you should seek further information from HMRC or your local citizen's advice bureau.

If you are temporarily working overseas and therefore not liable to UK Tax and NI, then it will not be possible to participate in the salary sacrifice scheme. Please speak to the HR team for further details.

## Pension Salary Sacrifice

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### 6. Will pension salary sacrifice affect my state benefits?

Pension salary sacrifice will not affect your basic state pension provided your salary is over the lower earnings limit (£5,824pa, 2016/17 rates). There may however be some effects on your state second pension (S2P). The calculation for S2P is very complex and is currently based on a series of calculations carried out for each individual year you contributed to SERPS and S2P.

Under current rules in place for the state second pension, employees in pension salary sacrifice will be marginally worse off in respect of the state second pension if they are earning between the Lower Accruals Point (approximately £15,300) and the Upper Accruals Point (approximately £40,040).

As the annual savings under pension salary sacrifice are considerably greater for those in this salary “band” than the potential reduction in the state second pension, to help mitigate the potential small reduction in annual pension, employees could consider making an additional payment into a pension, up to or equal to their annual savings under Pension Exchange.

Contributions towards the state second pension will be abolished from 2016 and therefore there will not be any reduction in your pension benefit from April 2016. If you are concerned about state benefits and pension salary sacrifice you should speak to your own independent financial adviser or contact the Department for Work and Pensions helpline on 0845 3000 168 or [www.dwp.gov.uk](http://www.dwp.gov.uk).

### Working/Child Tax Credits

Pension salary sacrifice may positively affect your Child Tax Credit and/or Working Tax Credit. As your gross salary will be reduced, it may result in additional benefits being awarded to you and we recommend that you contact the Tax Credits helpline on 0845 300 3900 to advise them of these changes.

Universal Credit will be gradually introduced to most places in the UK intermittently and is expected to be fully operational by 2017. It is a new benefit that has started to replace 6 existing benefits with a simpler, single monthly payment if you are out of work or on a low income. The rules are not yet finalised and therefore it is not possible at this point to determine the effects of Pension Exchange on payment of these new credits, although it is not expected that current benefit claimants will be adversely affected. We recommend you consider this further once legislation has been finalised and more definitive guidance is published.

### Statutory Maternity/Paternity/Adoption Pay/Shared Parental Pay

Pension salary sacrifice may also affect the following state benefits:

- Statutory Maternity Pay (SMP)
- Statutory Adoption Pay (SAP)
- Statutory Paternity Pay (SPP)
- Shared Parental Pay (ShPP)

You are not allowed to sacrifice the above benefits.

If you join pension salary sacrifice and subsequently go on maternity/paternity/adoption leave, then salary sacrifice could affect the level of SMP/SPP/SAP/ShPP you are entitled to. This is because the calculation to determine your SMP/SPP/SAP/ShPP is based on the level of salary which you pay national insurance on. Under pension salary sacrifice you are reducing the amount of NI you are paying (as your gross salary is lower) and this could affect your payments.

## Pension Salary Sacrifice

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Please refer to the Company's Maternity Leave policy for further information. If you are concerned about how pension salary sacrifice may affect you, please discuss this with the HR team in the first instance.

If you are on maternity, paternity or adoption leave and receive one of the above benefits (SMP, SPP/ShPP or SAP), you **cannot** sacrifice anything out of these statutory payments.

The Company will therefore be required to pay all pension contributions for the entire period for which you are in receipt of these statutory payments. The Company cannot seek to recover these employee contributions from you once you return to work.

### Child Benefit

Rules have been introduced to impose a higher income tax charge on those who are in receipt of child benefit payments whose 'adjusted net income' exceeds £50,000 per annum. You will only be affected if you or your partner receives child benefit payments **and** either of you have 'adjusted net income' in excess of £50,000.

Under pension salary sacrifice, you are consenting to a reduction in your salary therefore your 'adjusted net income' will also reduce. This will mean that any income tax charge payable in respect of your child benefit will be reduced. If your salary is at or near £50,000, joining pension salary sacrifice may result in a reduced level of higher income tax charge being payable and more child benefit being retained.

### Statutory Sick Pay and other state benefits

Entitlement to some state benefits, such as **statutory sick pay, incapacity benefit and job seekers allowance** are based on earnings and/or the amount of NI that has been paid. By being in the scheme you will be paying reduced NI and so these benefits may be affected. Whether this is likely or not is explained below:

If you earn just above the Lower Earnings Limit (£5,824 pa for 2016/17) and salary sacrifice causes your pay to fall just below this limit, your entitlement to the state benefits shown above could potentially decrease as you will not be credited with paying a qualifying minimum of National Insurance contributions.

