Salary sacrifice with Nest

A guide for members

What is salary sacrifice?

It's an arrangement for paying pension contributions, recognised by HMRC, where you agree for your salary to be reduced, by the same amount of money you contribute into your pension. In a salary sacrifice arrangement, you won't actually pay a contribution to the pension scheme. We pay an equivalent of your total contributions – along with your employer contributions – into your pension pot. This adjustment can provide a saving of National Insurance Contributions ("NICs") which you pay.

How does this help me save more for my future and what are the benefits?

Entering in to a salary sacrifice scheme can reduce the amount of National Insurance contributions you pay, and therefore might increase your current take-home pay and from the tax savings you could choose to pay more into your Nest pension pot.

Take a look at our worked example below:

	Salary (before sacrifice)	After salary sacrifice
	£20,000	£19,000
Your pension contribution	£1,000	£0
Your employer's pension contribution	£1,000	£2,000
Total pension contribution	£2,000	£2,000

Based on the example above:

- You would stop paying the monthly contributions from your salary and agree to sacrifice the amount instead.
- Your employer would reduce your salary to £19,000 and pay the £1,000 into your pension pot along with the amount they already pay on your behalf.
- This would result in lower National Insurance contributions for you which means your take home pay would be higher.

*Table for illustrative purposes only.

Some things to bear in mind

As stated in the employee salary sacrifice letter that accompanies this guide, entering into a salary sacrifice agreement means changes will need to be made to your contract of employment. It is important to be aware that this may affect some of the other benefits you are entitled to.

- A reduction in your salary could affect your entitlement to benefits such as the state pension, child and working tax credits and statutory sick pay.
- Other salary benefits may be affected such as bonuses, overtime and redundancy payments.
- Agreeing to a salary sacrifice agreement will also be taken into account when you are applying for a mortgage.
- If a salary sacrifice agreement takes your salary below the National Minimum Wage you will not be able to be enrolled into the agreement.

This is based on Nest's understanding of current tax laws. These are subject to future changes and an understanding of the changes that have been announced to salary sacrifice schemes from 2029. You might need to consider how the adjustment to your income affects your personal benefits, financial position and tax affairs. Nest cannot provide you with tax advice and would recommend that you contact an independent adviser.

Questions and answers

What if I decide not to join salary sacrifice at the moment? Can I change my mind in the future?

You can change your mind in the future. However, you may only be able to elect to join the salary exchange arrangement at a specific point in time during each year (unless your employer agrees otherwise).

Can I choose to withdraw from salary sacrifice?

Unless you are deemed to have undergone a lifestyle change, you will only be able to terminate or vary the sacrifice at such time as your employer permits. The following are examples of a lifestyle change which would allow you to withdraw from salary sacrifice part way through a year: serious illness, marriage, divorce, you or your partner becoming redundant or pregnant.

Please note that the salary sacrifice arrangement will otherwise continue until either your employment is terminated for any reason, or you give written instruction to terminate or vary the sacrifice.

What if I want to apply for a mortgage?

Your eligibility to borrow money, such as for a mortgage, may be affected as your contractual gross salary will decrease.

Your employer can provide certified documents to confirm the arrangements that have been introduced. These will show that your pay is made up of your revised salary plus the amount of the salary sacrificed for pension contributions. Most lenders are familiar with these arrangements.

Where can I get free impartial financial advice from?

MoneyHelper (provided by MaPS) is a free service, providing impartial money and pensions guidance for people all across the UK. Contact details are below.

Pensions guidance: 0800 011 3797

Money guidance: 0800 138 7777

moneyhelper.org.uk/en

Alternatively, you can find a retirement adviser here: **moneyhelper.org.uk/en/pensions-and-retirement/taking-your-pension/find-a-retirement-adviser**

Does this impact maternity, paternity or adoption pay?

Salary sacrifice could also impact benefits such as statutory maternity pay, statutory paternity pay and statutory adoption pay. This is because these are calculated by reference to ‘average weekly earnings’ for a set period prior to the period of leave. As such, where your gross pay is lower as a result of salary sacrifice, this can reduce the level of your statutory payment entitlement during your period of family leave.

You should also check your own employer’s family leave policies in terms of how salary sacrifice and pension contributions will be paid during any such periods of family leave.

You can find out everything you need to know about having a Nest pension at **nestpensions.org.uk**

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