We’ve put this guide together to help you understand what is meant by ‘smart’ 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.

SMART (save more and reduce tax) salary sacrifice is a way of paying pension contributions that increases the amount paid into your pension, without reducing take-home pay.

Using this method, you receive the same take-home pay you would have received had you made your pension contribution from your net pay (amount after all deductions including tax and National Insurance Contributions (NIC)), but you’d benefit from an increased pension contribution. This means you give up salary necessary to achieve the same net income as you would have received had you made the same pension contributions to your employer’s company registered pension scheme.

This amount is then paid into your pension as an employer contribution. You and your employer pay less National Insurance. The National Insurance that you save and any National Insurance saving that your employer is willing to pass on is also paid into your pension as an employer contribution.

In other words:

• Your take-home pay will remain the same.
• The total amount contributed to your pension will increase.

For example, if you have a salary of £25,000 and decided to pay 10% of that salary into your personal pension arrangement, the table below shows the benefits of making a pension contribution through SMART.

### Personal contribution

<table>
<thead>
<tr>
<th>Annual salary</th>
<th>£25,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income*</td>
<td>£20,640</td>
</tr>
<tr>
<td>Pension contribution (£2,500 gross)</td>
<td>£2,000</td>
</tr>
<tr>
<td>Take-home pay</td>
<td>£18,640</td>
</tr>
</tbody>
</table>

### SMART contribution

<table>
<thead>
<tr>
<th>Smart annual salary</th>
<th>£22,058.82</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income*</td>
<td>£18,640</td>
</tr>
<tr>
<td>Pension contribution (gross) via salary sacrifice</td>
<td>£2,941.18</td>
</tr>
<tr>
<td>Take-home pay</td>
<td>£18,640</td>
</tr>
</tbody>
</table>

*After income tax and NIC deductions.

As you can see, the way it works means that you end up with the same take-home pay, but because of the NIC and income tax savings, you’d have an additional amount added to your pension. In this case, £441.18 added to your £2,500 gross pension contribution.

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**Important note**

Figures shown are based on the 2020/2021 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 contribution to your pension) based on different annual pay levels.

<table>
<thead>
<tr>
<th>Annual salary (before SMART)</th>
<th>10% contribution (SMART reduction in pay)</th>
<th>Employee NIC saving (plus the related income tax saving)</th>
</tr>
</thead>
<tbody>
<tr>
<td>£15,000</td>
<td>£1,500</td>
<td>£264.71</td>
</tr>
<tr>
<td>£25,000</td>
<td>£2,500</td>
<td>£441.18</td>
</tr>
<tr>
<td>£35,000</td>
<td>£3,500</td>
<td>£617.65</td>
</tr>
<tr>
<td>£45,000</td>
<td>£4,500</td>
<td>£794.12</td>
</tr>
<tr>
<td>£55,000</td>
<td>£5,500</td>
<td>£235.29</td>
</tr>
</tbody>
</table>

Employees pay NIC for the tax year 2020/2021 on annual earnings between £9,500 and £50,000 at 12%, and 2% on earnings in excess of £50,000. If you earn less than £9,500 a year, 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 on the pension contribution 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. Please 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). Again, 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.

Additional information

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, as you may lose the right to State benefits.

• With SMART salary sacrifice, your employer doesn’t need to get your prior consent for the arrangement to go ahead. However, they must communicate this to you, letting you know the scheme start date, and give you sufficient time to opt out.

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

Contact us
For further information, please contact:

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legalandgeneral.com/workplacepensions
legalandgeneral.com/mya

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