



Pay in Lieu of Pension Policy

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Who can help?

☑ Human Resources (HR) can provide support with the application of this policy. Call the Payroll Team on xXXXX or email payroll@napier.ac.uk

Other Support

- ☑ The University current partner with Tilney Financial Planners Ltd who provide independent financial advice.
- ☑ HMRC <https://www.gov.uk/tax-on-your-private-pension>
- ☑ Scottish Teachers Superannuation Scheme <https://pensions.gov.scot/teachers>
- ☑ Lothian Pension Fund <https://www.lpf.org.uk/>

Please Note

This policy does not form part of your contract of employment with the University and may be subject to change.



1. Context

The University's pension schemes are a key element of the total reward package at the University to support the attraction and retention of employees.

Pension benefits earned by individuals in the UK, which qualify to receive tax relief, are restricted to maximum allowances permitted by HM Revenue & Customs (HMRC). Changes to pension taxation have meant that pension benefits earned in a single year or over a working lifetime that exceed the Annual Allowance or Lifetime allowance can lead to excess tax charges. While we are under no legal obligation to offer and in no way seek to incentivise pension opt out due to personal tax liabilities, we recognise that limits placed on these allowances are such that it may suit employees (from a personal tax liability perspective) to cease the build-up of further pensionable service, or other accrual of benefits due to taxation relating to their pension.

2. Scope

This Policy applies to both our pension schemes, Lothian Pension Fund and the Scottish Teachers Superannuation Scheme, however is only available to those who have tax liability issues caused by accrual of pension.

Pay in lieu of pension contributions is not available for those who chose not to go into the pension for any other reasons.

In order to be eligible, evidence needs to be provided that the lifetime allowance has been reached and joining a scheme would incur significant tax charges. The Policy applies to existing permanent or new permanent employees, only.

3. Lifetime Allowance

The lifetime allowance is the life time limit value set by HMRC that you can pay into a private pension, without incurring Tax charges. When your pension contributions exceed annual and then Lifetime allowances, Tax is due to be paid on the values above the limits.

The rates normally change each year so please see the HMRC website for the most up to date limit.

4. Key Principles

- ✔ The payment to the employee must be cost neutral to the University in terms of the amount that it would have paid to the contractual pension scheme.
- ✔ The allowance will be subject to normal tax and national insurance contributions.
- ✔ The arrangement will be reviewed on an annual basis and may be stopped, at any time.
- ✔ If in receipt of employer pension contributions, you are not entitled to the Payment in Lieu allowance for the same period.
- ✔ Payments of the allowance will not be backdated and will only apply once all the required information has been submitted and confirmed with effect from the 1st of the following month.
- ✔ No refund of employer pension contributions will be given if already processed and applied in the pension scheme.

5. Eligibility & Process

In order to be eligible, you must:

- ✔ Be an active member of one of the schemes;
- ✔ Opt out of pension service in the scheme due to personal tax liability reasons;
- ✔ Demonstrate that you have exceeded, or within the next 12 months of opt out date, are expected to exceed your Lifetime Allowance. This must be provided in a letter (requirements outlined in Appendix 1) from an independent financial adviser. The cost of the letter will be met by the employee.
- ✔ Understand and confirm that you will no longer accrue further benefits in the scheme and that you understand that benefits are less for deferred members, e.g. no death in service benefit (Appendix 2).

6. Payments

The payment in lieu of pensions contributions will correspond to the value of the employers pensions contributions on base salary (subject to tax and national insurance). Base salary does not include any pensionable or non-pensionable allowances, one off amounts, or other forms of additional payments.

The payment is paid as a non-pensionable allowance through payroll in monthly instalments and it will appear separately on your payslip as an allowance. At no time will it be treated as pensionable salary for the purposes of any assessment of entitlement to be automatically enrolled into a workplace pension or calculation of contributions payable to any pension arrangement.

- ☑ Payments will cease on the earliest of:
 - ☑ The date which you leave the employment of the University;
 - ☑ The date which you retire from and/or begin to receive part or all of your pension (phased retirement);
 - ☑ The date which you re-join the pension scheme as an active member.

7. Auto-Enrolment

In order to comply with Government rules on workplace pensions, we are required to re-enrol all eligible members of staff, every 3 years, who are not currently members of a University Pension Scheme, into the pension scheme used to fulfil the University's auto enrolment obligations. If you continue to be a member after being auto-enrolled, any payments in lieu of pension you are receiving at that time will cease with effect from your automatic enrolment date and we will recover from you any pay in lieu of pension payments made to you in respect of any period after your automatic enrolment date (either by deduction from your salary or otherwise).

Employees are responsible for opting out following auto enrolment and must advise the Payroll Team of this opt out, to ensure continuation of the payment in Lieu allowance.

