

Westpac Banking Corporation
UK Staff Superannuation Scheme ('the Scheme')

Scheme contribution changes: your guide



Contents



Introduction

From 1 October 2017, we are making some changes to how contributions work in the Scheme, and some of the options available to you as a result.

These changes are being made in response to the new pension tax legislation introduced in April 2016. The amount the Bank is asking you to pay into the Scheme is not increasing, and for some employees the Bank's standard pension contribution will increase.

There are some technical changes to how contributions will be paid into the Scheme, which will result in most employees paying lower National Insurance Contributions.

Other changes are being introduced to help those employees most likely to be affected by additional taxes on pensions to manage the tax efficiency of their benefits.

Here is a short summary of what this guide will cover:

- **Introducing salary sacrifice:** This is a way of making pension contributions that allows you and the Bank to make savings on National Insurance Contributions (NICs) (on top of the tax relief that already applies). This will take effect from 1 November 2017.
- **New Bank contributions:** We are increasing Bank contributions for employees under age 35 to 10.5%.
- **Annual allowance options:** If you think you might be affected by the annual allowance and meet certain criteria, you will have the option to elect a lower contribution from the Bank and receive a discretionary cash supplement instead (less employer's NICs). You will have the option to reduce the Bank's contributions in the November 2017, December 2017 and January 2018 payrolls, and further options to flex or change your flex options will be during the annual benefits window in September of each year.
- **Lifetime allowance update:** If the overall value of your benefits is close to or over the lifetime allowance, and you meet certain criteria, you can now leave the Scheme and receive a discretionary cash supplement from the Bank in place of Scheme contributions.

If you have any questions about your Scheme benefits, please contact the administrators:

Capita
PO Box 4990
Cutlers Gate
Sheffield
S1 9GE

Telephone: 01227 771445

Fax: 01227 771466

Email: westpac@capita.co.uk



New Bank contributions

As you will be aware, your normal Scheme contribution rate is 2.5% of your basic salary. You can make Additional Voluntary Contributions on top of the 2.5%, if you want to add to your benefits. In certain circumstances, the Bank may limit the amount of additional contributions you may make.

Currently, the Bank pays contributions towards your benefits depending on your age at each 1 October, as follows:

Age	Bank contribution (% of Salary)
Up to 24	6.0
25 to 29	7.5
30 to 34	9.0
35 to 39	10.5
40 to 44	12.0
45 and above	13.5

We are now planning to offer an increased contribution rate for some existing members. This will enable the Bank to offer a more robust option to those members who may find themselves impacted by recent changes in the pensions tax legislation.

The Bank's contributions from 1 November 2017 for existing members will be as follows:

Age	Bank contribution (% of Salary)
Up to 39	10.5
40 to 44	12.0
45 and above	13.5

New joiners from 1 October 2017 will have a flat rate employer contribution of 10.5%



Introducing salary sacrifice

There are two types of statutory deductions from your salary each month: income tax and National Insurance Contributions (NICs). NICs in particular go towards many of the State benefits you might receive, such as statutory maternity pay, or your State pension.

'Tax relief' already applies to your pension contributions – that is, your contributions are taken from your pay before tax. So, if you pay income tax at the higher rate (40%), then a £100 contribution would result in a £60 reduction to your net pay due to the tax saved.

'Salary sacrifice' is a way of making pension contributions that allows you and the Bank to make NICs savings as well.

Although we believe almost everyone in the Scheme is likely to benefit from taking part in salary sacrifice, it does mean a change to your employment terms. So please make sure you read this section carefully and understand what the change involves.

How it works

Despite the name, you do not actually 'sacrifice' – as in lose out on – any of your earnings. But the way you make pension contributions will change.

This is what actually happens:

- You elect to give up from your monthly salary the amount you want to contribute to your pension (this is the "sacrifice").
- The Bank pays an equivalent amount directly into the Scheme on your behalf, along with its own contribution.
- So – there is no difference to the payment going into your Member Account each month.
- However, you only pay NICs on the salary you receive, so no NICs are payable in respect of the amount sacrificed.
- As a result, even though your salary is lower, your take-home pay will show a slight increase due to paying less NICs.

