

## PENSION SALARY EXCHANGE (PSE)



*Dear Colleague*

### **Royal Mail Property & Facilities Solutions Limited (RMPFS) – Pension Salary Exchange (PSE)**

RMPFS has written to members of the Royal Mail Pension Plan (RMPP) 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 RMPFS introducing PSE?**

RMPP like most defined benefit schemes was contracted out of an element of National Insurance (NI) contributions. The government ended contracting out in April 2016. This meant that NI contributions for RMPP members increased from 10.6% to 12%. NI costs also increased for the business. PSE is a way of reducing some of the cost. When Royal Mail Group introduced PSE in August 2015 in anticipation of this change, ROMEK was still a separate Joint Venture Company. Now that RMPFS is a wholly owned subsidiary using the Royal Group pay system it is introducing PSE on the same basis as Royal Mail.

#### **How does PSE work?**

Instead of your pension contribution being deducted from your pay, RMPFS 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.

#### **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 effect on my company pension?**

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

#### **Will PSE have any effect on my state pension?**

No. Since the government ended contracting out in April 2016 no element of the state pension going forward is earnings related.

**Will PSE affect my ability to borrow?**

When contacted for details for your earnings, RMPFS 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. In Royal Mail PSE has operated since August 2016. 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 £10,000 a year (around £833 a month) 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 that level.

**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. High rate tax payers pay a lower rate of NI contributions so people earning above £50,000 a year will see much less of a saving than basic rate tax payers.

**Do I have to participate in PSE?**

RMPP members will automatically be enrolled into PSE from October 2019 unless they choose to opt out by requesting an opt-out form from [stephen.d.walkland@royalmail.com](mailto:stephen.d.walkland@royalmail.com), which must be returned by 15<sup>th</sup> November 2019.

**What is the Union's view?**

When Royal Mail introduced PSE it 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 makes a saving for members of the RMPP and the business without in any way reducing other elements of pay or pay related benefits.

If you have any further questions please contact CWU Head Office [khay@cwu.org](mailto:khay@cwu.org) or [outdoorsecretary@cwu.org](mailto:outdoorsecretary@cwu.org)

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