



Employee Guide to

AEPlus

for the
AA Group Personal Pension Plan
(AA GPPP)

April 2015

Introduction To AEPlus

In early in 2013 the AA introduced an arrangement called **AEPlus** alongside the AA GPPP.

AEPlus is designed to reduce the National Insurance costs for you and your Employer. You will benefit by receiving an increase in your take home pay and your employer's costs will also be reduced.

If you want to participate in **AEPlus** you don't have to do anything – in most cases employees will be automatically enrolled into **AEPlus**.

This booklet explains how **AEPlus** works in relation to the AA GPPP and answers any questions we think you may have. If you have any further questions after reading this booklet please contact the Pensions Department on 01256 491003.

Please note: This booklet summarises some of the AA GPPP rules very briefly. In the event of any dispute, the AA GPPP policy wording takes precedence over anything stated in this booklet.

Contents

	Page
1. What is AEPlus ?	4
2. Will AEPlus affect my Company benefits?	5
3. Will AEPlus affect my state benefits?	5
4. How will AEPlus affect my pay?	6
5. How will AEPlus change my terms & conditions of employment?	7
6. Opting out of AEPlus	8
7. Further information	9
8. Frequently Asked Questions	10

1. What is AEPlus?

AEPlus is designed to reduce the National Insurance costs for you and your employer. You will benefit by receiving an increase in your take home pay whilst the savings your employer makes will be used towards the Employer contributions it is legally required to make under the AE legislation for each contributing member.

If you participate in **AEPlus**:

- You will not make your pension contributions directly from your net pay.
- Your contractual gross pay (your pre-tax pay) will be reduced by the amount you would have contributed into the AA GPPP. This is known as 'the **AEPlus adjustment**'.
- As a result, your net pay (your take home pay) will increase slightly, **because you are paying less National Insurance**. The amount you save will depend upon the level of your salary and the level of your pension and National Insurance contributions.
- Your employer will instead pay an amount, equal to your AA GPPP contribution, directly into the scheme. This is in addition to the employer's own contributions made to the AA GPPP.
- The total amount contributed to the AA GPPP will therefore remain the same as before **AEPlus**.

A simplified example of how this will work in practice, using a salary of £15,000 per year and 2013/15 tax and NI rates, is set out as follows:

Without AEPlus

Annual pay before AEPlus	£15,000.00
Lower allowance	(£5,772.00)
Pensionable pay	£9,228.00
Employee Pension contribution (1%)	(£92.28)
Taxable pay	£15,000.00
Less Income Tax (20% of £5,000*)	(£1,000)
Less National Insurance (12% of £7,956)	(£954.72)
Less Pension contribution (1% less basic rate tax)	(£73.82)
Net or take home pay (without AEPlus)	£12,971.46 (A)

With AEPlus

Annual pay after AEPlus	£14,907.72 (reduced by pension contribution)
Employee Pension contribution	£0.00 (no contributions paid)
Taxable pay	£14,907.72 (reduced)
Less Income Tax (20% of £4,907.72)	(£981.54)
Less National Insurance (12% of £7,882.18)	(£945.86) (reduced)
Net or take home pay (with AEPlus)	£12,980.32 (increased) (B)

Increase in take home pay per annum (B-A) **£8.86** (£0.74 per month x 12)

*HMRC will pay basic rate tax relief directly into your pension plan.

If you wish to join **AEPlus** and take advantage of the potential savings available, **you need do nothing further**.

2. Will *AEPlus* affect my Company benefits?

AEPlus will not affect any salary related payments, or benefits, that you currently receive. To achieve this you will retain a notional salary which for *AEPlus* purposes alone we will call your '**Shadow Salary**'. Your **Shadow Salary** will be the same amount as what your contractual gross salary would be if you did not participate in *AEPlus*. Any salary related payments or benefits you receive from your employer, such as pay awards, overtime or bonuses will be based on your **Shadow Salary**.