8. Responsibilities

All employees	<ul style="list-style-type: none"> ☑ Personal responsibility to keep track of pension benefits in relation to allowances. ☑ Provide evidence that the lifetime allowance has been reached, therefore by joining or continuing in the scheme would incur significant tax charges. ☑ Understand that by opting out of an existing pension scheme that there will be differences in benefits available to deferred members. ☑ Seek independent financial advice, in advance of opting out.
HR	<ul style="list-style-type: none"> ☑ Provide guidance on the application of this Policy. We are unable to provide advice in relation to a decision to opt-out of the pension scheme. ☑ Arrange a referral to Tilney Financial Planners.

Document Control

Author	Human Resources
Date First Approved	<date>
Last Review Date	<date>
Review Frequency	2 years



Appendix 1 – Tax Impact Letter

The tax impact letter must:

- Be from an Independent Financial Advisor who is currently regulated by the Financial Conduct Authority (FCA) and/or Prudential Regulation Authority (PRA) and is on the Financial Services Register - <https://register.fca.org.uk/>
- Set out if the Lifetime Allowance has been exceeded or is expected to be exceeded within the next 12 months (and the date when this is likely to occur);
- Confirm that you are, as at the date of the Tax Impact Letter, due to the Lifetime Allowance not receiving any net benefit as a result of continuing to be in Pensionable Service in the scheme.


Appendix 2 – Agreement and Disclaimer

Employee Name:

Employee Number:

In submitting this form I confirm the following:

- ☑ I confirm that I wish to opt out of Pensionable Service in {INSERT PENSION SCHEME} for reasons related to the tax liability attaching to continued accrual of pension benefits and other pension arrangements which I have. It is my responsibility to obtain the Tax Impact Letter and to obtain any supplementary independent financial advice and after doing so I have made my decision of my own free will to opt out of Pensionable Service in {INSERT PENSION SCHEME};
- ☑ I understand that opting out of Pensionable Service in {INSERT PENSION SCHEME} may mean a lower income when retiring and that Edinburgh Napier University will not be liable for any financial loss suffered by me as a result of opting out of Pensionable Service compared to the value of my pension benefits which would have accrued to me if I had not opted out of Pensionable Service;
- ☑ I understand that any benefits I may have earned in {INSERT PENSION SCHEME} up to the effective date of my opt out from Pensionable Service, will be preserved for me as deferred benefits and that my benefits and options will be as described in the scheme rules;
- ☑ I further confirm that my decision to opt out, of Pensionable Service in {INSERT PENSION SCHEME} is made on the understanding that I will only be permitted or eligible to be readmitted according to the rules at that time, and subject to the terms and benefits at that time;
- ☑ I will only commence to earn further defined benefit pension benefits, or add to the value of my already accrued defined benefit pension benefits if the scheme rules at that time permit re-admittance, but that this is without prejudice to my rights under legislation to be enrolled into a workplace pension;
- ☑ I understand that payment of any additional voluntary contributions will cease with effect from the date on which I cease to be in Pensionable Service;
- ☑ I understand that the pay in lieu of pension (PLP) is not offered as an incentive to opt-out, of Pensionable Service.
- ☑ I have read and understand that I may be eligible for the PLP on the terms set out in the Policy but that my decision to opt out, of Pensionable Service is made on the understanding that the PLP is not guaranteed by Edinburgh Napier University to be repeated in future years, and understand that the value of any future PLP will be determined at Edinburgh Napier University's sole discretion and that the percentage can change at any given time, determined by the University's Remuneration Committee;
- ☑ I understand that neither the withdrawal of the policy, nor the reduction of the percentage value of the PLP shall ever entitle me as an employee of Edinburgh Napier University to be readmitted to {INSERT PENSION SCHEME}, unless the rules at that time permit re-admittance;
- ☑ I understand that at no time will I be contractually entitled to continued receipt of the PLP (at any particular rate) and nor will the PLP form part of my terms and conditions. The PLP is a discretionary payment.
- ☑ I understand that payments under the PLP are not retrospective and will not be backdated;
- ☑ I understand that I will receive the PLP monthly until the earliest of:
 - The date on which I leave the employment of Edinburgh Napier University;
 - The date on which I retire from and begin to receive part or all of my pension from {INSERT PENSION SCHEME};
 - The date on which I re-join {INSERT PENSION SCHEME} as an active member; and

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- ☑ I understand that I am responsible for notifying the University if I begin receiving all or part of my pension from {INSERT PENSION SCHEME} or if I re-join as an active member, and the date on which either of these events occurs (the **Cessation Date**);
 - ☑ I understand that the University may recover any PLP payments made to me in respect of any period after the Cessation Date by deduction from my salary or otherwise, and I consent to and (to the extent necessary) agree to the amendment of my terms and conditions of employment to reflect this deduction of wages; and
 - ☑ I understand that the PLP for future years will be reviewed by Remuneration Committee who will determined the percentage to be offered.

Signed:

Date: