

Salary sacrifice

A quick guide for Employers

With people living longer than ever before, your employees' pension savings will need to go a long way to provide for a comfortable retirement. By encouraging your employees to pay into their pension plans through salary sacrifice, you can help boost their retirement investment whilst minimising some of the costs you incur as an employer.

Salary sacrifice cannot be used to take an employee's salary below the national minimum wage. This means that you can't use salary sacrifice for an employee, in order to increase their pension contributions, if they are already being paid the national minimum wage or it will take them below that level.

Please remember the value of your employees' pensions can go down as well as up, so they could get back less than is paid in.

What is salary sacrifice?

Salary sacrifice is an arrangement through which your employees agree to reduce their salary or bonus in exchange for a pension contribution paid by you, their employer. This will involve a change to your employees contract of employment, and as such we recommend you take advice from an employment law specialist before setting up a salary sacrifice arrangement.

How does it work in practice?

To see how salary sacrifice might affect your employees' salaries and pension payments we'll look at an example case, that of John Smith. John is paid an annual salary of £20,000. He pays £1,000 (gross) into his pension plan each year and his payments are matched by his employer, taking his total pension payments for the year to £2,000.

- With salary sacrifice, John could stop making payments himself and agree to 'sacrifice' £1,000 of his salary for a pension payment paid by his employer.
- John's employer would reduce his salary to £19,000 and pay the 'sacrificed' amount (£1,000) into his pension plan, along with the £1,000 they already pay on his behalf.

	Before salary sacrifice (£)	After salary sacrifice (£)
Salary	20,000	19,000
John's pension payment	1,000	0
Employer pension payment	1,000	2,000
Total pension payment	John will pay lower NICs on his reduced salary which will increase his take home pay. Or, John could choose to sacrifice slightly more salary in order to increase his total pension payments and keep his take home pay the same	

What are the benefits?

For the employer

As an employer, you'll pay lower National Insurance contributions (NICs) on your employees' reduced salaries.

As an example, and to get an idea of the amount you stand to save, simply multiply the amount your employees pay into the scheme (which, in this example, is the amount we are assuming your employees are exchanging) by the current employer NIC rate of 15% for the 2025/26 tax year.

Average annual employee payments (gross amount)	£1,500
Number of scheme members	100
Total	£150,000
Employer NIC rate	x15%
Your annual saving	£22,500

You are free to choose how to use any employer NIC saving. One way to increase scheme take up would be to redistribute some or all of your NIC saving to your employees to supplement their pension provision.

For the employee

Your employees may pay lower NICs on their reduced salaries. The saving can be used to either:

- increase their pension payments and keep take home pay the same
- keep the overall pension payment the same and benefit from increased take home pay.
- increase both their pension payments and take home pay.

Our **technical guide to salary sacrifice** has explanations on the different ways of setting up a salary sacrifice arrangement.

Some things to bear in mind

If you're considering setting up salary sacrifice as a way for your employees to make pension payments, there are some things you need to be aware of. These relate to two key changes:

- **A reduction to your employees' annual pre-tax salaries**
- **Changes to your employees' contracts of employment.**

Both have implications for you and your employees. Depending on their circumstances, salary sacrifice may not be appropriate for all employees.

You can find a list of issues to consider in our technical guide to salary sacrifice. Some key points are listed below:

- Your payslips will need to display the amount of salary sacrificed.
- HM Revenue & Customs take an interest in how tax and national insurance contributions are affected and they have published a full set of salary sacrifice guidelines on their website ([gov.uk/guidance/salary-sacrifice-and-the-effects-on-payee](https://www.gov.uk/guidance/salary-sacrifice-and-the-effects-on-payee)). We've summarised the main points in our technical guide to salary sacrifice.
- Your employees' entitlement to statutory benefits and other salary related benefits may be affected by their reduced gross salaries and you'll need to make your employees aware of how they may be affected (the relevant benefits and potential impacts are listed in our member guide).
- You may want to retain a notional salary for your employees (this is the salary before sacrifice). By doing so, employees' pre-sacrifice salaries may be taken into account by mortgage lenders, and when entitlement to other salary related benefits is calculated.
- As previously stated, salary sacrifice cannot be used to take an employees salary below the national minimum wage.

This is based on our understanding of current tax laws. These laws and our understanding of them may change in the future. Tax treatment will depend on the individual circumstances of each employee and may be subject to change in the future.

Auto-enrolment

Salary sacrifice doesn't work seamlessly with the auto-enrolment process. Employers can't make an agreement for salary sacrifice a pre-condition for auto-enrolment. However, employers can choose to operate salary sacrifice before or after the auto-enrolment process or use it as an alternative contribution basis to a default, unreduced, basis. Alternatively, employers can look into amending contracts of employment to have the same effect as salary sacrifice, and also dealing with many aspects of their initial auto-enrolment duties in the same way. Employers may need to take expert advice on the way their contracts would need to change to implement both auto-enrolment and salary sacrifice before deciding what they want to do.

We're here to help

Your adviser or Aviva account manager will be able to explain more about salary sacrifice, which can help you to:

- run through the various options for setting up salary sacrifice
- calculate how employee salaries are affected by salary sacrifice
- select how you want to use your NIC saving, and see the effect on your employees' salaries
- produce personalised letters for employees to sign their agreement to salary sacrifice

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