If you earn, and continue to earn, in excess of the Lower Earnings Limit for NI purposes after the introduction of pension salary sacrifice, your entitlement to the above state benefits will not change. If you are concerned about the impact on state benefits, you should discuss this with the HR Team or your own independent financial adviser.

If you do not have your own financial adviser, the following organisations can help:

- Association of independent financial advisers on 0207 628 1287, [www.aifa.net](http://www.aifa.net)
- [www.unbiased.co.uk](http://www.unbiased.co.uk).

For further guidance on salary sacrifice, please refer to the following:  
[www.hmrc.gov.uk/specialist/salary\\_sacrifice.pdf](http://www.hmrc.gov.uk/specialist/salary_sacrifice.pdf)

## Pension Salary Sacrifice

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### 7. Bonus Sacrifice

In addition to pension salary sacrifice, the company has also implemented a bonus sacrifice scheme. It is possible to sacrifice any discretionary (i.e. any non-contractual) bonus you may receive including Business Bonus, Inconvenience Bonus and Recognition Bonus in exchange for the company making an additional employer pension contribution (equal to the gross amount of the bonus) directly into your pension scheme. No Income Tax or National Insurance is due on this employer pension payment subject to the process being followed correctly (and any annual and lifetime allowances not being exceeded which you should consider before making any decision). As the payment into the pension scheme is deemed to be an employer contribution there is no need to claim any additional higher rate tax relief on the payment.

To be a successful salary sacrifice, the bonus must be sacrificed **before** it is received, and once entered into, the agreement cannot be revoked (i.e. you cannot revert back to receiving the cash bonus).

**Please note that if you choose to sacrifice your bonus into the pension scheme, then this will apply to the full amount of the gross bonus only (you cannot choose to sacrifice a proportion of your bonus). The pension payment will replace the payment of the gross bonus and therefore you will not receive a separate bonus payment at the same time.**

#### Example of Higher Rate Taxpayer Savings on £10,000 Bonus

##### If the employee takes gross bonus in cash

Employee suffers £4,000 Tax

Employee suffers £200 NI (on amounts of total salary above £43,000)

##### If bonus is taken as a pension payment

Employer pays £10,000 into pension

Employee saves a total of £4,200 (tax and NI)

As you are agreeing to sacrifice your bonus in exchange for the company making an additional pension contribution on your behalf, you are consenting to a change in your terms and conditions of employment in the same way as you are with the "ordinary" pension salary sacrifice scheme in place. Please refer to the remainder of the guide as bonus sacrifice can, in some situations affect state benefits, statutory maternity, paternity, adoption pay etc.

## Pension Salary Sacrifice

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### Annual Allowance

There is a limit on the tax-free amount that can be paid into your pension in any individual tax year which from 2016/2017 is £40,000 (subject to any unused relief from previous tax years) although those earning above £150,000 will be subject to lower annual limits. This applies to all payments into your IGPP pension (both employee and employer) and any other pension arrangement you participate in. Any additional amounts paid into the pension scheme above this amount will be liable to tax. You should take further independent financial advice prior to making your decision.

### Lifetime Allowance

You will usually pay tax on any pension savings above the lifetime allowance – for 2016/17 this will be £1million

If you choose to sacrifice your bonus it is your responsibility to ensure the above allowances are not exceeded. If you have any concerns or queries in respect of your pension, we recommend that you discuss these with your own pension provider or financial adviser. These limits apply to all your pensions in aggregate, and not to each pension.

If you wish to join the bonus sacrifice scheme, please see the HR department for the relevant forms to be completed.



## Pension Salary Sacrifice

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### 8. Frequently Asked Questions

#### a. What is salary sacrifice?

Salary sacrifice is a contractual arrangement whereby an employee gives up the right to receive part of their cash remuneration, usually in return for their employer's agreement to provide some form of non-cash benefit.

#### b. Isn't pension/bonus salary sacrifice too good to be true?

HM Revenue & Customs (HMRC) are fully aware of pension salary sacrifice and bonus sacrifice and provide official clearance for employers who wish to implement these types of schemes. The Government has confirmed it has no current plans to change the tax/NI treatment of such arrangements.

#### c. What is the benefit to me of participating in pension salary sacrifice and bonus sacrifice for my pension contributions?

Pension (and bonus) salary sacrifice is designed to make pension contributions more efficient and will reduce National Insurance (NI) costs for you and INEOS. It is a method accepted by HMRC as a legitimate means of lowering NI contributions for employees and employers.

#### d. What is notional salary?

Your notional salary is the money you would normally be paid before any pension salary sacrifice contribution. Before the introduction of pension salary sacrifice, you would previously have called this your 'annual salary'.