Categories of pay included in *AEPlus*

Your qualifying earnings (defined as gross taxable earnings) will be included in *AEPlus* and include:

- Your gross basic salary earned during the month or week
- Commission earnings
- On call/call out payments
- Overtime
- Bonus
- Car Allowance
- Ad-hoc payments

When we are asked to provide references required by employees for mortgage application purposes, personal loans and other credit or lending applications, we will supply information to the lender of your **contractual pay, your shadow pay** and that you have entered into *AEPlus*. Most mortgage lenders etc are familiar with salary exchange arrangements and the change should not negatively impact on your ability to borrow.

3. Will *AEPlus* affect my state benefits?

Pensions

AEPlus will not affect your basic state pension although it is possible that certain state benefits including the State Second Pension (S2P) may be affected. Please go to www.gov.uk for further details.

Statutory Maternity Pay

Statutory Maternity Pay (SMP) is calculated by reference to your earnings during an eight week period (which commences 23 weeks prior to the Expected Week of Confinement).

The level of SMP paid is based on average weekly earnings i.e. earnings after the *AEPlus* adjustment. It is therefore possible that for the first 6 weeks of maternity leave (when you receive 90% of earnings) the amount of SMP paid could be affected by *AEPlus*. However, you will not pay any AA GPPP contributions on your SMP during your maternity leave and so should be no worse off financially over the full period of your leave.

Other state benefits

Entitlement to most other state benefits (such as Employment Support Allowance and Job Seekers Allowance) is determined by the length of time in which you have paid National Insurance, rather than the amount paid. As long as your pre-tax earnings after the *AEPlus* adjustment exceed the Lower Earnings Limit for National Insurance (in tax year 2014/15 this is £111 per week for weekly paid employees or £481 per month for monthly paid employees), the level of benefit you are entitled to receive will not be affected.

We will usually advise you to opt out of *AEPlus* if your earnings are less than £6,000 per year. If you participate in *AEPlus* and then experience a lifestyle change, such as going part-time causing your earnings to reduce, you will be permitted to opt out of *AEPlus* under the lifestyle changes provisions (explained in the section called 'Frequently Asked Questions', please see Q27 and Q28).

AEPlus will not affect the overall level of any Statutory Sick Pay unless your pre-tax weekly earnings (after the **AEPlus** adjustment) are less than £111 per week and will not affect the overall level of any Statutory Paternity or Statutory Adoptive payments unless your average pre tax weekly earnings (after the **AEPlus** adjustment) are less than £138.18. These are the 2014/15 tax year figures.

Statutory Redundancy payments will not be affected unless your average weekly pre tax earnings (after the **AEPlus** adjustment) are less than £111 per week (2014 rates).

Further advice

The Company cannot offer any individual financial advice. You should contact an independent financial adviser (IFA) if you are unsure how **AEPlus** might affect your benefits. If you do not have your own financial adviser, you can find one at www.unbiased.co.uk or by calling 0330 1000 755 (9am - 5pm, Monday to Friday)

Please note that the Company will not pay any fees from an IFA that you may incur as a result of obtaining any financial advice and any such charges will remain your responsibility.

4. How will *AEPlus* affect my pay?

If you are not an *AEPlus* member you pay:

- Income Tax on your gross salary
- National Insurance on your gross salary
- Your Employer reduces your pension contribution by basic rate income tax* and L&G receive this same amount from HMRC and adds it back to your AA GPPP account.

* If you pay Higher Rate tax you will need to claim this back directly from HMRC via your tax return.

You may also pay Income Tax and National Insurance on other payments or allowances such as first aid or bonuses, which are not shown here.

From the start of AA GPPP and *AEPlus* membership:

A sum equivalent to your pension contribution will reduce your gross salary before Tax and National Insurance are calculated. So you pay:

- Income Tax on your gross salary after the **AEPlus** adjustment (the amount you would previously have paid as your pension contribution)
- National Insurance on your gross salary after the **AEPlus** adjustment.

Your pension contribution is still calculated on your **Shadow Salary**.

