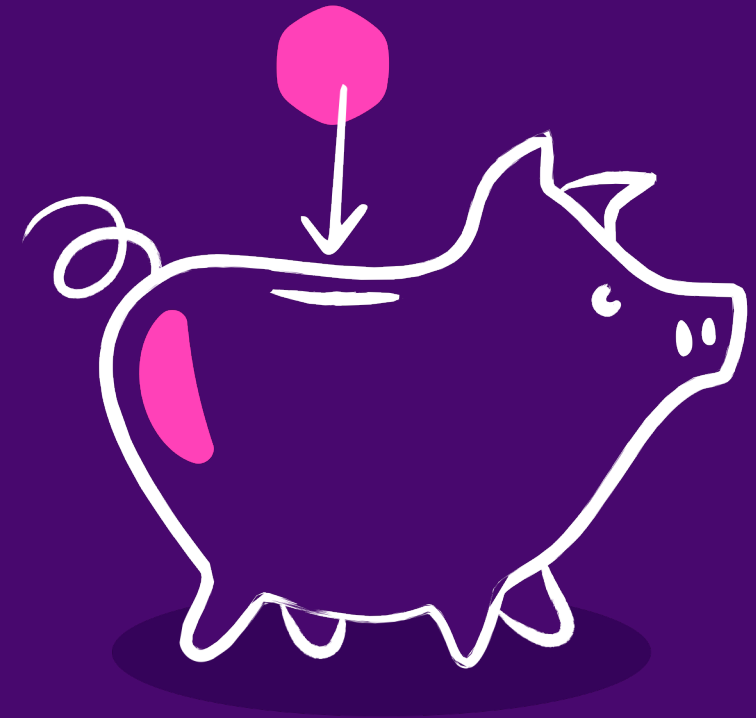


Salary sacrifice

Everything you need to know about exchanging your pay



Build a **feel good** future

What is salary sacrifice?

In a nutshell, it's a different way of contributing to your workplace pension so you pay less National Insurance.

How?

You and your employer agree to contractually reduce your salary by how much you pay into the pension in return for them paying the contribution on your behalf. This means your employer pays ALL your pension contributions.

Why?

The same amount goes into your pension, but you pay less National Insurance because your salary is reduced.

Who?

The benefit of salary sacrifice only applies if you pay National Insurance, so if you don't pay this then salary sacrifice is not likely to benefit you.

Understanding the process

Salary sacrifice only affects your contributions. You will continue to receive employer contributions as agreed.

1

You accept a contractual reduction in your salary which your employer pays directly into the pension scheme.

2

The reduction is on your gross earnings (your total salary before income tax and National Insurance contributions).

3

This means the amount sacrificed is no longer subject to National Insurance, creating more savings for you.

Salary sacrifice in action

Example payslip for a **£30,000 salary** with **5% pension contribution** based on **basic salary**

Example: Emma

Age: 29 | Salary: £30,000

Annual pension contribution: £1,500*

As normal

Basic Rate	2500.00	PAYE Tax	265.50
		National Insurance	116.20
		EE Pension	125.00
		ER Pension	75.00
Total Payments	2500.00	Total Deductions	506.70
		Net Pay	1993.30

With salary sacrifice

Basic Rate	2500.00	PAYE Tax	265.50
Salary Sacrifice	-125.00	National Insurance	106.20
		ER Pension	200.00
Total Payments	2375.00	Total Deductions	371.70
		Net Pay	2003.30

Salary sacrifice in action

Example payslip for a **£30,000 salary** with **8% pension contribution** based on **basic salary**

Example: Emma

Age: 29 | Salary: £30,000

Annual pension contribution: £2,400*

As normal

Basic Rate	2500.00	PAYE Tax	250.50
		National Insurance	116.20
		EE Pension	200.00
		ER Pension	75.00
Total Payments	2500.00	Total Deductions	566.70
		Net Pay	1933.30

With salary sacrifice

Basic Rate	2500.00	PAYE Tax	250.50
Salary Sacrifice	-200.00	National Insurance	100.20
		ER Pension	275.00
Total Payments	2300.00	Total Deductions	350.70
		Net Pay	1949.30

Salary sacrifice in action

Example payslip for a **£30,000 salary** with **5% pension contribution** based on **qualifying earnings**