#### e. Will pension salary sacrifice or bonus sacrifice affect my terms and conditions of employment?

Yes. If you join pension salary sacrifice or bonus sacrifice, you will be agreeing to a change in your contractual terms and conditions.

INEOS are committed to pension salary sacrifice and bonus sacrifice. However, if tax, National Insurance or pensions law changes, INEOS reserves the right to withdraw it. If this happens, INEOS will revert back to the previous arrangements as far as is reasonably practical.

#### f. What guarantee do I have that INEOS will make the required contributions on my behalf each month?

All pension schemes are regulated by The Financial Conduct Authority (FCA) and are therefore required to carry out regular audits. Employers are required by law to pay over all pension contributions within 14 days of making the deductions from employee's salaries.

#### g. What is the benefit to me of participating in salary sacrifice for my pension contributions?

If you are already contributing to a pension scheme, your salary will only reduce because you will no longer be making pension contributions from your net pay. Instead INEOS will make these on your behalf. Your take home pay will increase as a result of the NI savings. You will save 12% (or 2% on earnings above £43,000 (2016/17 rates) National Insurance on the amount you decide to contribute into the pension scheme.

## Pension Salary Sacrifice

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### **h. Will I also benefit from reduced tax?**

No. You will pay the same amount of income tax and receive the same level of income tax relief on pension contributions.

### **i. How will pension salary sacrifice and bonus sacrifice affect my NI liability?**

The reduction in salary (or bonus) means that you pay less NI under these arrangements, resulting in higher take-home pay. This is because you do not have to pay employee NI on the pension contributions that INEOS will be making on your behalf. At the moment as there is no corresponding NI relief on pension contributions, you pay employees' NI on your own pension contributions.

### **j. So does that mean that my pensionable salary will be reduced?**

No, we will maintain a notional salary that will track your full salary and other pensionable allowance for the purposes of pension.

### **k. I don't currently pay employees NI because I am over state pension age, but am still contributing to a pension. Is it worth me joining pension salary sacrifice?**

There will not be any benefit to you joining the scheme as you will not receive any NI savings; however you will not be disadvantaged by joining pension salary sacrifice or bonus sacrifice.

### **l. What will my payslip look like if I participate in pension salary sacrifice or bonus sacrifice?**

Instead of seeing a deduction for employee pension contributions, you will see a line called "GPPSS" on your payslip for pension salary sacrifice. For Bonus salary sacrifice this will be paid directly into your Account / Pension and will not be shown on your payslip.

### **m. How will this affect mortgage reference letters?**

Pension salary sacrifice and bonus sacrifice will not change mortgage reference letters. These will continue to show your notional salary, as will your payslip.

### **n. What effect does salary sacrifice have on any other Company benefits, such as Company sick pay, bonus, Company maternity pay, death in service benefits, and redundancy terms?**

There will be no impact to any Company benefits you receive as these are based on your new notional salary.

### **o. Will pension salary sacrifice or bonus sacrifice have any effect on my entitlement to the basic state pension benefit?**

Provided your earnings do not fall below the threshold for paying NI (£5,824 pa for 2016/17), your basic state pension will not be affected.

### **p. Will salary sacrifice have any effect on my student loan repayments?**

Yes. The amount of student loan you are required to pay each month is calculated as a percentage of your gross salary. As your salary will be reduced under pension salary sacrifice, you will therefore repay a lower amount each month. You can make additional repayments direct to the student loan company if you wish.

## Pension Salary Sacrifice

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### q. If I participate in pension salary sacrifice, will I be able to opt-out later?

Yes, as the Company is now operating within the Workplace Pension regulations, you are permitted to opt out of the scheme (or reduce your contributions) at any time. You will however, only be allowed to increase your contributions at the Company's annual review period (in May).

### r. What is the definition of a 'lifestyle change'?

A 'lifestyle change' is a term used to refer to any unforeseen life events such which can have a significant impact on your financial circumstances such as:

- Birth or adoption of a child
- Marriage or registration of a civil partnership
- Returning from maternity leave
- Divorce or separation or dissolution of a civil partnership
- Death of a spouse, partner or child
- Change in contractual working hours of at least 20%
- If your earnings drop below the NI Lower Earnings Limit
- Partner's loss of employment
- Reduction in pay due to long term absence

### s. Can I participate in the other salary sacrifice schemes as well?

Yes, INEOS also has salary sacrifice arrangements in place for childcare vouchers and cycle to work schemes and these provide both tax and NI savings. All such schemes would contribute to an overall reduction in salary, without affecting the employee's notional salary.

### t. Are there any employees who will be disadvantaged by the pension salary sacrifice or bonus sacrifice arrangements?