The diagrams on the next page illustrate the contents of a sample payslip with and without **AEPlus**.

Please note: These are generic payslips so the positioning of items will differ compared to the one you receive.

Payslip for deductions from your net pay (without **AEPlus**)

PAY ITEM	THIS PERIOD	DEDUCTION ITEM	THIS PERIOD	Y.T.D
SALARY	1250.00	PAYE	92.40	92.40
		NI RATE A	72.48	72.48
		PENSION (See Note)	6.22	6.22
PAYMENT TOTAL	1250.00	DEDUCTION TOTAL	171.10	
				NETT PAY
				1078.90

Payslip for deductions from your net pay (with **AEPlus**)

Note: The AA reduces your payment by the basic rate of Income Tax (currently 20%) and Legal & General will claim the tax relief directly from HMRC on your behalf. If you are a higher rate taxpayer, you will have to claim the extra tax relief through your self-assessment return.

PAY ITEM	THIS PERIOD	DEDUCTION ITEM	THIS PERIOD	Y.T.D
SALARY	1250.00	PAYE	90.80	90.80
AE Pension	-7.77	NI RATE A	71.55	71.55
		PENSION	0.00	0.00
PAYMENT TOTAL	1242.23	DEDUCTION TOTAL	162.35	
				NETT PAY
				1079.88

5. How will **AEPlus** change my terms and conditions of employment?

The AA will operate **AEPlus** on your contributions to the AA GPPP (unless you opt out of this arrangement) and you agree to the following addition to your terms and conditions of employment:

Notwithstanding any other provision of your terms and conditions of employment, from the commencement of the AA Group Personal Pension Plan (AA GPPP) contributions if you participate in the **AEPlus** Pension arrangement:

- (a) you will cease to make employee pension contributions;
- (b) the Company shall reduce your contractual gross salary by a sum equivalent to the contribution you would otherwise make under the AA GPPP*. This will be shown as '**AEPlus**' on your payslip and will be known as 'the **AEPlus** adjustment'; and
- (c) the Company shall pay a value equivalent to the **AEPlus** adjustment into your AA GPPP personal account as employer contributions. These will be paid in addition to normal employer contributions.

This arrangement will continue until either:

- (a) a lifestyle change occurs and you instruct the Company that you wish to cease the **AEPlus** arrangement. This must be done within one month of the change occurring.

A lifestyle change occurs if:

1. Your earnings drop below the National Insurance Lower Earnings Limit; or
 2. You change your contractual working hours by at least 20%; or
 3. You are absent due to sickness, or maternity, paternity or adoption leave, which causes you to be in receipt of statutory payments; or
 4. You marry or register your civil partnership; or
 5. You give birth to or adopt a child; or
 6. You return from maternity leave; or
 7. Your spouse or partner is made redundant (or suffers major change in work and financial situation); or
 8. You divorce or separate, or dissolve your civil partnership; or
 9. Your spouse, partner or child dies; or
 10. You have an exceptional change in childcare provision; or
 11. You accept an overseas placement.
- (b) a lifestyle change occurs and the Company is required to automatically opt you out of the **AEPlus** arrangement to prevent the **AEPlus** adjustment being applied to a statutory payment. In cases of automatic opt-out, you will automatically be opted back in when the lifestyle change ceases to apply. This section will only apply where lifestyle change 3 (above) occurs.
- (c) you cease to be a member of the AA GPPP; or
- (d) there are any government or legal changes which affect **AEPlus**, in which case, the Company may withdraw this arrangement.

In the event that such change occurs, the Company reserves the right to:

- I. increase your contractual gross salary / wage by a sum equivalent to the **AEPlus** adjustment; and
- II. deduct any relevant employee pension contributions from your salary/wage and pay this into the AA GPPP as employee contributions.

If you participate in the **AEPlus** arrangement, you will retain a notional salary / wage called '**Shadow Salary**' which is equal in value to what your contractual salary / wage would be if you did not participate in **AEPlus**. All references to salary or wage within the Company's HR policies and similar documents should be construed as being in respect of **Shadow Salary**, unless otherwise specified in this booklet (see section 3).