Example: Emma

Age: 29 | Salary: £30,000

Annual pension contribution: £1,188*

As normal

Basic Rate	2500.00	PAYE Tax	270.70
		National Insurance	116.20
		EE Pension	99.00
		ER Pension	59.40
Total Payments	2500.00	Total Deductions	485.90

Net Pay	2014.10
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With salary sacrifice

Basic Rate	2500.00	PAYE Tax	270.70
Salary Sacrifice	-99.00	National Insurance	108.28
		ER Pension	158.40
Total Payments	2401.00	Total Deductions	378.98

Net Pay	2022.02
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Boosting your savings

Your employer also makes savings. As you've agreed to a contractual reduction in salary, they see a decrease in National Insurance Contributions.

Because employers pay a 15% National Insurance contribution on salaries.

So, if you reduce your salary, they pay less.

We all face financial milestones in the lead up to retirement, whether that be saving for a house deposit, building an emergency fund or saving pots for your children.

By choosing salary sacrifice, you can now continue to save for retirement AND build up your savings for the interim.

This means, with salary sacrifice you can:

- Continue saving for retirement
- Increase your monthly take-home pay
- Get extra savings towards your more immediate goals

What to consider

Does this apply?

Lower Earnings Limit (LEL)

The LEL for 2026/27 is £120 per week or £6,240 per annum.

Salary sacrifice reduces the earnings assessed for National Insurance Contributions, and this may hinder your entitlement to certain State Benefits and Statutory Payments (such as Statutory Sick Pay) if you earn below the LEL may be hindered. If you think this may affect you, salary sacrifice may not be an efficient way to pay into the pension.

National Minimum Wage (NMW)

The government sets a minimum hourly pay rate for UK employees.

Employers must ensure all employees are paid the NMW or more. Salary sacrifice reduces your earnings, so it will not be suitable if you earn at or close to the NMW.

What to consider

Life events

Mortgage applications and other lending

Commonly, earnings are used when being assessed for mortgages and other types of lending. Salary sacrifice reduces total earnings, so could result in being able to borrow less.

However, many lenders are prepared to take account of your earnings before any salary sacrifice (called Reference Pay).

Maternity pay

Earnings after any salary sacrifice will be used to determine Statutory Maternity Pay (SMP).

Short term: Salary sacrifice may reduce the amount of SMP payable. Typically, but not always, this will only affect payments in the first 6 weeks of Ordinary Maternity Leave. Reduction is likely to be small.

Long term: During paid statutory leave, your employer must maintain pension contributions at pre-leave levels. With salary sacrifice, the full contribution continues (not just the employer portion), whereas without it only employer contributions are required.. There is a potential short-term disadvantage but also a potential long-term advantage and both should be considered on a personal situation basis.

What to consider

Not paying NI already?

Primary Threshold (PT)

The PT from 2026/2027 is £242 per week or £12,570 per annum.

If you earn less than the threshold (or would after taking into account salary sacrifice) then you don't pay National Insurance contributions regardless, so salary sacrifice does not carry the same impact and savings opportunity.

State Pension Age (SPA)

Once you are older than the SPA you don't normally pay any National Insurance Contributions and therefore you won't get National Insurance savings by using salary sacrifice.

If you voluntarily continue paying NICs after SPA, in order to make up a shortfall in your NIC record for State Pension, you can continue to get savings by using salary sacrifice.

What to consider

Statutory Sick Pay (SSP)

Please refer to the LEL section.

During a period of SSP employers should maintain payment of pension contributions - if you use salary sacrifice the total contribution is payable by the employer so will be higher than if they were only responsible for theirs.

Statutory Redundancy Pay (SRP)

You are only entitled to SRP once you have been employed by the same employer for 2 years or more. SRP is based on taxable earnings (up to a maximum weekly amount). If taxable earnings after salary sacrifice are less than the maximum weekly amount, it may reduce the amount of SRP entitlement upon redundancy.

The effect of any reduction is likely to be small but this potential loss of benefit should be considered.

Working and Child Tax Credit

Taxable earnings are one of several factors that affect the level of any Tax Credit you may be entitled to. As salary sacrifice reduces taxable earnings, the Tax Credit you are entitled to may go up, providing a direct benefit of using salary sacrifice.

Build a feel good future

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