



For employers

# Your guide to salary sacrifice

# A salary sacrifice arrangement lets you enhance your employees' benefit package – at no extra cost to you.

## What is salary sacrifice?

Salary sacrifice is an arrangement between you and your employees. Employees give up part of their future gross salary or bonus in exchange for a non-cash benefit – in this case a pension contribution.

The employee chooses how much they want to exchange and their gross salary is reduced by this amount. You then pay this into their occupational or personal pension scheme as an employer contribution.

Making pension contributions in this way reduces the amount of National Insurance (NI) contributions you and your employees pay. These NI savings can be used to help boost employees' pension contributions or take-home pay.

You can make a further contribution to your employees' plans by passing back all or some of your NI savings. This is a great way of enhancing their benefits at no extra cost to you.

## Setting up a salary sacrifice arrangement

To meet HM Revenue & Customs (HMRC) guidelines, the following conditions must apply:

- There has to be an employer/employee relationship.
- The pension scheme must be able to accept employer contributions and be:
  - An occupational or individual pension scheme
  - A group or individual personal pension scheme
  - A stakeholder pension scheme (group or individual)
- The salary sacrifice agreement must apply to future earnings and be in place before the money is sacrificed.

## What are the benefits?

### Benefits to you

- The benefits package you offer your employees is improved.
- Lower salaries mean your NI contributions bill will reduce. You can use part or all of this saving to boost your contribution to your employees' pension scheme.

### Benefits to your employees

They can use salary sacrifice to:

- Increase their pension contribution without affecting their take-home pay; or
- Increase their take-home pay and maintain the same pension contribution.

## Things to consider

Salary sacrifice isn't always suitable for everyone. Here are some of the key points you should think about before setting up a salary sacrifice arrangement.

### National minimum wage (NMW)

By law, employees can't sacrifice their pay below the NMW rates.

### Notional salary

A notional or reference salary is the employee's salary before salary sacrifice. A notional salary can be used, for example, to determine pay increases, overtime rates, sick pay, etc. You should make it clear to your employees which salary will be used when calculating benefits.

Please note that this guide only covers personal pensions and not occupational pensions (for example, AMT and own trust).

### Employees who are off work

Even if the employee doesn't get sick pay or maternity pay, you may have to continue with their pension contribution, depending on the terms of their contract of employment.

### Administration

Salary sacrifice creates extra administration, which can incur a higher cost, but you could use some or all of your NI savings to cover this. Your payroll administration may be affected, as payslips will need to be updated.

## Employee considerations

Before entering a salary sacrifice arrangement, your employees should think about:

- Whether the amount of salary they exchange moves them from a higher to lower tax band.
- Any benefits that are linked to their salary, including death benefits, redundancy payments, overtime rates, especially if these will be based on their post-sacrifice salary.
- The potential impact on any statutory benefits – a reduced salary may adversely affect some statutory benefits (for example, maternity pay), but could improve others (for example, child benefit).
- When they can make changes to a salary sacrifice arrangement (normally once a year).

## Setting up the arrangement

### Step one – understanding salary sacrifice

For information to help promote salary sacrifice to employees, visit [aegon.co.uk/support/faq/understanding-our-products/workplace-pensions/what-is-salary-sacrifice.html](https://aegon.co.uk/support/faq/understanding-our-products/workplace-pensions/what-is-salary-sacrifice.html)

## Salary sacrifice calculator

We've developed our salary sacrifice calculator especially for the corporate market. It allows you to perform bulk and member-level calculations, and create member-level letters and illustrations. The letters can be used to sign members up to the arrangement.

The two quote options for Aegon's bulk calculator are:

1. Keep the net take home pay the same – this allows the individual to keep their same net take home pay and increase the pension contribution by sacrificing some of their gross salary.
2. Keep the pension contribution the same – this allows the individual to keep the same pension contribution and increase their net take-home pay by sacrificing some of their gross salary.

### When's the right time to look at salary sacrifice?

Salary sacrifice can be set up at any time. For example:

- You could introduce it when a new pension arrangement is set up.
- When the accounting year-end is approaching, you could include salary sacrifice in your financial plan.
- You could consider it if you are planning salary increases or profit-related bonuses.
- If you have key employees (such as directors or high earners), they may be more receptive to this idea.

## How it works

This example shows how a salary sacrifice arrangement might affect both you and an employee.

Salary sacrifice is being used to increase the pension contributions while maintaining the same take-home pay. Let's assume the employee is a 25 year-old basic rate taxpayer, living in England, and earning £24,000 a year.

Before salary sacrifice you both contributed 5% of their salary to the pension scheme (£1,200 each). If paid into a personal pension scheme, the employee's contribution will be £960 as it will be deducted from net pay – the government tops up the employee's contribution by 20%.

## After salary sacrifice

Using salary sacrifice, the employee agrees to exchange £1,333.33 and you agree to pass on 100% of your NI savings.

### The result

By reducing their gross salary, the employee reduces their tax and NI contributions. Coupled with your NI savings which have been passed on, they've increased their pension contribution from £2,400 to £2,717.33. That's an extra £317.33 a year paid into their plan without reducing their take-home pay or costing you any extra.

### Maintaining pension contribution and increasing take-home pay

If the employee instead chooses to exchange £1,200 of their salary, their and your NI savings will go towards increasing their take-home pay.

Our bulk salary sacrifice calculator covers all of the options available.

### Step two – signing members up

It's important that the arrangement is documented in writing as it constitutes a change to the original contract of employment. You must keep copies of all letters for legal purposes. Although it's no longer necessary to report sacrifice cases to HMRC, it may ask for copies of formal documentation at a later date.

### Step three

You make the appropriate adjustments to the employee's salary, National Insurance and PAYE contributions.



### Here's how it works for the employee:

	Before sacrifice	After sacrifice
Employee gross earnings	£24,000	£22,666.67
Income tax	£2,286	£2,019.33
NI contributions	£914.40	£807.73
Gross earnings less tax and NI contributions	£20,799.60	£19,839.60
Deduct current pension contribution (net of tax)	£960	
Net disposable income	£19,839.60	£19,839.60

### Here's how it works for you:

	Before sacrifice	After sacrifice
Employee gross earnings	£24,000	£22,666.67
Employer NI contributions	£2,056.20	£1,872.20
Employer pension contributions	£1,200	£2,717.33 (your contribution + employee's salary exchange + your NI saving)
Cost of employee to employer	£27,256.20	£27,256.20

Tax year 2024/25

### Next steps

For more information on salary sacrifice, you can get details on the HMRC website –

[gov.uk/guidance/salary-sacrifice-and-the-effects-on-pay](https://gov.uk/guidance/salary-sacrifice-and-the-effects-on-pay)

**If you have a new or existing pension scheme and are interested in salary sacrifice, speak to a financial adviser. If you don't have a financial adviser, you can visit [moneyhelper.org.uk/choosing-a-financial-adviser](https://moneyhelper.org.uk/choosing-a-financial-adviser) to find the right one for you.**

This information is based on our understanding of current taxation law and HMRC practice, which may change.

To use our bulk salary sacrifice calculator, visit [aegon.co.uk/adviser/supporting-your-business/resources/tools/bulk-salary-sacrifice](https://aegon.co.uk/adviser/supporting-your-business/resources/tools/bulk-salary-sacrifice)



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