** In the event that contributions to the AA GPPP need to increase in the future, the Company reserves the right to increase the level of the **AEPlus** adjustment by an amount equal in value to the higher contribution you would have been required to make if you had not participated in **AEPlus**.*

6. Opting out of **AEPlus**

AEPlus contributions will be made automatically for all AA GPPP members when their AA GPPP membership commences unless you tell us in writing using the Opt Out form that you don't want **AEPlus** to apply to you.

All employees who do not wish to participate in **AEPlus can opt out subject to one pay month's notice if monthly paid, or one week's notice if weekly paid.**

Why might I want to opt out of AEPlus?

Participating in **AEPlus** reduces the amount of National Insurance contributions you pay. Paying sufficient National Insurance contributions is very important. If you don't pay a basic minimum in your lifetime, it will affect your basic state pension and certain state benefits including possibly S2P.

Therefore, if your gross earnings after the **AEPlus** adjustment fall below the National Insurance Lower Earnings Limit (in 2014/15 this will be £111 per week for weekly paid employees or £481 per month for monthly paid employees), paying **AEPlus** may put your National Insurance benefits at risk. Please see section 3 for more details.

Who isn't eligible for AEPlus?

You will not be eligible for **AEPlus** if you:

- are not in the AA GPPP or
- have ceased to contribute to the AA GPPP
- Have opted out of the AA GPPP the first month of membership

More information about opting out

Your employer will attempt to identify any employees who may be putting their National Insurance benefits at risk by joining **AEPlus**, inform them and automatically exclude them from **AEPlus**. If you have been included in **AEPlus** and wish to opt out you should complete an opt-out form and return it to the Payroll Department of your employer.

In the unlikely event that you wish to opt out of **AEPlus** for any other reason (other than on a lifestyle change as outlined above) you will be able to do this subject to one pay month's notice if monthly paid, or one week's notice if weekly paid.

Where can I get an opt-out form?

You can:

- Download one from <http://www.mypensionline.com/aagppp>
- Email us at autoenrolment@theaa.com
- Phone us on 01256 491003

Further Information

Having read this booklet and the Frequently Asked Questions below, if you have any questions about **AEPlus**, please email autoenrolment@theaa.com in the first instance and we will contact you with a response.

Please note that we cannot provide you with any financial advice.

Mike Sullivan
Head of Pensions - The AA

February 2015

7. Frequently Asked Questions (FAQs)

1. Isn't AEPlus too good to be true?

We have consulted with HM Revenue & Customs who are fully aware of the **AEPlus** Pension arrangements. The Government has indicated that it has no current plans to change the Income Tax/ National Insurance treatment of such arrangements.

2. What is Shadow Salary?

Your **Shadow Salary** is your gross earnings you would normally be paid, before any **AEPlus** adjustment, for working your contractual hours, including any overtime or other payments.

3. Who has been consulted in implementing AEPlus?

The AA has consulted with the pension provider, currently Legal and General, and their legal advisors. We have also taken advice from HM Revenue & Customs.

4. Will AEPlus affect my terms of employment?

Yes. If you do nothing and do not opt-out of **AEPlus**, you will be agreeing to a change in your contractual terms and conditions. For changes to your terms & conditions of employment see section 5.

5. You say that my salary will be reduced under AEPlus. How can this be a good idea?

Your salary will only reduce because you will no longer be making employee pension contributions. Instead, your employer will make these on your behalf. Your take-home pay will increase as a result of National Insurance savings.

Participating in **AEPlus** will not affect the amount of annual salary increase or benefits, which are calculated on your **Shadow Salary**.

6. Will AEPlus affect the level of income tax I pay?

Possibly, Under the AE legislation tax relief at source can only be given by your employer at the basic rate (currently 20%). If you are a higher rate taxpayer any higher rate relief needs to be claimed personally by completion of a tax return.