Reference salary

Although you receive a lower salary, we keep a record of your higher earnings figure before the 'sacrifice' – this is your 'reference salary'. This is the amount we would give if you ask us to supply a salary quotation for a loan or mortgage application.

We would also use your reference salary for any other Westpac benefits based on your earnings, for example:

- Any bonus or pay rise;
- Any allowances or overtime you receive; or
- Death in service benefits.



Salary sacrifice in action

Here is a look at how salary sacrifice would work for someone earning £60,000 a year, contributing 2.5% a year and the Bank contributing 10.5% a year to the Scheme.

	Outside salary sacrifice	Taking part in salary sacrifice
Salary:	£60,000 (actual)	£60,000 ('reference')
Member 2.5% contribution rate:	£1,500 paid	£1,500 'sacrificed'
Salary for tax purposes stays the same:	£58,500	£58,500
Salary for NICs purposes is now lower:	£60,000	£58,500
Expected Income Tax & NICs payable	£16,820.32	£16,790.32
Take-home pay	£41,679.68	£41,709.68
Annual increase in take-home pay using salary sacrifice	N/A	£30
No change to amount going into Scheme:		
Member contribution	£1,500	£0
Employer pension payment	£6,300	£7,800
Total pension payment	£7,800	£7,800

Based on Tax rates for the year starting 6 April 2017 and a personal allowance at £11,500.

Taking part

We will shortly be sending you a letter confirming the change to salary sacrifice. If you are happy to take part in salary sacrifice, you need not take any action – we will start paying your contributions for you in this way automatically from 1 November 2017.

However, if you would prefer not to take part and continue contributing as you are now, you can 'opt out' of the arrangement. Tax relief would still apply to your contributions, but you would not receive the National Insurance saving. You will need to inform a member of Human Resources in writing if you would like to opt out of the salary sacrifice for your member contributions by 7 November 2017.

There are certain circumstances where a pension scheme member may not benefit from taking part in salary sacrifice. For example, if you are still working past State Pension Age, you do not pay National Insurance – so you would not benefit from a saving.

If you are at all unsure about whether you should take part in salary sacrifice, please consider taking financial advice.

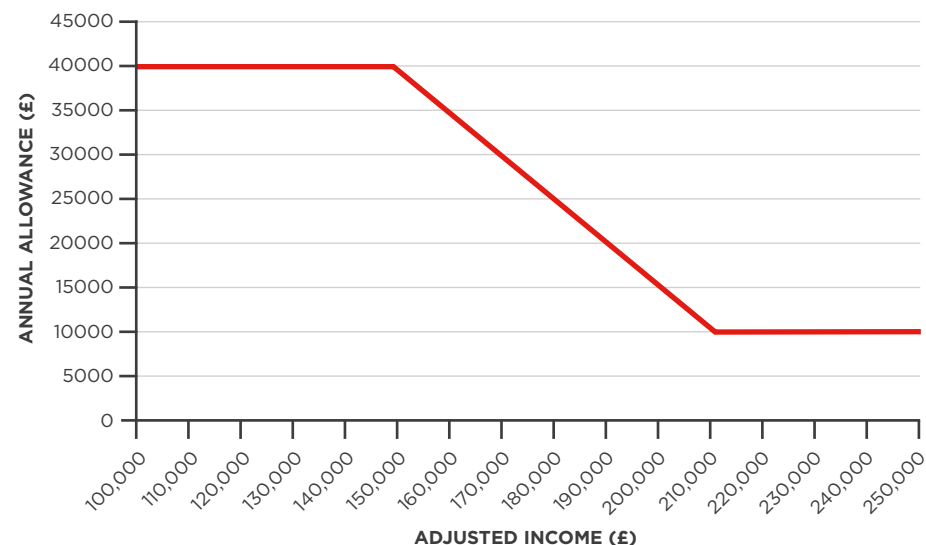
Annual allowance options

The annual allowance is the limit of the amount you can save towards your pension each year and still receive tax relief.

