Smart Pension

May 2026

How salary sacrifice works

This guide is for members only

Contents

What is salary sacrifice?

Salary sacrifice, also known as 'salary exchange', is an arrangement with your employer where you agree to reduce your salary by the amount you want to contribute to your pension. Your employer then pays this amount, plus their contribution, to your pension savings. This means, for example, your pension contribution will be reduced from 5% to 0% after using salary sacrifice.

What are the benefits?

The main benefit is that you and your employer will pay less in National Insurance Contributions (NICs) and income tax. These savings will increase either your pension contribution or your take-home pay, depending on the basis of your employer's scheme.

Also, as your salary is reduced, there is the possibility that you may be in a favourable position when it comes to child benefit.

Things to consider

Your reduced salary could affect the amount of money you are able to borrow from a mortgage provider. Your entitlement to state benefits, such as Statutory Maternity Pay, may also be affected.

Your employer should provide you with an overview of how salary sacrifice might affect you and whether they pay National Insurance Contributions into your Smart Pension account.

You will be consulted on the changes and a variation to your contract will need to be made by your employer to change to salary sacrifice.

Example of salary sacrifice

Jason earns £30,000 a year and sacrifices 5% of his salary to his pension, which equates to £1,500 a year.

- Salary: £2,500 per month
- Salary sacrificed: £125 per month, £1,500 a year
- National Insurance savings as a result of salary sacrifice £120

Impact on your pension

If National Insurance savings are paid into your pension you would see an increase in your pension contributions of £120 a year.

With little or no difference to your take-home salary, based on historic investment performance* you could see an extra:

- £1,774 in your pension pot after 10 years
- £5,263 in your pension pot over 20 years

Your employer may choose to add the savings to your take home pay and you would see an increase of £10.00 per month due to reduced National Insurance contributions. This would be discussed as part of the consultation process.

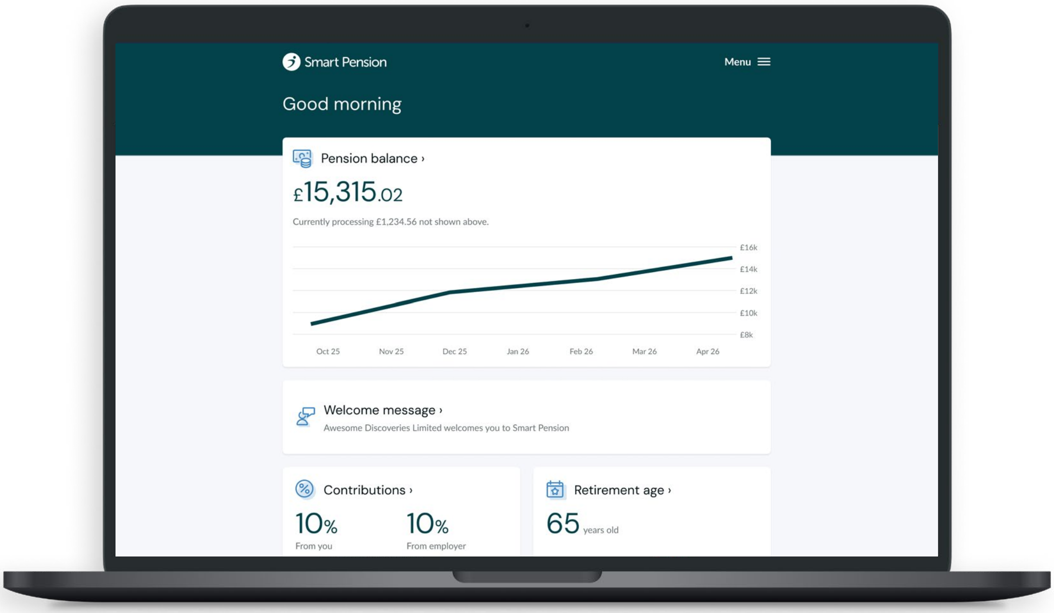
* Projections calculated using **monevator.com/compound-interest-calculator**

How to change your contributions through salary sacrifice

1. How to view your current contribution

You can view your contributions on your pension dashboard by logging into your account.

If you want to change your contributions, select the ‘**Contributions**’ tile on the dashboard to be directed to the ‘**Contributions page**’.

