Salary sacrifice checklist

Thinking about setting up a salary sacrifice (salary exchange) arrangement?
Use our below checklist to help you make sure you've got everything covered.

Contribution checks

- Make sure your employees' payslips show the amount of salary sacrificed. It's important to check with your payroll provider if your software can record the change.

- Set up minimum wage limits in your Online Services account and reminders to check your employee data.

- Make sure your contributions are paid to us as an employer contribution, this prevents:

   - HM Revenue & Customs (HMRC) receiving the incorrect amounts
   - Incorrect contributions and tax being added to your employees' pensions
   - Delays due to correcting mistakes

- Record any other salary sacrifice arrangements you have in place. This includes anything like a 'cycle to work' scheme. These other arrangements should be based on the employee's 'reference salary' (the amount you pay your employees before salary sacrifice).

Statutory Sick Pay

- Make sure your salary sacrifice arrangement explains what happens while an employee is receiving Statutory Sick Pay.

- You must pay Statutory Sick Pay in full.

- As Statutory Sick Pay is a qualifying earning, your employer contribution can be paid based on actual earnings.

Maternity leave and paternity pay

- Make sure your salary sacrifice arrangement is compliant with employment and tax law.

- While an employee is on maternity or paternity leave, their Statutory Maternity Pay or Paternity Pay and your pension contributions should be based on their gross salary, before parental leave.

- Make sure you document your policy for both maternity and paternity leave.

Key documents

- Make sure you've sent your employees a communication about the following:
    - Their salary (before and after salary sacrifice)
    - The pension contributions you'll pay on their behalf
    - How 'reference salary' will work with variable pay and statutory pay

- Download our letter template to send to employees when you're choosing salary sacrifice as your default arrangement and need to give them the option to opt out of salary sacrifice.

- You should keep a record of the following:
    - A written agreement that notes your employees' salary reduction
    - The salary sacrifice on your employees' payslips
    - Pension contribution files that confirm your employer contributions

Things to remember

- Keep clear records of reference salaries.

- Make sure you adjust for changes in pay.

- Double check your Statutory Sick Pay.

- Make sure salary sacrifice doesn't reduce your employees' salary to below the National Minimum Wage.

- Double check your contributions are correct (especially if you're choosing to pay your business's National Insurance contributions into your employees' pensions instead).

Frequently asked questions

Do I need to tell HMRC about my salary sacrifice arrangement?

No, you don't need to tell HMRC. Salary sacrifice involves changing an employee's contract to benefit from tax savings and is an agreement between you and applicable employees.

You only need to set up a 'Salary Sacrifice' worker group in your Online Services account and update your payroll. You can, however, speak with HMRC to make sure you're applying the correct tax for this arrangement.

Can I choose salary sacrifice as my workplace pension's default?

Yes, you have the option to set up a salary sacrifice arrangement as your pension scheme's automatic default option for all your employees. If you do, unless it's explicitly stated in their employment contract beforehand, all new employees hired by your company will automatically be included in this arrangement.

If you choose not to do this, you'll need to amend your employees' contracts with an agreement letter or opt-out form, depending on whether they wish to utilise salary sacrifice or not.

Need help setting up your worker group on salary sacrifice? Download our guide: peoplespension.co.uk/workergroup

For more information about salary sacrifice, read our employer guide: peoplespension.co.uk/salarysacrifice