

PENSION SALARY EXCHANGE (PSE)



Dear Colleague

Royal Mail Group - Pension Salary Exchange (PSE)

Royal Mail has written to staff with details of a new way of making pension contributions, known as Pension Salary Exchange (PSE), which will save some of the cost of national insurance contributions.

Why is Royal Mail introducing PSE?

The Royal Mail Pension Plan (RMPP) is, like most defined benefit schemes, contracted out of an element of National Insurance (NI) contributions. The government is ending contracting out in April 2016. This means NI contributions for RMPP members will increase from 10.6% to 12%. NI costs will also increase for the business. PSE is a way of reducing some of the cost.

How does PSE work?

Instead of your pension contribution being deducted from your pay, Royal Mail will make your contribution directly to the pension scheme on your behalf and reduce your headline rate of pay by the same amount. This reduces the level of pay on which NI contributions must be made and therefore reduces the amount of NI paid.

Does this mean I am getting a pay cut?

No. Your take home pay will increase as a result of PSE because of the reduction in NI contributions. Royal Mail intend to introduce PSE in August. From then until contracting out ends in April 2016 members of the RMPP will see an increase in take home pay. After April 2016 the increase in NI from 10.6% to 12% costs will reduce take home pay for members of the RMPP – but this reduction will be much less than would be the case without PSE.

The Royal Mail Defined Contribution Plan (RMDCP) is not contracted out of any element of NI, so members already pay the full rate and will not have to pay more NI from April 2016. RMDCP members will see an increase in take home pay which will be ongoing.

Will PSE affect any pay related allowances or benefits?

No. Future pay rises will be based on pre-exchange pay. Pay related allowances and overtime will also be based on pre-exchange rates, as will redundancy, Ill Health Retirement terms and death in service payments

Will PSE have any affect on my company pension?

No. Exactly the same level of payment will be made into the scheme, so benefits are unaffected.

Will PSE affect my ability to borrow?

When contacted for details for your earnings, Royal Mail will show your pre-exchange pay as well as your salary exchange pay. Most defined benefit schemes now operate on a basis of salary exchange so lenders are familiar with these schemes.

Is this a form of tax avoidance?

No. The scheme will be specifically endorsed by HMRC. Many other defined benefit schemes have operated salary exchange for many years – the BT scheme covering CWU members in Telecoms is an example.

Is everyone included?

No. Anyone earning less than £192 per week will not be included. This is to ensure no one can lose out on income related state benefits. If a person's earnings vary around this level, they will be taken out of PSE for any pay period in which earnings fall below £192 per week.

Does everyone benefit from salary exchange?

People who have already reached state pension age no longer pay NI and will see no change. Not everyone will benefit equally. Higher rate tax payers pay a lower rate of NI contribution so people earning above **£40,400** a year will see much less of a saving than basic rate tax payers.

What is the union's view?

The introduction of PSE was discussed at the Pension Policy Committee – a joint body including Royal Mail and the unions. We believe it makes sense to introduce PSE, because it reduces the cost of the ending of contracting out for members of the RMPP and the business, and produces a net financial gain for the members of the RMDCP.

If you have any further questions, the union has established a dedicated email address pse@cwu.org

Yours sincerely



Ray Ellis

A/Deputy General Secretary (Postal)