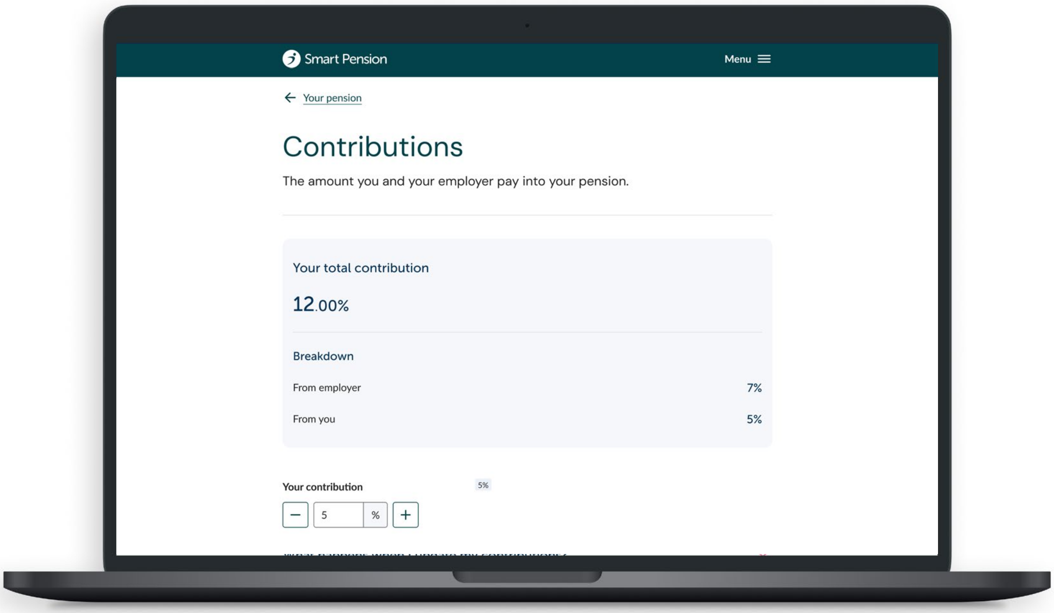


You will see two things on **Contribution tile**:

1. On the left you will see ‘**From you**’. This will typically display as 0% if you have not made any changes. This is due to your employer paying your contribution on your behalf.
2. On the right you will see ‘**From employer**’. This includes your contribution plus your employer’s contribution. The current total minimum contribution rate for standard auto enrolment qualifying schemes is 8%.

2. How to increase your contributions

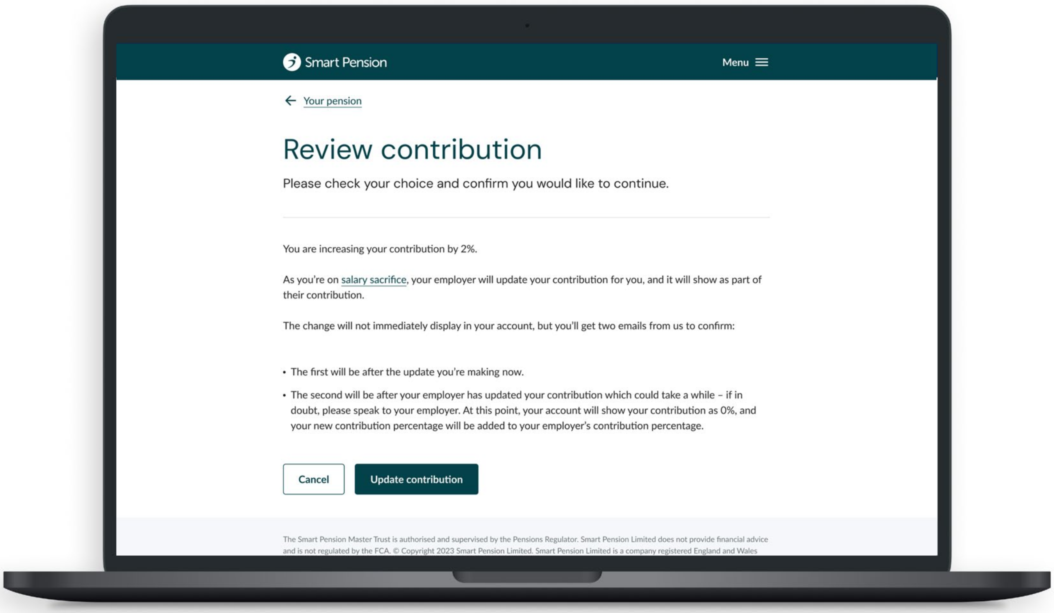
You can increase your contributions by clicking on the '**Contributions**' tile. You will be directed to the '**Contributions page**'.



