

SALARY SACRIFICE INFORMATION SHEET

HARGREAVES
LANSDOWN

(also known as salary exchange/salary conversion/SMART)

1. WHAT IS SALARY SACRIFICE?

Salary sacrifice is a way of making pension contributions which reduces the National Insurance (NI) you pay. Instead of contributing from your net pay (after tax and NI), you agree to reduce your salary and have the equivalent 'exchanged' amount paid into your pension as an additional employer contribution. For simplicity we refer to the amount you exchange as your contribution.

2. HOW DO I BENEFIT?

a. No employee NI is payable on your contribution

Because the amount you exchange is made as an employer contribution, it is not subject to NI. This means it costs you less than contributing from your net pay, as shown in the example below.

b. No income tax is payable on your contribution

You immediately save income tax up to the highest rate you pay, avoiding the need to reclaim further tax relief from HM Revenue and Customs (HMRC).

3. HOW DOES IT WORK?

The example below shows how salary sacrifice works for a basic-rate taxpayer, based on a salary of £25,000, a personal contribution of 5% and an employer contribution of 3%.

EXAMPLE 1

What goes into the pension each month...

Your contribution	£104.17
Employer's contribution	+ £62.50
Total invested in pension	= £166.67

What it costs you...

Your contribution	£104.17
Your income tax saving (20%)	- £20.83
Your NI saving (8%)	- £8.34
Effective net cost	= £75

The equivalent contribution would cost £83.34 if it were deducted from your net salary, as the NI would have been paid in full.

The income tax and NI savings shown apply to basic rate taxpayers. The exact amount you receive depends on your individual circumstances and the tax rules are subject to change.

Example 2 shows how salary sacrifice works for a higher rate taxpayer, based on a salary of £60,000, a contribution of 5% and an employer contribution of 3%.

EXAMPLE 2

What goes into the pension each month...

Your contribution	£250
Employer's contribution	+ £150
Total invested in pension	= £400

What it costs you...

Your contribution	£250
Your income tax saving (40%)	- £100
Your NI saving (2%)	- £5
Effective net cost	= £145

Savings for a Scottish higher rate taxpayer will be different.

The equivalent contribution would effectively cost you £150 if deducted from your net pay. But you would need to claim back the higher rate tax relief of £50.

The income tax and NI savings shown in example 2 apply to higher rate taxpayers. The exact amount you receive depends on your individual circumstances and the tax rules are subject to change.

4. WILL SALARY SACRIFICE AFFECT MY FUTURE SALARY AND COMPANY BENEFITS?

Your future salary and company benefits will not be affected by salary sacrifice. Your employer will confirm your new revised salary, the amount you have agreed to exchange and your salary before salary sacrifice. Your salary before salary sacrifice will continue to be the basis for calculating future pay reviews and most benefits.

5. IF I TAKE UP SALARY SACRIFICE NOW, CAN I CHANGE MY MIND LATER?

This may be possible. Please speak to your employer for more details.

6. DOES THE REDUCTION IN SALARY HAVE ANY KNOCK-ON EFFECTS?

Please consider the following issues before taking up salary sacrifice, however this list is not exhaustive. If you could be adversely affected or are at all unsure, you should seek financial advice.

a. State benefits: State benefits, such as Statutory Maternity Pay and some tax credits, will be based on your revised salary.

b. HMRC thresholds: If you earn below the primary threshold (please refer to the HMRC website for a definition of this) you will not make any NI savings by using salary sacrifice. If you do not pay income tax, using salary sacrifice instead of making contributions from net pay will not save you tax and you may lose out on tax relief. If you are a Scottish starter rate taxpayer, using salary sacrifice instead of making contributions from net pay will mean you save up to 19% tax instead of obtaining 20% tax relief.