Possibly, but it is unlikely. There is a chance that you may not benefit from pension salary sacrifice if your earnings are below or around the Lower Earnings Limit for paying National Insurance. For the tax year 2016/17, this means a gross salary of around £112 per week (£5,824 per annum).

### u. Why would falling below the NI Lower Earnings Limit disadvantage me?

Many state benefits (such as the state pension) are only paid to individuals who have been paying NI for a certain period of time. The amount of NI paid is not important, simply that some NI has been paid for a set period of time. Therefore if pension salary sacrifice causes you to fall below the NI Lower Earnings Limit you will not pay any NI at all which will affect your eligibility for NI related state benefits.

### v. What effect does salary sacrifice have on my Working Tax Credits (WTC) or Child Tax Credits (CTC)?

Pension salary sacrifice may positively affect your CTC and/or WTC claim. As your gross salary will be reduced, it may result in additional benefits being awarded to you and we recommend that you contact the Tax Credits Helpline on 0845 300 3900 to advise them of these changes.

Universal Credit is currently being introduced and will eventually include all claimants in the UK. The rules are not finalised and therefore at present it is not possible to determine the effects of the Scheme on payments of these Credits, although it is unlikely to affect claimants.

## Pension Salary Sacrifice

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### **w. What effect does salary sacrifice have on earnings-related benefits? E.g. Statutory Maternity/Paternity/Adoption Pay, state second pension, statutory redundancy pay?**

Your entitlement to statutory earnings-related benefits is based on your level of earnings, not including any amount sacrificed in return for NI contribution- exempt benefit. If your cash earnings are reduced below the Lower Earnings Limit (LEL) your entitlement to earnings-related benefits will be reduced. For further information see ([http://www.hmrc.gov.uk/specialist/salary\\_sacrifice.pdf](http://www.hmrc.gov.uk/specialist/salary_sacrifice.pdf)).

You are not allowed to sacrifice SMP, SAP or SPP and in some circumstances an employer can be required to make pension contributions on your behalf.

### **x. What effect does salary sacrifice have on contribution-based benefits? E.g. incapacity benefits, job seekers allowance or state pension?**

Your entitlement to contribution-based benefits is related to the amount of NI contributions you have paid. Reducing your cash pay through salary sacrifice may reduce the amount of earnings on which you pay NI contributions to below the LEL, so that you are no longer paying NI contributions. Even if your earnings remain above the LEL because you are paying less NI contributions, this may reduce your entitlement to contribution-based benefits.

For further information see [http://www.hmrc.gov.uk/specialist/salary\\_sacrifice.pdf](http://www.hmrc.gov.uk/specialist/salary_sacrifice.pdf)

### **y. What effect does salary sacrifice have on benefits that are determined by work related payments?**

If you are in receipt of state benefits, e.g. council tax subsidy, these are based on your net salary and as such may be affected by a reduction in your salary resulting from a salary sacrifice arrangement. Sacrificed cash pay will not count as part of your earnings for calculating these payments.

For further information see [http://www.hmrc.gov.uk/specialist/salary\\_sacrifice.pdf](http://www.hmrc.gov.uk/specialist/salary_sacrifice.pdf)

### **z. What happens if I start to benefit from pension salary sacrifice but in the future I go part-time and my earnings drop to the Lower Earnings Limit or below?**

You should contact an Independent Financial Adviser to plan appropriate action, to determine whether you are likely to be disadvantaged. You will be able to change your contributions or opt out of pension salary sacrifice at any time.

### **aa. What happens if I become long-term sick?**

You cannot sacrifice SSP and therefore if you are on long term sick (and in receipt of SSP) and subsequently earn less than the lower earnings limit this will constitute a lifestyle change and you can leave pension salary sacrifice (or change your contributions); although you can still make your own contributions if you wish.

## Pension Salary Sacrifice

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**ab. How will pension salary sacrifice or bonus sacrifice affect me if I receive child maintenance payments?**

Child maintenance is usually calculated based on your net income (in addition to other factors).

As your net income will increase under pension salary sacrifice, this may result in reduced maintenance being paid to you.

Your net income may reduce under bonus sacrifice so this may result in increased maintenance being paid to you.

**ac. How will pension salary sacrifice/bonus sacrifice be affected by the new pension arrangements (in respect of tax relief)?**

The amount of your pension savings that benefit from tax relief is limited to an annual allowance (this is £40,000 from 6 April 2016) apart from those who have earnings in excess of £150,000. If you save more than this amount, you may have to pay a tax charge on the excess.

We recommend that you take Independent Financial Advice if you are likely to, or make, total pension contributions (including pension salary sacrifice) to any of your pension schemes at or near this limit.