

DC briefing, July 2022 – Easing the cost-of-living crisis

In recent years, we've all lived through a series of economic challenges – from the credit crunch and Brexit, to Covid-19 and the current cost-of-living crisis. With inflation hitting a new high in May 2022, many people are suffering from a marked deterioration in their standard of living.

The chart below shows the dramatic rise in inflation over recent months:



Source: Office for National Statistics – Consumer price inflation

With inflation nearing 10%, household incomes are being squeezed more than ever before. Rises in food, energy and fuel costs make it crucial for people to manage their money and savings as skilfully as possible.

This briefing describes some of the information and services that First Actuarial provides to help employers ease the impact of the cost-of-living crisis across their workforce.

Salary sacrifice

Salary sacrifice, or salary exchange, allows employees' pension contributions to be paid tax efficiently. It generates National Insurance (NI) savings for both employees and employers, and gives employees full and immediate tax relief on their pension contributions.

It is widely used for both Defined Contribution (DC) and Defined Benefit (DB) schemes.

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[Read our briefing](#) for some basic information about salary sacrifice.

The 1.25% increase in NI contributions from April 2022 means that those participating in salary sacrifice are enjoying well-timed savings. However, this may change in April 2023 when the increase is replaced by the health and social care levy.

Can more employees participate in salary sacrifice?

If you currently operate a salary sacrifice pension scheme, consider encouraging more to join by moving to an opt-out basis. Effective communication with your employees can help widen participation.

If you already operate salary sacrifice, do you share the company NI savings with employees?

With employer NI rates now at 15.05%, the annual savings generated for employers are considerable.

Employers have full discretion to share some or all NI savings with their employees, or retain them.

Affordability and flexibility

Faced with significant financial pressures, some employees may consider stopping their pension contributions. Even taking the employer contribution into account, a pension can seem an unnecessary expense to those struggling to pay for life's essentials.

However, by offering more contribution flexibility, such as allowing lower employee contributions, schemes can give additional options to employees thinking about stopping their contributions. This means employees don't lose valuable employer contributions.

Can your scheme be adapted to offer such flexibility?

Maximising contributions

Contributing to a pension scheme remains one of the most tax-efficient way of saving. Doing so with the added benefit of salary sacrifice could mean that someone might still feel able contribute even if they are struggling with the cost of living.

Tax relief

Tax relief on pension contributions can be given either as ‘net pay’ or ‘relief at source’.

Under a ‘relief at source’ arrangement, employees have their pension contributions taken from their salary, net of basic-rate tax. The pension provider then claims basic rate tax relief on the contributions. This means non-taxpayers get a boost to their savings as basic rate tax relief is also paid for them.

Higher rate taxpayers reclaim additional tax relief through self-assessment or a change in their PAYE coding. Unfortunately, many forget to claim this benefit, which can be significant. Salary sacrifice provides full tax relief upfront for such members and could provide a boost to current incomes.

Under ‘net pay’ arrangements, pension contributions are taken gross from the member’s salary. This removes the need for pension providers to claim tax back, and means members who pay higher rate tax don’t have to claim further relief via self-assessment.

However, under ‘net pay’ arrangements non-taxpayers will miss out on tax relief completely. This means that receiving £50 into their pension costs them £50, whereas for a basic rate tax payer it only costs £40. It’s important to review how tax relief works for your employees to see if you can help.

Financial education and tools

Sustained financial pressure on an employee’s income and standard of living can have a serious effect on mental health, with negative effects across their working and family life.

An improved understanding of financial management practices is a good way to help reduce the stress and anxiety caused by money difficulties.

A structured and well delivered financial education programme can help alleviate some of those financial concerns, by improving knowledge of how to manage money and make it work harder.

Our experienced and dedicated financial wellbeing team can support your employees in a number of different ways, in-person or remotely:

- Helpful and engaging workshops on important financial topics (such as managing debt, saving enough to stop work, mortgages and top tips)
- One-to-one meetings with employees at important times in their working lives.

[Learn more about our financial wellbeing services.](#)

The PLSA retirement living standards

The Pensions and Lifetime Savings Association (PLSA) recently launched a tool developed through independent research by Loughborough University. It shows what life in retirement could look like for single people and couples based on three different levels of forecasted income – minimum, moderate and comfortable.

We think the tool gives a simple and powerful way picture of the retirement income an individual may be on track to receive. It gives examples of what each level of income could provide on a day-to-day basis, including leisure spending and household essentials.

[Find out more about the retirement living standards.](#)

MoneyHelper

In collaboration with Pension Wise, government-backed MoneyHelper produces informative guidance on managing money.

[Find out more about MoneyHelper.](#)

Scheme provider

You may also find the scheme provider information useful. This is available on their website and sent out by email. Providers are making more information available online and free of charge.

Further information

If you would like to explore any of these services or discuss how we can help you, please contact your usual First Actuarial consultant or one of our DC consultants who specialise in this area.



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