



# Pensions briefing

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## Salary Sacrifice Schemes

### Introduction

1. Salary sacrifice refers to any arrangement whereby an employee gives up the right to receive part of the cash pay due under the contract of employment in return for a form of non-cash benefit.
2. While salary sacrifice schemes can operate in respect of a wide range of benefits, such as childcare vouchers or cycle-to-work schemes. This briefing note concentrates on the role of salary sacrifice in pension arrangements.
3. Salary sacrifice schemes for pension contributions are sometimes known as salary exchange schemes, SMART pensions or Pension Plus.

### Benefits of Salary Sacrifice

4. Salary sacrifice allows members and their employer to save on national insurance contributions on the earnings sacrificed.
5. The precise sharing of the savings can depend on different factors; in some cases the employer will pay some or all of their savings into the employee's pension scheme.

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**Research Department**

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6. Clearly the benefit of lower national insurance contributions and potentially higher funding for their pension scheme will lead many members to seriously consider opting into salary sacrifice plans (or not opting out if they are auto-enrolled into one).
7. One of the most important questions to consider in evaluating any salary sacrifice plan is how the national insurance savings enjoyed by members and the employer are used.
8. As an illustration, the table below shows the national insurance savings for members and the employer in a scheme with 5% member contributions in the year 2019-20:

Salary p.a.	Saving on Member NI p.a.	Saving on Employer NI p.a.
£15,000	£90	£103.50
£25,000	£150	£172.50
£35,000	£210	£241.50
£45,000	£270	£310.50
£55,000	£55	£379.50
£65,000	£65	£448.50

9. Savings on members National Insurance are much lower for the highest earners because the marginal rate of employee National Insurance is only 2% rather than the 12% marginal rate paid by those lower down the earnings distribution.
10. While the overall savings vary by earnings level and depend on the level of member contributions, it is clear from the above that overall savings of the order of 1% of payroll can potentially be achieved.

## Issues to consider

11. Before deciding to participate (or remain) in a salary sacrifice scheme, members also need to consider the potential impact on pension benefits and other areas.

- Impact on occupational pension benefits

In defined benefit pension schemes benefits are related to pensionable pay and care must be taken that these remain linked to pre-salary sacrifice levels of pensionable pay rather than the lower post-salary sacrifice level.

- Impact on other benefits

Other benefits, including maternity pay; death benefits; sick pay and redundancy benefits can be earnings-related and may be reduced if linked to post-salary sacrifice pay.

- Low earners

Salary sacrifice schemes can have particular implications for low earners.

Firstly your employer must ensure that salary sacrifice does not reduce cash pay below the National Minimum Wage.

It is important that care is taken with the introduction of the National Living Wage that salary sacrifice schemes do not reduce cash pay below this amount (£8.21 per hour for those over the age of 25 for 19/20) either.

Care should also be taken that salary sacrifice arrangements do not reduce a members' earnings below the lower earnings limit for national insurance contributions (£512 per month in 2019/20). This is because eligibility for a number of state benefits such as state pensions and disability and sickness / illness benefits can depend on having earnings above the lower earnings limit.

- Reported earnings for mortgage applications etc.

Applications for financial products and other arrangements can often rely on members' reported earnings and in such cases it is important that the employer can quote pre-salary sacrifice level earnings to the provider.

- Right to future earnings

Any arrangements should allow members to return to their pre-salary sacrifice earnings level if the salary sacrifice scheme is ever closed.

### **Collective Agreement**

12. Salary sacrifice is about varying employees' terms and conditions as it relates to remuneration. It is, therefore, a matter for agreement between the employer and the employee.
13. It is a matter of employment law, not tax law. HMRC is only concerned that the correct amount of tax and NICs is paid.
14. Salary sacrifice schemes can therefore be initiated by collective agreement. If salary sacrifice schemes are to be compulsory then some form of backing from the members affected is advisable before coming to such a collective agreement. Note that automatic enrolment legislation does not allow employers to make participation in a salary sacrifice scheme a condition of enrolment in a scheme used for automatic enrolment purposes. However, it is possible to make it a condition of employment that contributions are made via salary sacrifice.
15. If the scheme is going to be automatically applicable unless an individual opts out, members should be given at least 6 to 8 weeks' notice to review the option and make a decision.
16. Where employers wish to make salary sacrifice arrangements compulsory they must take steps to ensure that individual employees are not adversely affected.
17. Reps and negotiators being consulted on salary sacrifice arrangements may also want to refer to the following web site:

## Summary

18. Salary sacrifice schemes have clear benefits for members in the form of reduced national insurance contributions.
19. Members can also share in some or all of the benefits of reduced employer national insurance contributions if these are invested in the members' pension scheme.
20. Government formally reviewed the operation of salary sacrifice arrangements and announced in Budget 2016 that:

“the government’s intention is that pension saving, childcare and health-related benefits such as Cycle to Work should continue to benefit from income tax and NICs relief when provided through salary sacrifice arrangements.”

21. Prospect will always seek to negotiate the best possible share of benefits for members and to ensure salary sacrifice arrangements avoid any potential pitfalls that could impact negatively on members.
22. Before deciding to join (or remain in) a salary sacrifice arrangement members should check the issues referred to above.
23. If you have any queries about a salary sacrifice scheme arranged or about to be introduced by your employer please refer to your local Prospect rep in the first instance.