Pension Salary Exchange Guide

This guide will provide you with important information about salary exchange for pension contributions.

April 2024

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A. Pension Salary Exchange: An Overview

A1. What is salary exchange?

Salary exchange (also known as "salary sacrifice") is a contractual agreement whereby, rather than making your pension contributions directly from your salary, you instead agree to "exchange" this amount of your salary in return for an equal pension contribution from Pearson.

Pearson then makes this contribution amount on your behalf, on top of the usual employer contribution, towards your pension. This arrangement could save you money by reducing your National Insurance (NI) contributions. The savings results from Pearson making the contribution on your behalf instead of you making the contribution from your salary.

A2. What does salary exchange achieve?

Salary exchange can be a cost-effective way of saving for your retirement. Depending on your circumstances, salary exchange could reduce your National Insurance (NI) contributions compared to paying pension contributions from your pay. As a result, your take-home pay will increase, while the contribution amount toward your pension plan remains the same as before.

A3. Will salary exchange affect my pension?

No. The total contribution (employee plus employer) to your pension on your behalf will be exactly the same after salary exchange. Your pension contribution will still be based on your Reference Salary (salary before salary exchange is applied).

A4. How do I find out which section of the Pension Plan I am in?

[To find out whether and which Section of the Plan you currently participate in, please visit the "Wealth" section of the Pearson Benefits portal.]

A5. Do I have to participate in salary exchange?

No. Salary exchange requires your agreement to change the terms and conditions of your employment contract in this way.

Salary exchange has many advantages, but it may not be suitable for everybody, depending on your circumstances. You should carefully consider all the information within this document to decide whether you wish to participate. If you are unsure, you may wish to seek independent financial advice, or speak to any relevant Government agencies, to understand the impact on your personal circumstances.

If you opt out of salary exchange, you will continue to make contributions to the Pension Plan on a non-salary exchange basis.

A6. Why does the eligibility criteria for the salary exchange arrangement have a minimum salary?

You will not be able to participate in salary exchange if your current contribution level results in your pay falling below the National Living/Minimum Wage.

If you are over the State Pension Age you will not pay National Insurance (NI) contributions on your income and so you will not see any change in your take home pay by participating in the salary exchange arrangement.

A7. When can I opt out of salary exchange?