The 'standard' annual allowance is £40,000 per tax year however higher earners may have a lower annual allowance which is 'tapered' in line with earnings. This depends on two income tests, measured over the tax year. The actual definition of the incomes is complicated and you should refer to the HMRC guidance found here <https://www.gov.uk/guidance/pension-schemes-work-out-your-tapered-annual-allowance> to determine these accurately. But, at a high level these are as follows:

- **'Threshold income'** – broadly, this is your taxable earnings from all sources, not just employment income, so will include items such as rental income or shares. On top of this you would need to add the amount of salary you sacrifice in exchange for a Bank contribution to the pension then;
 - If your threshold income is below £110,000 a year, your annual allowance is £40,000 (plus any you carry forward - see below).
 - If your threshold income is £110,000 a year or more, the second test will apply:
- **'Adjusted income'** – broadly, this is Threshold Income plus the value of contributions made to your pension by the Bank (excluding the amount you sacrificed) and anyone else on your behalf, as well as any contributions you have made to the Scheme outside salary sacrifice, or to arrangements outside the Bank.
 - If your adjusted income is £150,000 a year or more, your annual allowance will be 'tapered'.
 - This means it will be reduced by £1 for every £2 your adjusted income is over £150,000, down to a minimum of £10,000 for anyone earning £210,000 a year or more (illustrated in the table on the right).

Annual Allowance 2016/17 onwards



In addition to your annual allowance (either standard or tapered) you are permitted to carry forward unused annual allowance from the previous three tax years. So, to take a very simple example:

- If you saved exactly £5,000 a year below the value of your annual allowance, in each of the last three tax years, you would have £5,000 of annual allowance each year left over.
- As a result you could carry forward £15,000 of allowance.
- Your personal annual allowance for the following year, assuming you are not subject to a tapered annual allowance, would be £40,000 + £15,000 = £55,000.

You can still use carry forward (if available) to 'top up' your tapered annual allowance, if applicable.

If you do not think you are likely to be impacted by the annual allowance [click here](#), otherwise click on the arrow at the top of the page.

Annual Allowance Charge

If your pension savings exceed the annual allowance plus any unused allowances carried forward from the three previous tax years you will have to pay an additional tax charge at your marginal rate of income tax.

The tax charge is calculated by adding the amount by which your pension savings in the tax year has exceeded the Annual Allowance (including carry forward from the three previous years) to your other taxable income - tax will then apply depending on what income tax band(s) the excess amount falls into.

So if you are a 45% tax payer, the annual allowance charge will always be 45% of the excess amount.

Example (note this example is specific to Westpac and assuming salary sacrifice contributions to the Scheme)

Geoff's reference salary is £150,000

He pays £3,750 of pension contributions through salary sacrifice, reducing his annual taxable pay to £146,250.

He receives a bonus of £20,000.

He receives rental income of £10,000 a year.

The Bank makes pension contributions, including the salary sacrifice contribution, of £21,750.

His threshold income is £180,000

(Taxable pay + salary sacrifice pension contributions + bonus + rental income (i.e. his taxable earnings plus salary sacrifice contributions))

(£146,250 + £3,750 + £20,000 + £10,000)

His adjusted income is £198,000

(Threshold income + Bank's contributions to the Scheme less salary sacrifice contributions)

(£180,000 + £21,750 - £3,750)

Geoff's adjusted income is £48,000 above the £150,000 threshold so his annual allowance is tapered by £1 for every £2 of this excess - that is, £24,000.

His tapered annual allowance is £16,000

(Annual allowance - adjusted excess income)

(£40,000 - £24,000)

The pension contributions Geoff receives in the tax year (£21,750) exceed his tapered annual allowance of £16,000 by £5,750. If Geoff does not have any unused annual allowances from the previous three years he will be subject to an annual allowance charge on the £5,750.

