

Please find below a summary of some of the additional questions that we are picking up which are causing individuals to be unsure about staying in given the relatively small win/savings.

The additional questions so far compiled are:

1. Can we be sure that this will not be a taxable benefit in the future?

HMRC and the Treasury have reviewed the position a number of times and there are no current plans to change employer pension contributions into a taxable benefit. HMRC are fully aware of the arrangements and do not consider it to be aggressive tax planning. There are plans to encourage all employees and employers to make pension contributions from 2012 and the only way certain employees and employers would be able to afford this would be via salary sacrifice arrangements.

2. Can we see some additional pay slip examples for staff on various levels of AA pay? A patrol and contact centre example would be useful?

There are a large number of earnings, pension and NI parameters within the AA workforce which makes it very hard to produce meaningful examples. For example the large number of individual contribution rates for CARE. However, shown below, is a step by step guide to calculating an individual's saving for any payslip period in 2008/09 tax year:

Q: How do I calculate the savings of the AA plus scheme?

Step 1: You need a 2008/09 tax year payslip:

Step 2: Look at the Pension contribution figure which is normally the third line entry, half way down the payslip on the left under tax:

Step 3: Are you in the Final salary or the CARE scheme?

If you are in Final salary scheme go to A or if you are in CARE go to B below:

A: You are in the Final Salary scheme then you will save up to 9.4% of your pension figure shown on your payslip unless you earn more than £3,337 (after deducting the pension contribution) in the pay month or £770 in the pay week, then you will save 1% NIC

B: You are in the CARE scheme then you will save up to 11% of your pension figure shown on your payslip unless you earn more than £3,337 (after deducting the pension contribution) in the pay month or £770 in the pay week pay, then you will save 1% NIC

If your earnings go below the above monthly or weekly limits once you reduce your pay by your pension contribution you will save a combination of 1% and 9.4%/11% in NIC. If your earnings change ie you receive a bonus then you will need to calculate for that month separately as your NIC savings may be different.

These figures are based on the tax year 2008/2009.

Please note that the National Insurance bands change in the 2009/2010 tax year. The point where you start to pay 1% has been increased to £3656 monthly and £844 weekly.

3. What happens if the AA is sold/floated and will there be the option to opt out at this time?

Any sale where staff transfer under TUPE or where the business changes ownership but the employees remain with the same employer will not impact on the arrangements. It would be highly unlikely that any new owner would wish to unravel the arrangements as this would produce additional costs to the business, both in terms of advice on changing terms and conditions and the loss of the NIC savings.

4. What will happen when this loophole is eventually closed as surely the government will not allow this to continue?

As per question 1 above, the government does not have any current plans to change the arrangements.

5. What other major companies operate a salary sacrifice?

Over 75% of FTSE 500 companies operate this arrangement (who in total employ approximately 90% of the UK working population) and over 50% of all employers do.

A selection of example companies that operate salary sacrifice is shown below:

IBM  
ITT  
BSI  
PWC  
Linklaters  
BAT  
Preston College  
Lloyds TSB  
Mitsubishi  
BDO Stoy Hayward  
Keoghs  
Tusker  
First choice  
FSA  
British Energy  
Capita  
Xyrotech  
BT  
Sainsbury's  
Cornhill  
Electrocomponents  
Northern Rail Co.  
Scottish & Newcastle

6. What happens if the company decides to take a pension holiday in the future?

Under the pension scheme rules, the company is required to continue to make payments in respect of the members' contributions. A contribution holiday would only impact the company element.

7. What proof do we have that the AA is paying the full NI and Pension contribution?

Payslips show the employee's national insurance contributions being paid and AA Plus contributions on an employee's behalf.

8. What is the actual impact of this on the pension scheme longer term? Have the trustees been consulted?

There is no effect as the same level of funding is being made as prior to the introduction of the AA plus arrangements. The Trustees were consulted and approved of the arrangements.

9. As the staff shares award may be subject to NI does the salary sacrifice opt in have any impact?

No, the staff shares award is not affected and does not form pensionable earnings, so AA Plus has no impact on this.

10. The cost of independent financial advice is likely to cost in the region of £300 could the AA consider providing an independent financial advice helpline, for e.g. is this available through EAP scheme (Employee Assistance Programme)

Yes, but the EAP service could not give individual financial advice. The AA feels that comprehensive information has already been provided in the pack and the decision to take independent legal advice is a personal one. The EWP (Employee Wellbeing Programme) can provide extensive assistance on a variety of issues, including advice about salary sacrifice which is already in the public domain but a financial adviser is best placed to provide specific advice.

11. Can I opt in at any time during the financial year or is it just once a year consideration?

You may opt-in at any time, though we will always use a start date at the beginning of a month. Once you have opted- in, you may not opt out unless it is in March for the following tax year or you have a lifestyle change, see original Q & As for a full list of lifestyle changes.

12. Can you please clarify for me the effect on an employee in the Care Pension Scheme who will rely on the state S2P pension for providing an overall retirement package?

Therefore would you please provide me with examples on how staff on different levels of salary will be affected over the medium to long term?"

Essentially the effect on S2P is very small, compared to the NIC savings, but does nevertheless exist.

This is not an issue for members of Final Salary scheme as they are “contracted out” and do not currently accrue S2P entitlement.

Basic state pension entitlement is not affected either, as this accrues based on earnings on which NIC is paid. We will not allow anyone to sacrifice below the lower earnings limit for NIC purposes therefore the basic state pension will be protected. S2P entitlement, which is the “top up” element to the basic state pension, depends on the level of an employee’s earnings.

If earnings after the salary sacrifice are between £4,940 and £13,900 per year (2009/10 rates), employees are treated as earning £13,900 for S2P purposes. Therefore there is no reduction in S2P for employees who have pre and/or post sacrifice earnings between £4,940 and £13,900 (using 2009/10 rates), so both AA Plus and S2P effects are positive.

Where employees earning more than £40,040 per year (£3,337 per month) after any salary sacrifice, entitlement to S2P will not be affected (using 2009/10 rates) as it stops at this level anyway, so again both AA Plus and S2P effects are positive.

For employees earning between £13,900 and £40,040 per year (2009/10) after any salary sacrifice, there could be a negligible reduction in S2P entitlement as a result of participating in AA Plus. This impact will be significantly outweighed by the NIC savings achieved by participating in AA Plus. Please note that there should never be an impact to previously accrued SERPS or S2P; participation in AA Plus should only impact S2P going forward where employees are members of AA Plus each year and do not become members of a contracted out scheme, which is unaffected by AA Plus.

Please find below a table which compares the estimated potential loss in S2P with the estimated annual savings from AA Plus. This table is based on 2007/08 estimates published by the Pensions Service and assumes 5% employee pension contributions.

Base salary per annum	Approximate annual employee saving from AA Plus	Potential reduction in annual S2P payments
£13,000	£71	£0
£15,000	£83	£3
£20,000	£110	£4
£27,000	£149	£5.50
£33,000	£182	£13
£40,000	£20	£0

Please note the table is for illustration purposes only as the data is not up to date. Undertaking calculations based on real earnings is an extremely complex, time consuming task which requires sophisticated software programs. The table does however give a realistic indication of the negligible impact AA Plus will have on S2P.