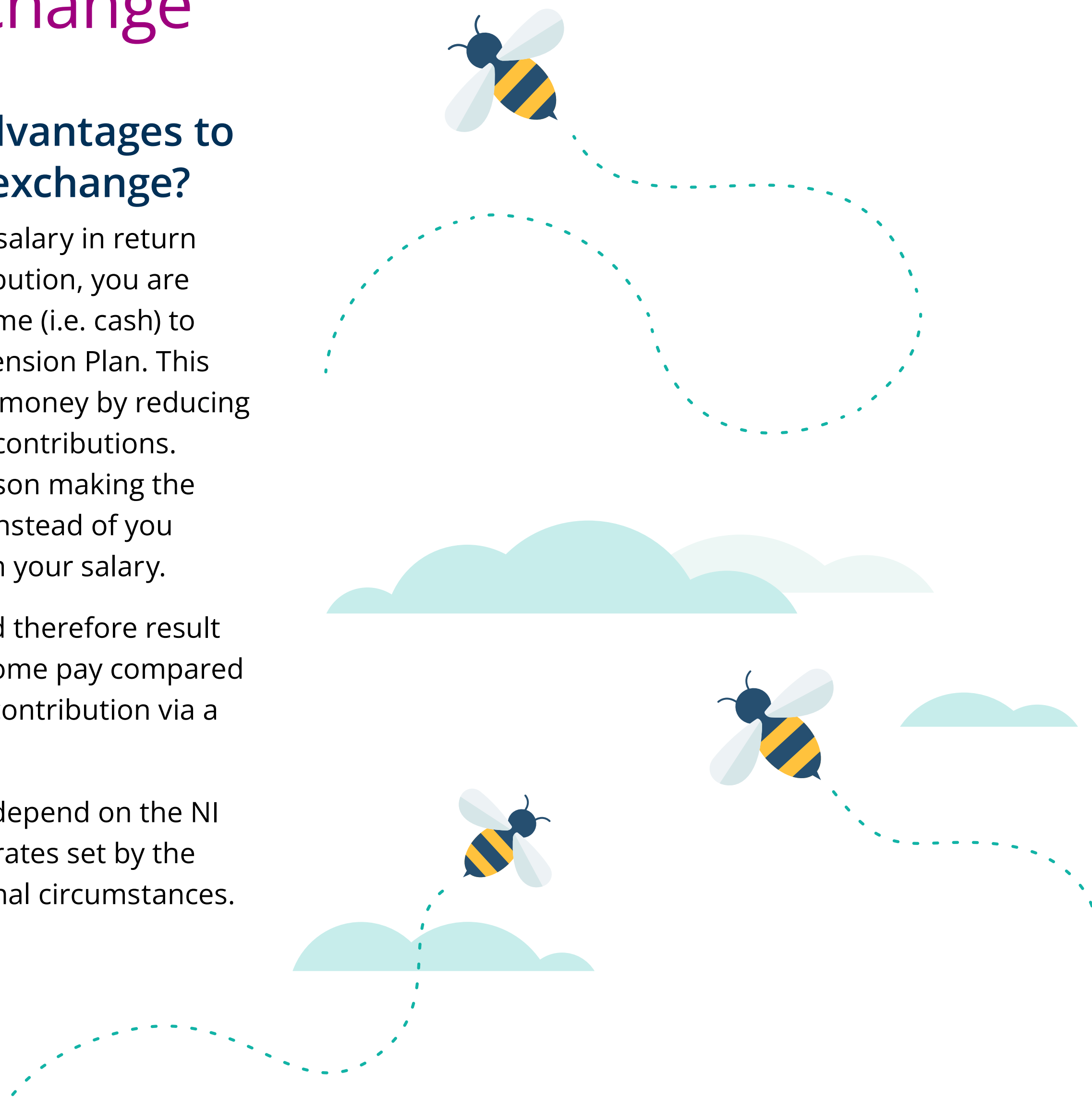
You can still opt out of salary exchange at any point in the Pearson Benefits portal. If you choose to opt out of salary exchange you will remain a member of The Pearson Pension Plan, but on a non-salary exchange basis.

A8. How long will the salary exchange arrangement last?

Pearson intends to operate the pension salary exchange arrangement for the foreseeable future. However, if tax or National Insurance law changes, or if it is no longer viable for Pearson as a business to operate salary exchange, it reserves the right to withdraw this salary exchange arrangement.

Individually, your salary exchange arrangement may also be withdrawn by Pearson if it is not possible to reduce your pay by the amount of your salary exchange due to special rules or circumstances relating to your pay, such as those applicable to maternity pay and other leaves of absence. In these circumstances, you will remain a member of The Pearson Pension Plan, but on a non-salary exchange basis.

B. The Advantages of Salary Exchange



B1. What are the advantages to me of using salary exchange?

By exchanging some of your salary in return for a Pearson pension contribution, you are no longer receiving it as income (i.e. cash) to then be contributed to the Pension Plan. This arrangement could save you money by reducing your National Insurance (NI) contributions. The saving results from Pearson making the contribution on your behalf instead of you making the contribution from your salary.

Using salary exchange should therefore result in an increase in your take-home pay compared to paying the same pension contribution via a salary deduction.

The NI savings achieved will depend on the NI contribution thresholds and rates set by the Government and your personal circumstances.

C. Income Tax

C1. What are the limits on how much I can pay into my pension and receive tax relief?

HMRC set limits on how much you can pay towards your pension tax-free.

The total contribution (including employer contributions) you can make each tax year is subject to a limit known as the Annual Allowance (AA). The AA remains unchanged at £60,000 per annum (2024/25 tax year) but your personal AA limit may vary depending on your personal circumstances, and any contributions above the AA will be subject to an Annual Allowance Tax Charge.

[You can find further general information on the AA limit on the "Tax on your private pension contributions page" on GOV.UK.]

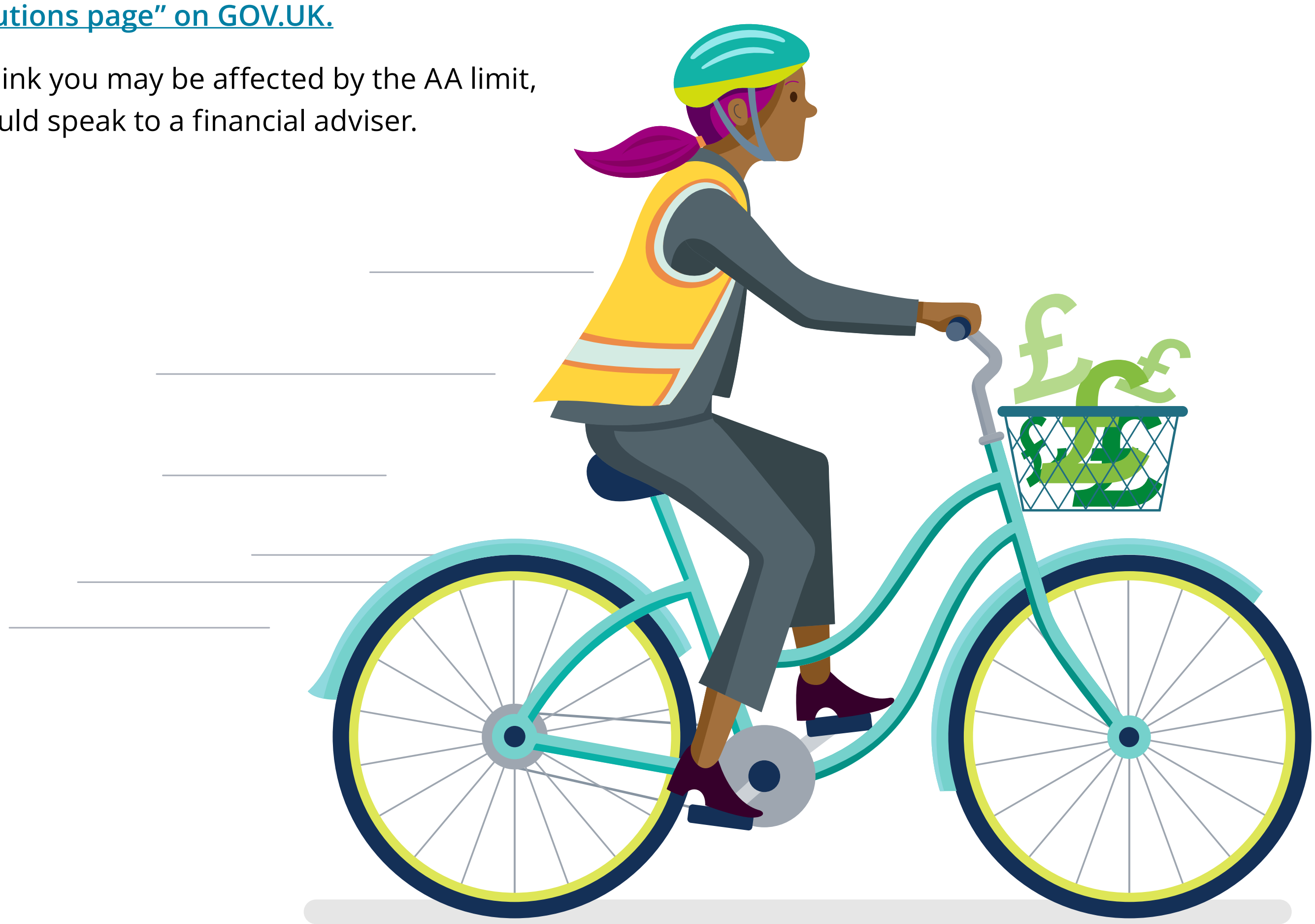
If you think you may be affected by the AA limit, you should speak to a financial adviser.

C2. Does salary exchange affect how much income tax relief I receive?

If you are a taxpayer, the pension contributions you currently pay from your salary already receive full income tax relief (provided you do not exceed the tax-free limits set by HMRC).

Under salary exchange you give up a portion of your salary in return for an equal amount of pension contribution from Pearson. You will then be taxed on the reduced salary.

Consequently, both methods of contribution receive full income relief, but achieved in a different way.



D. Pension Salary Exchange and Other Earnings-Related Employment Benefits

D1. Does salary exchange affect any other benefits provided by Pearson?