Continued overleaf...

c. Annual allowance: Your annual allowance could be affected by switching from tax relieved employee contributions to employer contributions derived from salary sacrifice. This is because your employee contributions will no longer be reducing your threshold income and salary sacrifice doesn't reduce threshold income. However, this should only be an issue if it increases your threshold income above £200,000 (see 'Important information about pension allowances' below).

If you may be affected this could be an important consideration if you are considering starting, renewing or increasing a salary sacrifice arrangement. For more details, please contact the HL pensions helpdesk on 0117 314 1795.

d. Student loans: Repayments may reduce or stop if your salary falls below the repayment threshold, meaning it will take longer to repay your loan.

e. Other issues: A reduction in salary could affect mortgage and credit applications and the maximum cover available on life and health insurance policies.

f. Tax relief: Please note that if you pay tax at a rate higher than basic rate and currently reclaim tax relief on pension contributions via a method other than Self-Assessment i.e. through your tax coding, we would recommend you contact HMRC and notify them that you will be participating in a salary sacrifice arrangement and reclaiming tax relief through payroll. This will help to avoid underpaying tax in this respect.

7. WHAT'S THE ALTERNATIVE?

If you do not wish to participate in salary sacrifice, contributions will instead be deducted from your net pay (after tax and NI). This means contributions are deducted directly from your salary and sent to your pension provider. Basic rate tax relief is then added and you would need to claim back any further tax relief from HMRC.

8. IMPORTANT INFORMATION ABOUT PENSION ALLOWANCES

Most people can contribute as much as they earn into a pension each year and get tax relief at up to their highest rate, however both annual and lifetime limits apply.

Annual allowance: For most people, a £60,000 contribution limit applies for the 2025/26 tax year. If you were in flexible drawdown prior to 6 April 2015, or have flexibly accessed money in a money purchase pension since 5 April 2015 (e.g., taken income from flexible drawdown or as an UFPLS) contributions to money purchase plans are restricted to £10,000

If your **threshold income** is over £200,000 then your annual allowance will be reduced by £1 for every £2 that your **adjusted income** is over £260,000; to a minimum annual allowance of £10,000.

Please note that the government has confirmed a new £2,000 cap on salary sacrifice which will come in from April 2029. This means that from then, both employer and employee National Insurance will be payable on contributions into your pension above £2,000 per year which are funded by salary sacrifice.

Threshold income is, broadly, all taxable income plus salary sacrificed for pension contributions on or after 9 July 2015 minus personal or employee (not via salary sacrifice) pension contributions.

Adjusted income is, broadly, all taxable income (including sources of income outside of your employment, e.g. rental income) plus employer pension contributions (including via salary sacrifice) plus some benefit accrual in defined benefit, e.g. final salary pension schemes.

If you think you may be affected by any of the above, please contact HL's pensions helpdesk on 0117 314 1795 or email invest@hl.co.uk. You can also request a copy of the 'Annual allowance and carry forward' and 'Tapered annual allowance' factsheets or download them from www.hl.co.uk.

IMPORTANT NOTES: This document is provided solely to help you to make your own decisions and should not be seen as personal advice. Should you have any doubts about the suitability of salary sacrifice for your circumstances you should seek personal financial advice.

This information sheet is based on our understanding of current and draft legislation and practice effective from 2 December 2025, and government announcements. The exact amount you receive depends on your individual circumstances and tax rules are subject to change. Your right to participate in, and the effectiveness of, this salary sacrifice arrangement is subject to legislation and the rules of your employer's pension plan. Your employer reserves the right to suspend the salary sacrifice in respect of any employee.

Using salary sacrifice means you agree to reduce your contractual salary and will mean a change to your terms and conditions of employment.

Subsequent changes to contribution levels are subject to approval by your employer. If your salary changes while you are a member of the company pension, the amount of salary sacrifice will also change pro-rata. This will be reflected in your payslip following your salary change.

If you have any questions about salary sacrifice or your pension scheme in general, please contact HL's pensions helpdesk on 0117 314 1795.