# Could you save more towards your future?

Increase your pension contributions
with salary exchange.

## What is salary exchange?

It's an arrangement, set up by your employer, where you agree for your salary to be reduced by the same amount of money you'd normally contribute into your pension. Your employer then pays your total contributions – including their employer contributions – into your pension.

You might sometimes hear it called 'salary sacrifice'.

## What are the benefits?

It gives you the opportunity to save on tax and pay more into your pension.

As you exchange some of your gross salary (the amount you receive before tax) to go into your pension, you pay less income tax and National Insurance contributions. This means you'd take home more money than you normally would. You can then choose to keep this extra take-home pay or make additional contributions into your pension – giving it a boost.

Before your employer can offer this arrangement, they'll need to change the terms of your employment contract. If you choose to go ahead with salary exchange, they'll normally send you an agreement letter, but if you don't want to, they'll send you an opt-out form or letter.

Once they've set up this arrangement, your pension contributions will show up on your annual statement as employer contributions.

## Let's look at an example

The table below shows how much an employee could get if they paid their contributions through salary exchange. When your employer set up their workplace pension with us, they needed to choose one of two ways for you to get tax relief. This could have been as 'relief at source' or 'net pay', so we've shown examples for both.

**Good to know:** Net pay is when your pension contributions are taken from your pay before your wages are taxed. Relief at source is the other way round, so your pension contributions are taken from your pay after your wages are taxed. In the table below, 'NIC' stands for National Insurance contributions.

**The figures we've shown are based on:**

- The 2025/26 tax year
- An employee earning £30,000 a year (before tax)
- An employee contributing 5% into their pension

| | Relief at source | Net pay | Salary exchange |
|---|---|---|---|
| **Gross annual salary** | £30,000 | £30,000 | £30,000 |
| **Employee pension contribution** | N/A | £1,500<br>Deducted before income tax and after NIC | £1,500<br>Deducted before income tax and NIC |
| **Total taxable salary** | £17,430 | £15,930 | £15,930 |
| **Income tax paid** | £3,486 | £3,186 | £3,186 |
| **Employee NIC** | £1,394 | £1,394 | £1,274 |
| **Employee pension contribution** | £1,200<br>Deducted after income tax and NIC (net of 20% tax relief) | N/A | N/A |
| Additional take-home pay | N/A | N/A | £120 a year (10 a month) |
| **Net annual salary** | £23,920 | £23,920 | £24,040 |

You'll notice in the above example that with salary exchange, the employee's pension contributions are taken before income tax and National Insurance contributions are worked out. This means the employee pays less tax and National Insurance contributions as they're based on a lower salary.

Because of this, the employee's take-home pay increases by £120 a year (or £10 a month). This extra money can be used to top up their pension for retirement.

## Is it right for me?

It might be, but there are some things you should think about before going ahead:

- If your take-home pay is lower through salary exchange, it might lower the amount of money you can borrow on loans and mortgages, plus lower any life cover you have. However, some lenders will take salary sacrifice into consideration.
- If your salary falls below the level at which you'd pay National Insurance contributions, this could impact your entitlement to state benefits. For example, Statutory Maternity Pay, Statutory Paternity Pay and the State Pension.
- A salary exchange arrangement is only available if it doesn't reduce your salary to below the National Minimum Wage. (Discover more about this on the government's website: www.gov.uk/national-minimum-wage-rates).
- Any tax savings you might get from a salary exchange arrangement will depend on your personal circumstances.
- If you pay a higher rate of income tax, this arrangement may affect your tax code and change the amount of income tax the government collects under Pay As You Earn (PAYE).
- If you earn more than £260,000 with a tapered annual allowance, you might have to pay additional tax charges. Please visit gov.uk/guidance/pension-schemes-work-out-your-tapered-annual-allowance for more information.

If you decide to not go ahead with a salary exchange arrangement, you (and your employer) will continue to pay your contributions into your pension as usual.

## Still unsure?

Find out more about salary exchange on the MoneyHelper website. Visit: moneyhelper.org.uk

Or you could speak to a financial adviser (please note, they might charge for their service). You can find a financial adviser on the Unbiased website. Visit: unbiased.co.uk

**People's Administration Services Limited**
Manor Royal, Crawley, West Sussex, RH10 9QP. Tel 0300 2000 555. www.peoplespartnership.co.uk

Registered in England and Wales No. 2207140. People's Administration Services Limited is authorised and regulated by the Financial Conduct Authority. Ref: 122787. It acts as a distributor of, and an administrator for, pensions (including The People's Pension), accident and death insurance and a range of financial welfare products. To help us improve our service, we may record your call.

NO GD 0007.0625