7. How will AEPlus affect my National Insurance liability?

The reduction in salary means that you pay less National Insurance under these arrangements, resulting in higher take-home pay.

This is because National Insurance is not payable on pension contributions your employer makes on your behalf.

8. Isn't my employer making a saving too?

Yes. Because your salary is reduced, your employer saves Employer National Insurance on the reduction. However, this saving is used towards the Employer contributions it is legally required to make under the auto enrolment legislation for each contributing member.

9. I am currently in receipt of statutory payments.

If you are in receipt of Statutory Maternity, Paternity, Adoption or Sick pay and the **AEPlus** adjustment would need to be taken either partly or wholly from your statutory payment, you will need to speak to the payroll department.

For Maternity cases your employer funding will continue throughout your ordinary and additional maternity pay periods.

10. I am not paying National Insurance because I am over state pension age but I am still contributing to my pension.

If you are a member of the AA GPPP although you will not benefit directly from any Employee National Insurance savings, your participation in **AEPlus** will help your employer to continue to provide the benefits offered under the AA GPPP.

11. What will my payslip look like if I participate in AEPlus?

It will reflect that you are no longer making employee pension contributions. Instead, you will see a line called '**AEPlus Pension**' on your payslip. See section 4 and Page 7 for details of how your new payslip will look.

12. Will AEPlus affect the tax credits that I receive?

AEPlus should not negatively impact on tax credits.

When you apply for tax credits you need to state your taxable earnings from your P60. Your pension contributions currently reduce your earnings (as outlined in the example on page 3) by the same amount as **AEPlus** will. This means that your earnings stated on your P60 will be the same whether you pay pension contributions or join **AEPlus**. You will not however be able to claim your pension contributions as a cost you incur, as these cease to be your contributions and are treated as employer contributions. Care should be taken in completing the appropriate forms and guidance is available on the HMRC website.

13. Will AEPlus affect repayment of my student loan?

Yes. You will make slightly lower student loan repayments. This is because the amount you repay is calculated based on the same figures as your National Insurance Contributions, which will reduce under **AEPlus**. As usual, however, you can request to make voluntary contributions towards your student loan if you wish to do so.

14. How will this affect mortgage reference letters?

AEPlus will not adversely affect mortgage reference letters. These will show your **Shadow Salary** as will your payslip.

15. If I am made redundant, will the redundancy pay I receive be affected by AEPlus?

Your entitlement to Statutory Redundancy Pay may be affected if your pre tax pay (after the **AEPlus** adjustment) is less than £111 per week (2014 rates). However, in the event of any redundancies, any enhanced redundancy payments will be calculated to ensure that you are not in a worse position for having joining **AEPlus** than you would have been otherwise.

16. I make additional contributions to the AA GPPP. Will these be included in AEPlus?

No. **AEPlus** only currently applies to basic contributions and doesn't apply to Additional Voluntary Contributions (AVCs).

17. How will any PHI benefits be affected?

This benefit will not be affected by **AEPlus** as it will be linked to your **Shadow Salary**.

18. Will AEPlus affect any other Company benefits I receive?

No. Your benefits are based on your **Shadow Salary** and will not change under **AEPlus**.

19. Will AEPlus affect the refund of contributions from the AA GPPP due to my estate if I die in-service?

No. Arrangements have been put in place to ensure that refunds of contributions will not be affected by participation in **AEPlus**.

20. Will AEPlus have any effect on my entitlement to the basic State Pension?

Provided your earnings do not fall below the threshold for paying National Insurance, £5,772 for 2014/15, (or to be more accurate, £111 per week for weekly paid employees and £481 per month for monthly paid employees), your basic state pension will not be affected.

21. Will AEPlus affect the AA GPPP pension that I receive when I retire?

No.

22. What happens to my contributions if I go on maternity leave?

On learning you are pregnant you should opt out of **AEPlus** if you want to ensure your SMP is calculated on a higher earnings figure. This is because the level of SMP is based on average weekly earnings (earnings after the **AEPlus** adjustment). Please see Section 3 for more details and the timing changes need to take effect by. When you opt out of **AEPlus** you will start paying pension contributions, in the same way as you would have been if you did not participate in **AEPlus**.