Geoff is a 45% tax payer and so will pay an annual allowance charge of £2,587.50.

Exchanging Bank contributions

If it turns out that your annual allowance is lower than the standard level due to tapering, you may want to explore ways to limit the contributions going into your Member Account.

With this in mind, we are introducing a new option to exchange Bank contributions. This option would allow you to:

- choose a lower contribution rate from the Bank; and
- receive the value of the contributions you have given up (or 'exchanged') – less a deduction for the additional National Insurance the Bank is required to pay on cash payments – as a discretionary cash supplement.

You would qualify for this option if:

- you have a basic salary of £110,000 a year or more; or
- you can prove you are impacted by the tapering of the annual allowance.

You can choose to exchange up to a maximum of 9% of the Bank contribution for a discretionary cash supplement.

So, for example, if you are currently receiving 10.5% contributions from the Bank, you meet the necessary conditions and decide to exchange the full 9%, the Bank's contribution to the pension will reduce to 1.5%.

Taking the deduction we mention above into account, you would receive 7.91% as a discretionary cash supplement paid monthly – and, as a result, it will not count towards your annual allowance. However, please note that you will pay income tax and National Insurance on it, along with the rest of your salary.

Under current legislation, income tax applies to your pension benefits when you receive them. Up to 25% of the value of your benefits (subject to a limit of 25% of the lifetime allowance – see next section) can be paid tax free and you would

pay income tax on the rest. Additional tax charges currently apply if you exceed the lifetime allowance (see next section). You need to carefully consider whether giving up pension contributions for discretionary cash is the best option for you. If you are in any doubt you should speak to a financial adviser. If you don't have a financial adviser, you can search for one using this web link: <https://www.fca.org.uk/consumers/finding-adviser>

Below is a table setting out the discretionary cash contribution that would be paid in exchange for the pension contribution being given up:

Bank pension contributions being given up	Discretionary cash paid*
9%	7.91%
8%	7.03%
7%	6.15%
6%	5.27%
5%	4.39%
4%	3.51%
3%	2.64%
2%	1.76%
1%	0.88%

In accordance with the Scheme rules, a member of the scheme must pay a 2.5% member contribution in order to qualify for employer contributions, and it is not possible for employees to exchange their member contributions for a discretionary cash contribution.

If you want to exchange Bank contributions, please complete an online form on our [SharePoint site](#).

*The bank reserves the right to make changes to the terms of discretionary cash payments.

Paying a tax charge

If you are subject to an annual allowance charge on your pension savings, you may be able to use ‘Scheme Pays’. This option allows you to ask the Scheme to meet the tax charge on your behalf, out of your benefits – instead of you having to pay the amount separately yourself.

Broadly, schemes must offer this option to anyone who has:

- 1. pension savings in a tax year that have exceeded £40,000 and
- 2. a tax charge of £2,000 or more.

If you have a tapered annual allowance, it may mean you face a tax charge but do not qualify to have some or all of it paid by the Scheme as of right (if pension savings don’t exceed £40,000 for example). To assist with this situation, the Bank is voluntarily extending this right so that the Scheme will pay any tax charges on your behalf, and reduce the pension benefits accordingly, if the annual allowance charge arising is £2,000 or more.

If you are interested in using Scheme Pays, please get in touch with the administrators, Capita, for more information – their details are on page 3. If using the voluntary option to pay an annual allowance charge, then the charge needs to be settled before 31 January after the end of the tax year. To achieve this, you would need to notify Capita before 31 December 2017.

Example (note this example is specific to Westpac and assuming salary sacrifice contributions to the Scheme)

As Geoff qualifies to exchange pension contributions for cash, he decides to exchange the 6% p.a. of pension contributions.