Pearson will use your “Reference Salary” to calculate any salary-based benefits.

Your Reference Salary is your annual salary before salary exchange is applied, and is often used for:

- Determining any increases to salary;
- Working out entitlement to holiday pay and sick pay;
- Calculating redundancy pay;
- Calculating your life insurance and other salary-dependent benefits; and
- Determining any bonus payments and share awards

D2. Will salary exchange impact any bonus payments or share awards made to me?

No. Bonuses and share awards will be calculated based on your Reference Salary and are therefore not impacted by salary exchange.

D3. Will salary exchange affect my redundancy pay if I get made redundant in the future?

No. Pearson will use your Reference Salary to calculate any redundancy payment.

D4. How will salary exchange affect any mortgage application?

When providing a mortgage reference, Pearson will use your Reference Salary, i.e. your salary before salary exchange. So your decision to participate in the salary exchange arrangement should not affect your borrowing potential.

E. Potential Impact on Protected Pay, State Benefits and State Pension

The impact of salary exchange on protected pay, State benefits, State pension, student loan and similar arrangements will depend on your personal circumstances and Government policy. The information in this section is intended as a summary of Pearson's current understanding. You should seek advice or guidance from an independent financial adviser or from the relevant Government agency if you believe you may be impacted.

E1. Can salary exchange take me below the National Living/Minimum Wage?

No. Salary exchange cannot take place if your resulting pay would fall below the National Living/Minimum Wage.

For the current rates, please visit the "National Minimum Wage and National Living Wage rates" page on GOV.UK. For people aged 23 or over, the new National Living/Minimum Wage is £11.44 as of 1 April 2024.

If this applies to you, you will not be able to participate in the salary exchange arrangement.

E2. Will salary exchange affect my entitlement to tax credits?

If you currently receive tax credits, you should speak to your tax credits office before you decide whether to participate in the salary exchange arrangement. You must also notify your tax credits office once you have exchanged your salary.

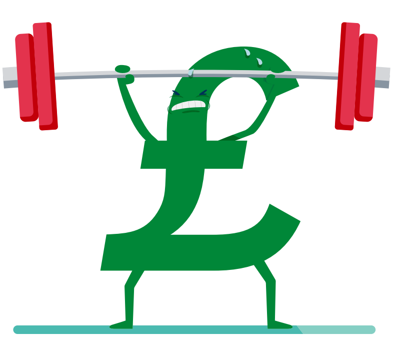
The effect of salary exchange on your tax credits will depend on your personal circumstances. However, in broad terms, as your taxable salary reduces, and Pearson pension contributions are disregarded, your entitlement to tax credits may increase.

E3. How does salary exchange affect child benefit payments?

Your eligibility for child benefit should not be affected by taking part in salary exchange.

Please note, if you currently pay the High Income Child Benefit Tax Charge, this should not be affected as pension contributions are taken into account in the calculation, regardless of whether you pay them using salary exchange or via salary deduction.

For further information, visit the "Child Benefit" page on GOV.UK.



E4. How does salary exchange affect:

State benefits?

If you are in receipt of State benefits or Statutory Payments or think you may be in receipt in the near future, you should contact the relevant benefits office before joining the salary exchange arrangement to clarify whether or not it may affect your eligibility for benefits and the payments.

Contribution based benefits?

Entitlement to some state benefits such as the 'new style' Jobseeker's Allowance and the new State Pension, is linked to the amount of NI contributions that you have paid, or if you have received NI contribution credits. In order to avoid any detriment to your NI contribution record, your total earnings need to be at or above the Lower Earnings Limit (LEL) as set by HMRC (£123 per week in the 2024/25 tax year). If your total earnings were to fall below this level due to salary exchange, your entitlement to contributory state benefits and the new State Pension may be detrimentally affected, if you do not receive NI contribution credits in another way.

Statutory Pay?

To qualify for statutory payments such as Statutory Sick Pay and Statutory Maternity Pay you need to have total earnings above the LEL. Therefore, your eligibility for these benefits would be detrimentally affected if your pay were to fall below the Lower Earnings Limit as a result of salary exchange.

It should be noted that, even if you are entitled to receive Statutory Pay because your earnings remain above the Lower Earnings Limit (and you satisfy any other criteria), the amount of the payment may be affected by a reduction in your pay caused by salary exchange. This is because some payments are calculated as a percentage of your pay.

E5. How does salary exchange affect Statutory Maternity or Adoption Pay?

Statutory Maternity Pay (SMP) or Statutory Adoption Pay (SAP) is paid for up to 39 weeks to those employees who meet the qualifying criteria. SMP/SAP is calculated as 90% of your average weekly earnings (before tax) for the first six weeks.

If you are in the salary exchange arrangement, this calculation will be based upon your pay after the salary exchange has taken place, and consequently will be lower.

The remaining 33 weeks will be paid as the lower of:

- 90% of your average weekly earnings (before tax); and
- A weekly amount as set by HMRC (£184.03 a week, 2024/25 tax year)

Salary exchange will only impact the SMP payments made in the remaining 33 weeks if it reduces the 90% of your average weekly earnings (before tax) figure to below the weekly amount.

During paid maternity leave Pearson is required to contribute to the pension plan based on your normal salary, i.e. the salary you would be receiving if you were not on maternity leave. If you are not in the salary exchange arrangement, you would be required to pay pension plan contributions on your actual pay during this period.

If you participate in the salary exchange arrangement, Pearson will continue to pay the full pension contributions, based on your pre-maternity (pre-exchange) salary, for the length of your paid maternity leave, regardless of the amount of pay you are actually receiving.

E6. Statutory Paternity Pay and Statutory Shared Parental Pay

Please note that Statutory Paternity Pay and Statutory Shared Parental Pay are calculated at a weekly amount as set by HMRC (£184.03 a week, 2024/25 tax year) or 90% of your average weekly earnings if lower.

Under the salary exchange arrangement, this calculation will be based upon your pay after the salary exchange has taken place, so it will be lower. During paid paternity and shared parental leave, Pearson will continue to pay the full pension contributions into the pension plan, based on your pre-exchange salary, for the length of your paid leave. If you opt out of the salary exchange arrangement, you would be required to pay pension contributions based on your actual pay during this period.

E7. Salary exchange during sickness absence

If you continue to receive full pay during a period of sickness absence, both you and Pearson will continue to contribute towards your pension based on your pre-exchange salary regardless of whether you choose to opt out or remain in the salary exchange arrangement.

Under the salary exchange arrangement, if your pay is reduced but remains higher than Statutory Sick Pay, your contribution will instead be based on this reduced, pre-exchange salary, while Pearson will contribute the remainder to ensure the total contribution amount is the same as if you were receiving full pay. If you opt out of the salary exchange arrangement, both you and Pearson will instead contribute based on your reduced pay level.

If you are receiving only Statutory Sick Pay, under salary exchange, Pearson will cover both your and Pearson's contributions based on your full pre-absence, pre-exchange salary. If you opt out of salary exchange, you will pay contributions based on Statutory Sick Pay, while Pearson will pay the same employer contribution amount based on your pre-absence salary.

Please note, to qualify for Statutory Sick Pay, you need to earn more than the Lower Earnings Limit (LEL) as set by HMRC (£123 per week in the 2024/25 tax year).

Under the salary exchange arrangement, your pay will be lower, and you may be negatively impacted if your pay were to fall below the Lower Earnings Limit.

E8. Unpaid Leave, Sabbatical, Career Break

During any period of nil pay, neither you nor Pearson will make contributions towards your pension. This is the case regardless of whether you remain in or opt out of the salary exchange arrangement.

E9. Changes in working hours

If you are a member of the MP03 Section, regardless of whether you remain in or opt out of the salary exchange arrangement, if your working hours change:

- As a result of a work schedule rule ("WSR") change, your and Pearson's contributions will also change to be based on your new salary.
- Due to any other reason not related to a WSR change, your and Pearson's pension contributions will continue to be based on your preceding 1 April salary.

If you are a member of the AE Section, your and Pearson's pension contributions each month are always based on your actual monthly Qualifying Earnings. Under salary exchange, your Qualifying Earnings will reference your post-exchange salary level.