On this screen you will see a more detailed breakdown of your contributions. To increase your contribution you can either use the **'+' or '-'** toggles to change the %, please keep these as whole numbers. Alternatively, click the input box and type in your desired contribution amount, up to two decimal places. When doing so the additional % will be displayed in the '**From you**' section.

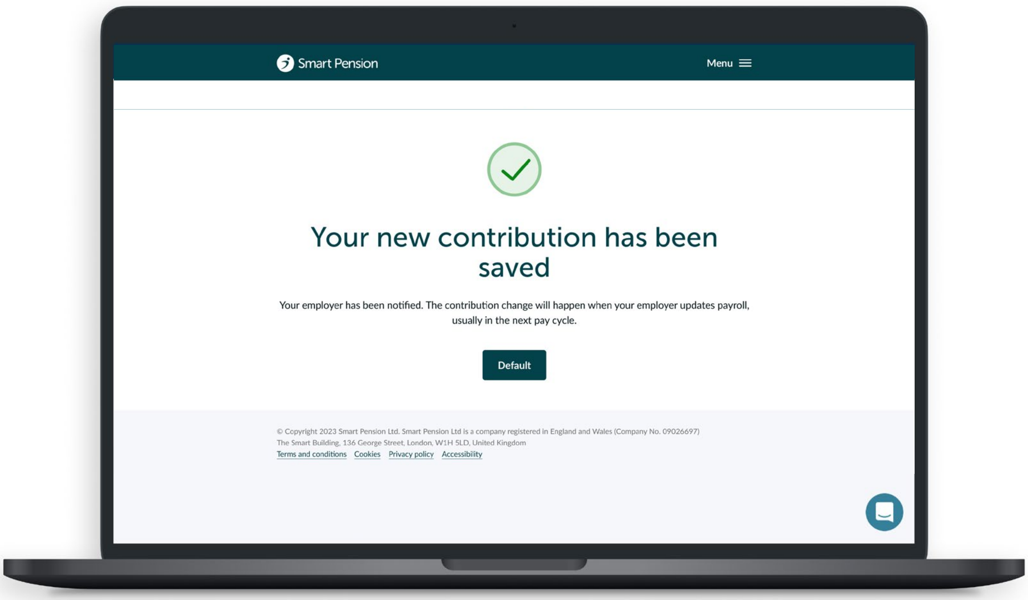
To see your newly displayed %, click ‘**Review contribution**’.

After you’ve clicked ‘**Review contribution**’, you will be shown the screen below. This screen explains what communications you’ll receive next and how your total contribution will look after youremployer has updated their payroll record.



Once you’re satisfied with your new contribution %, click ‘**Update contribution**’.

After clicking on ‘**Update contribution**’, you will return to the previous screen where ‘**From you**’ will show ‘**Zero**’ again, and the ‘**From employer**’ section will show the original amount. Once your employer has actioned the adjustment and uploaded the next contribution batch, your contribution % in the ‘**From employer**’ section will be updated.



3. How to decrease your contributions

You can contact your employer directly to decrease your contributions that go into your Smart Pension account.

Your employer will then update their payroll records and your decrease will apply to your next payroll period. You will then receive a communication to confirm the new contribution total once your employer has made the change.

Please note that if you have been automatically enrolled you may only be able to reduce contributions to the legal minimum that must be paid.

Frequently asked questions

Reducing my salary worries me, will this affect my ability to borrow money or affect my mortgage?

Most lenders base the amount that they're willing to lend on a combination of salary and affordability from your take-home pay. Most employers are happy to provide details of the salary sacrifice arrangement too. Check with your individual lender for their requirements.

Can I stop my salary sacrifice agreement at any time?

Usually yes you can, but please check with your employer.

How does salary sacrifice affect claiming back higher and additional rate tax relief?

As the contribution is now being paid by salary sacrifice (your employer pays the contribution on your behalf) you effectively get tax relief immediately and do not have to claim it through a self assessment tax return.

Can I still see my own contribution percentage in my online account?

It's up to your employer as to whether they show the contribution percentage split when they submit your pension contributions. If they've chosen not to show this then your contribution amount will show as 0% within your online account, but you will still be able to see your contribution amount on your payslip.

Contact us

Get in touch if you have any questions about salary sacrifice by completing our **online contact form**.

Smart Pension

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