



Salary Sacrifice Pension Factsheet & FAQs

In light of the Employer National Insurance increases effective from April 2025, salary sacrifice pension schemes are becoming increasingly popular for employers as an option to reduce costs. However, care must be taken when considering if this is the right option for you and for your employees.

What is a salary sacrifice pension?

A salary sacrifice pension, sometimes known as a salary exchange, is an arrangement whereby the employee agrees to a reduction in their salary, and in turn, the employer will pay the employees higher pension contributions.

This is a tax-efficient way for your employees to make contributions to their pension with the added benefit of both the employee and employer paying less National Insurance contributions.

Who is entitled to a salary sacrifice pension?

Employers can implement a salary sacrifice pension scheme, providing the employee has agreed to it and there is a contractual agreement in place to reflect the scheme change.

Due to salary sacrifice arrangements reducing the employee's pay, it is the post-salary value that will be considered for National Minimum Wage (NMW) compliance, with the NMW rates going up, there is an increased risk of non-compliance, therefore, it is important that employers consider this before embarking on a salary sacrifice pension scheme.

Can the employer decide who will be entering into a pension salary sacrifice scheme?

If the salary sacrifice scheme is the employer's only auto-enrolment pension scheme, then all eligible employees will be auto-enrolled into the scheme.

However, if an additional auto-enrolment salary sacrifice scheme is introduced alongside existing arrangements, employers must obtain employees' consent before enrolling them in the new scheme.

Where the salary sacrifice scheme is a private pension scheme, the employer would need to decide which employees are eligible to join.

Please note: Where private pension schemes are in place, an auto-enrolment scheme will need to be in place alongside it to ensure as an employer, you are fulfilling your automatic enrolment duties.

Do all pension providers offer the option of a salary sacrifice scheme?

No, they do not, so it is best to check with your provider before any contractual agreements are created. If your existing provider does not offer a salary sacrifice option you can look at alternative provider, however, we would recommend you seek the relevant pension advice.

What would your payroll contact need to process your salary sacrifice pension through the payroll?

We will need confirmation of:

- The pension scheme reference number
- To know whether the scheme is to replace your existing Automatic Enrolment scheme or in addition to the existing scheme.
- If the pension scheme is automatic enrolment or a private scheme.
- The percentage of Employer NI savings being contributed in to the employees pension (if applicable).
- The contribution amount (fixed or percentage).

Please note: If it is a fixed value, it must be a minimum total of eight per cent to be automatic enrolment compliant.

What are the benefits of salary sacrifice pension scheme?

There are several benefits, the main one being everyone pays less tax. Other benefits include:

- Employees and employers can pay the tax savings into the employee's pension pot.
- Employees can increase their net pay.
- National Insurance savings for both the employee and employer.
- Cost savings for employers which can be reinvested back into the business.

How to make sure salary sacrifice is right for you as an employer

Salary sacrifice will not always be the best option for you and so there are some points to consider before making your decision and setting up the scheme.

- **Lower salary for employee:** Employees will be receiving a lower gross pay which could impact on their borrowing ability on mortgages or loans, as well as less cover on earnings based life insurance policies.
- **Employee statutory pay entitlement not met:** A salary sacrifice could mean employees average earnings in the relevant period fall below the limit and therefore prevent them from being entitled to statutory payments such as statutory maternity pay and statutory sick pay through the payroll.

- **Statutory pay costings:** If an employee were to commence statutory maternity leave and be entitled to pay through the payroll, a salary sacrifice cannot be deducted from the statutory pay element meaning the total contribution becomes payable by the employer.
- State pension may be affected if the employee's salary falls below the level at which they pay National Insurance contributions.
- If an employee opts out of an auto-enrolment salary sacrifice within one month and a refund is due, employers will need to make an adjustment to pay back the NIC saving (as the saving in NIC only applies if their money remains in a pension).
- **NMW restriction:** The post-sacrifice salary value will be considered for NMW and so it is essential for employers to take care when enrolling employees into a salary sacrifice scheme. Employees who have earnings at, or close to the NMW will therefore be unable to take advantage of a salary sacrifice scheme.

Pension advice

If you are considering a salary sacrifice pension scheme, but require some advice please be aware that Smailes Goldie Financial Management can offer Pension advice and support to help you make the right decision for your business.

If you need any further assistance or have more questions on this subject, please don't hesitate to contact our team for support.