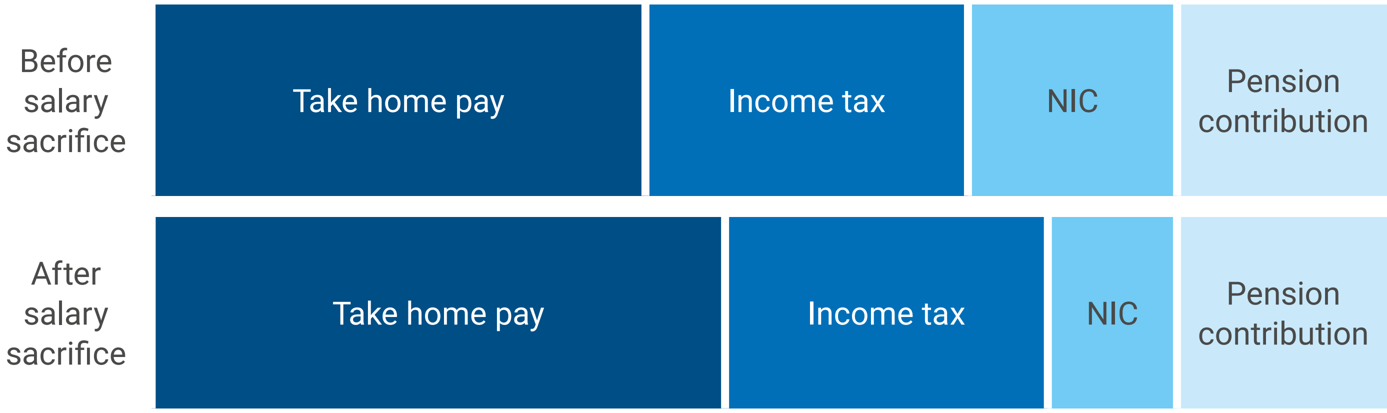
Standard ‘salary sacrifice’

We’ve put this guide together to help you understand what is meant by ‘standard’ or ‘simple’ salary sacrifice, how it works and whether it’s right for you.

Salary sacrifice means you can exchange part of your salary in return for a non-cash benefit from your employer. If, for example, the non-cash benefit is a pension contribution, your employer would pay this, along with any contribution they might make, directly into your pension pot.

Because taxable income is reduced, you pay less tax and National Insurance Contributions (NIC), which effectively gives you more take home pay than if normal pension deductions were taken. Standard salary sacrifice is therefore a more efficient way of you paying into your pension. You give up a portion of your salary (agreed with your employer) meaning your basic gross salary has reduced which for most people reduces your NIC as your qualifying salary is lower.

Salary Sacrifice – standard – redirects your NIC savings into your salary, effectively increasing your take home pay. The diagram below helps to illustrate this.



See the examples below of take home pay without pension salary sacrifice and then with standard salary sacrifice:

Without pension salary sacrifice

	Employee Pension Contribution	Employer Pension Contribution	Total Pension Contribution
Gross pay	£25,000	–	–
Tax	£2,486	–	–
NIC	£994.40	–	–
Pension contribution	£1,500	£750 (3%)	£2,250 (9%)
Take home pay (after tax)	**£20,019.60**	–	–

With pension salary sacrifice

	Employee Pension Contribution	Employer Pension Contribution	Total Pension Contribution
Gross pay	£23,500	–	–
Tax	£2,186	–	–
NIC	£874.40	–	–
Pension contribution	Nil	£2,250 (9%)	£2,250 (9%)
Take home pay (after tax)	**£20,439.60**	–	–

Figures shown are based on the 2024/25 tax year. You should be aware that the law and tax rates may change in the future.

The chart below shows how much you could save each year (effectively increasing your take home pay) based on different contribution levels to your pension.

Your annual pension contribution	If you earn between £12,570 and £50,270, you could save	If you earn over £50,270, you could save
£500 a year	£40	£10
£1,000 a year	£80	£20
£3,000 a year	£240	£60
£5,000 a year	£400	£100

Employees pay NIC for the tax year 2024/25 on annual earnings between £12,570 and £50,270 at 8%, and 2% on earnings in excess of £50,270.

If you earn less than £12,570 a year (or £1,048 per month) you don't pay NIC, so you won't make NIC savings through salary sacrifice.

Other benefits of using salary sacrifice may include:

- You could receive an increase in child tax credits.
- You may regain part, or all, of your entitlement to child benefit.
- If you are a higher rate taxpayer, you benefit from immediate higher rate tax relief instead of claiming it from H M Revenue & Customs (HMRC).
- If you earn in excess of £100,000, you may have the chance to regain part, or all of your personal allowance, depending on the size of your salary and the amount you choose to sacrifice.

Is salary sacrifice right for you?

Salary sacrifice is not right for everyone. You should consider the following:

- Your entitlement to state benefits such as statutory sick pay, maternity pay, tax credits and even the State Pension could be reduced.
- The amount that some mortgage and money lenders will be prepared to lend you will be based on your gross earnings. Therefore, salary sacrifice could reduce the amount you can borrow. Check with your employer, as they may use a notional salary (the pre-sacrificed amount) in such a calculation.
- Under HMRC rules, your gross earnings can't fall beneath the national minimum wage as a result of salary sacrifice.
- Your death in service benefits may be reduced (if applicable). Although, such benefits are usually based on your pre-sacrificed salary.
- Any amount salary sacrificed will still count towards your income for determining whether you are subject to the tapered annual allowance.

Please also note:

- Pension contributions through salary sacrifice are treated as employer contributions.
- A salary sacrifice arrangement cannot take you below the national minimum wage. Earnings must not drop below the Lower Earnings Limit or you may lose the right to state benefits.
- Your employer must agree the terms of the arrangement with you before any reduction is made. This must be documented in writing and will require you to sign and date it.
- Legal & General cannot advise you on whether salary sacrifice is right for you. If you're unsure, we recommend you speak to a financial adviser. You can find one in your local area at **unbiased.co.uk**. Advisers usually charge for their services.

Important note

To find out how salary sacrifice may affect you and see if you are likely to benefit from it or not, please visit our salary sacrifice calculator at: **legalandgeneral.com/salary-sacrifice**

Q0039593 04/24 DC002798