F. Other Issues to Consider

F1. Additional Voluntary Contributions (AVCs)

As part of the introduction of pension salary exchange via the Pearson Benefits Portal, it has been agreed with the Trustee of The Pearson Pension Plan that the AVC process will be refined. In future, if you want to make AVCs, this must be a percentage of salary and not a fixed GBP amount. As a result of this change, your selected contribution level will naturally increase as your pay increases throughout your career at Pearson, and it will at the same time improve your enrolment experience.

If you are currently making AVCs as a fixed GBP amount, your selected contribution will be converted to a percentage of salary. We will round this percentage down to the nearest 0.5% – which is the smallest increment you can select.

If you take no action, we will assume that you are happy for the Trustee to continue to arrange for the amount shown on the Pearson Benefits Portal to be deducted from your pay and invested in the Pearson Pension Plan. If you want to make a change to your AVC percentage, visit the "Wealth" section of the Pearson Benefits Portal.

F2. Will there be any impact on my student loan deductions if I move to salary exchange?

Student loan deductions are calculated based upon your taxable earnings, which will be reduced by the amount of pay you have exchanged in return for a Pearson pension contribution.

Student loan deductions are made on earnings over a certain threshold. Consequently, reducing your taxable pay through salary exchange may take you below the relevant student loan repayment threshold, or reduce the amount of your pay above this threshold when calculating how much you must repay. As a result, it may

take you longer to repay your student loan.

If you have any student loans you should fully consider the implications of salary exchange on your ability to repay your student loan, including the terms and conditions of your loan. You may wish to obtain independent financial advice. For further information, visit the "Repaying your student loan" page on GOV.UK.

F3. Will taking part in salary exchange have any impact on my child maintenance payments or any payments made as a result of an Attachment of Earnings Order (AEO)?

The rules surrounding child maintenance payments and AEOs can be complex.

If this applies to you, you should review the terms and conditions of any agreements made and seek advice to clarify how taking part in a salary exchange arrangement will affect you personally.

F4. Where can I obtain support and guidance on pensions?

For further information, visit The Persion Pension Plan website.

More generally, support and guidance on pensions are available through The Money and Pensions Service website.

If you need individual advice on your options or financial circumstances, please seek independent financial advice.

Glossary of Terms

Additional Voluntary Contributions (AVCs):

contributions that you can make in addition to your normal contributions to the pension plan to increase your retirement benefits.

Annual Allowance (AA):

the most you can save in the pension plan in a tax year (6 April to 5 April) before you have to pay tax. You'll only pay tax if you go above the annual allowance. More information about the AA limit can be found on the "Tax on your private pension contributions" page on GOV.UK.

Basic Salary:

your salary post-salary exchange.

HMRC (His Majesty's Revenue and Customs):

the tax, payments and customs authority for the United Kingdom.

Lower Earnings Limit (LEL):

the limit at which employees are not required to pay National Insurance but qualify for certain state benefits. The LEL can be found at the GOV.UK webiste.

National Insurance (NI) contributions:

a tax on earnings paid by employees, employers and the self-employed. The amount payable is based on a number of factors including employment status, age, residence status and level of earnings.

The Pearson Pension Plan:

a pension arrangement, provided by Pearson, for its employees. Visit The Pearson Pension Plan website to learn more about the Plan.

Reference Salary:

your salary before any salary exchange has been applied and is used in the following situations:

- when determining an increase to salary;
- to work out entitlement to holiday pay and sick pay;
- to calculate redundancy pay;
- when giving a reference for a mortgage application;
- for life assurance and any other salary-dependent benefits; and
- to calculate any bonus payment (if applicable).

Salary Exchange:

also known as "salary sacrifice", a contractual agreement whereby you agree to exchange part of your salary/earnings in return for an equivalent pension contribution from Pearson.

Upper Earnings Limit (UEL):

the limit at which employees pay a lower rate of National Insurance. The UEL can be found at the GOV.UK website.

The information contained within this guide is based on Pearson's understanding of current legislation, taxation and HMRC practice which may change in the future. The value of any tax relief, or the effect of salary exchange on state benefits, depends upon your financial circumstances and Government policy from time to time. If you are unsure of your position and whether salary exchange is right for you, we recommend you seek independent financial advice and/or speak to the relevant Government department.

Pearson Benefits