He still pays £3,750 of pension contributions through salary sacrifice, reducing his annual taxable pay to £146,250.
He receives a bonus of £20,000.
He receives rental income of £10,000 a year.
The Bank instead of making pension contributions, including the salary sacrifice contribution, of £21,750 reduce this to £12,750 and instead pay Geoff a discretionary cash supplement of £7,905.
His threshold income is £187,905
(Taxable pay + discretionary cash supplement + salary sacrifice pension contributions + bonus + rental income (i.e. his taxable earnings plus salary sacrifice contributions))
(£146,250 + £7,905 +£3,750 + £20,000 + £10,000)
His adjusted income is £196,905
(Threshold income + Bank’s contributions to the Scheme less salary sacrifice contributions)
(£187,905 + £12,750 - £3,750)
Geoff’s adjusted income is £46,905 above the £150,000 threshold so his annual allowance is tapered by £1 for every £2 of this excess – that is, £23,452.50.
His tapered annual allowance is £16,547.50.
(Annual allowance – adjusted excess income)
(£40,000 - £23,452.50)

The pension contributions Geoff receives in the tax year (£12,750) do not exceed his tapered annual allowance of £16,547.50. Geoff does not have to pay an annual allowance charge. In addition, he will have £3,797.50 of unused annual allowance which can be carried forward to be used in the next three tax years.

Not paying an annual allowance should only be one part of the decision to exchange pension contributions for cash and the wider tax efficiency of both benefits should be carefully considered.

Lifetime allowance update

The lifetime allowance is the highest value of pension benefits you can build up before additional tax charges apply. At the time of writing, the lifetime allowance is £1 million.

Remember that, as with the annual allowance, your pension benefits from all sources count towards the lifetime allowance – apart from your State pension. So, to see where you are against the lifetime allowance, you should add together the following:

- the value of your Member Account;
- the value of any other 'defined contribution' arrangements you may have (such as a deferred 'account' or additional voluntary contributions with an old employer, or a personal pension); and
- the value of any deferred 'defined benefit' pension you are still due from an old employer – you work this out by taking the annual pension amount and multiplying it by 20.

Since it was introduced, the lifetime allowance has reduced from time to time. As a result, the Government has made various forms of 'protection' available, so that people who might have planned their savings carefully to keep below the lifetime allowance are not 'caught' simply because the LTA goes down.

These protection options generally allow individuals the option to keep a higher lifetime allowance value and you can find more details about protection against the lifetime allowance on the **Government's website**.

The tax charge for exceeding the LTA is:

- 55% of the value of benefits above the LTA if you take them as a lump sum; or
- 25% of the value of benefits above the LTA plus your marginal income tax rate on your pension instalments when they are paid to you if you take the benefits above the LTA as pension.

Exceeding the LTA may not in itself be tax ineffective, although this will be dependent on your personal circumstances and your current and future marginal rate of tax. You should speak to an independent financial adviser regarding your personal circumstances if you expect to exceed the LTA in the future.

The taxation of benefits once in payment (i.e. after the application of any extra tax charge on benefits above the LTA) and on death (either before or after any extra tax charge on benefits above the LTA) is a separate matter and is not considered as part of this communication.

Cash Allowance

If you think you might be affected by the lifetime allowance, you may need to consider ways to avoid building up further pension benefits.

If you either:

- have one of the protection options in place; or
- have overall pension benefits equivalent to 90% or more of the lifetime allowance (so, currently, that means benefits worth £900,000 or more)

you now have the option at Westpac to opt out of the Scheme. You would cease to salary sacrifice 2.5% of salary (or cease to pay 2.5% of pension contributions), the Bank would pay you a discretionary cash supplement, the equivalent of 9.22% of your Salary each month instead.

In this way, the supplement would not count towards the lifetime allowance – however, you would pay income tax and National Insurance on it, along with the rest of your pay.

You need to carefully consider whether giving up pension contributions for discretionary cash is the best option for you. If you are in any doubt you should speak to a financial adviser. If you don't have a financial adviser you can search for one using this web link: <https://www.fca.org.uk/consumers/finding-adviser>

If you want to opt out and receive a cash supplement in place of Bank contributions, please contact a member of human resources.