23. What should I do if I do not wish to join AEPlus?

If you are not currently a member of the AA GPPP, you need not do anything.

If you are a current member of the AA GPPP, you can 'opt out' of **AEPlus**.

To opt out, you need to complete an opt-out form, which you can get by:

- Downloading one from <http://www.mypensionline.com/aagppp>
- Email us at autoenrolment@theaa.com
- Phone us on 01256 491003

If you opt out, you will not receive any of the National Insurance savings from **AEPlus**.

24. If I participate in AEPlus, will I be able to opt out later?

Yes. If you leave the AA GPPP, you will cease to participate in **AEPlus**. You will be able to rejoin in the future, if you wish, by completing an opt-in form.

25. Will I get a refund of contributions if I leave the AA GPPP?

No, under the auto enrolment legislation a refund is not permitted except if you opt out within one month of joining the AA GPPP.

26. What will happen if I decide to leave the AA GPPP part-way through the year?

Unless you are leaving the AA GPPP due to your earnings falling below the minimum level, under a lifestyle change (see Q27 below), leaving employment or opting out of the AA GPPP, you are committed to **AEPlus** until the next 1st April.

27. What is the definition of a lifestyle change?

A lifestyle change occurs if:

- Your earnings drop below the National Insurance Lower Earnings Limit; or
- You change your contractual working hours by at least 20%; or
- You are absent due to sickness, or maternity, paternity or adoption leave, which causes you to be in receipt of statutory payments; or
- You marry or register your civil partnership; or
- You give birth to or adopt a child; or
- You return from maternity leave; or
- Your spouse or partner is made redundant (or suffers major change in work and financial situation); or
- You divorce or separate, or dissolve your civil partnership; or
- Your spouse, partner or child dies; or
- You have an exceptional change in childcare provision; or
- You accept an overseas placement.

28. Are there any employees who will be disadvantaged by the AEPlus arrangements?

Possibly. There is a chance that you may not benefit from **AEPlus** if your earnings are below or around the Lower Earnings Limit for paying National Insurance. For the tax year 2014/15 this means a gross salary of around £111 per week, £481 per month or £5,772 per annum. If you think this affects you, please contact the Payroll department.

- 29. Are there any employees who will not be entitled to participate in AEPlus?**
*Unfortunately the government's National Minimum Wage provisions do not cater for these kinds of arrangements. Therefore, if the effect of **AEPlus** is to bring your earnings below the National Minimum Wage, you will not be permitted to participate in **AEPlus**. The National Minimum Wage rate (from October 2014) is £6.50 per hour for individuals who are aged 21 years or older.*
- 30. Why would falling below the National Insurance Lower Earnings Limit disadvantage me?**
*Many state benefits (such as the State Pension) are only paid to individuals who have been paying National Insurance for a certain period of time. The amount of National Insurance paid is not important, simply that some National Insurance has been paid for a set period of time. Therefore if participation in **AEPlus** causes you to fall below the National Insurance Lower Earnings Limit you will not pay any National Insurance at all. This will affect your eligibility for National Insurance related state benefits.*
- 31. What happens if I am subject to AEPlus but in the future I go part-time and my earnings drop below £5,772?**
*Your AE contributions will cease as will your **AEPlus** contributions.*
- 32. Where can I go for further information?**
E-mail autoenrolment@theaa.com
- 33. How long will this new pension arrangement last?**
*Your employer is committed to **AEPlus**. However, if Income Tax, National Insurance or pensions law changes, the company reserves the right to withdraw it. If this happens, the company will revert to the current arrangements as far as is reasonably practical.*
- 34. So what's the catch?**
*Quite simply, there isn't one. This is an excellent opportunity to enable you to benefit from an increase in take-home pay. It will also achieve a reduction in costs for AA, so by working in an **AEPlus** way, we can together save money.*