



Salary Sacrifice for pension contributions

Boost your savings while your employees boost their pension

As an employer, you can make substantial savings by offering your employees a salary sacrifice pension arrangement.

How it works

Instead of employees making an employee pension contribution, they elect to receive a lower gross salary, so reduce their liability to tax and national insurance. You, as the employer will reduce your employer's NI liability but will make an increased contributions to your employees' pensions

You can save up to 13.8% on your NICs on the amount sacrificed by each of your employees. With these savings, you can choose to make additional contributions to your employees' pensions or retain it for your own business or a mixture of the two.

Salary sacrifice in action

Let's say a company has 20 employees earning an average salary of £40,000 a year and they all opt into salary sacrifice. This assumes the employee has an auto-enrolled gross pension contribution of 5% and employer pension contribution of 3%.

After salary sacrifice, this company could potentially save in the region of £13,564.80 per year (20 x annual £678.24 saving per employee). Employees no longer make the 5% contribution and effectively the company makes the whole pension contribution of 8% on their behalf.

The table below illustrates the savings which can be achieved in circumstances where the salary sacrifice is set at a level where the employee's net salary does not change.

	Basic rate taxpayer earning annual salary of £40,000	Current auto-enrolment situation	Salary sacrifice situation
Employee (monthly)	Gross monthly salary	£3,333.00	£3,136.86
	Tax	£458.12	£418.80
	NIC	£313.64	£290.14
	Pension (5% gross)	£133.32	
	Net monthly salary	£2,427.92	£2,427.92
Employer (monthly)	Employer NIC	£360.69	£333.66
	Employer pension contribution	£100.00	£266.65*
Salary Sacrifice saving comparison	Monthly cost to employer	£3,793.69	£3,737.17
Annual summary	Total annual pension contribution from employer and employee	£3,199.80	£3,199.80**
	Annual employer saving	N/A	£678.24

*Includes the employee minimum pension contribution of 5%, and the employer's statutory pension contribution of 3%.

**Includes the amount sacrificed and the employer contribution.

In this example, the net salary and the total pension contribution are unchanged after the salary sacrifice to illustrate the maximum saving to the employer. In practice most employers will use some of their saving to make additional contributions to the pension scheme so the salary sacrifice scheme also benefits the employee.

Your employee salary sacrifice scheme

Points for you to consider include:

1. What pension plan do you have in place?
2. How many eligible employees do you have?
3. How much do you stand to save?

How Kingston Smith can help

Employers and employees alike often misunderstand how a salary sacrifice scheme works. It is often thought that the employee loses out on take-home salary in order to increase their pension fund contributions. This is not the case.

We can help you set up a salary sacrifice arrangement, if you do not have one in place. We can guide you through the salary sacrifice process, from preparing the appropriate documentation (providing examples of the savings and benefits), contractual agreements, communications and holding Q&A workshops with your employees, as appropriate.

Although these arrangements are optional, we find that once the scheme is explained to employees, the take-up rate is very high.

If you would like to speak to an adviser to explore this further, please contact a member of the team for a no-obligation chat.

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