Make the most of your **pension savings**

A guide to salary exchange

ROYAL LONDON

You could make your money work harder by using salary exchange to **increase your take-home pay, or boost your pension savings.**

What's salary exchange?

It's a tax efficient way to make payments into your pension plan. With salary exchange you reduce part of your salary for a non-cash benefit from your employer. For example an increased pension contribution.

Sometimes called salary sacrifice, it works in the same way other salary related benefit schemes work.

What are the benefits?

You pay less tax and National Insurance Contributions (NIC) because your salary is reduced. This provides an opportunity to save money.

Salary exchange is commonly used to boost your pension by agreeing with your employer to exchange part of your gross salary each month for an increased pension contribution. This means the money you've exchanged will show as an employer contribution on your benefit statement.

Depending on how the arrangement's set up, choosing salary exchange could mean:

- an **increase to your pension contributions** as a result of using the tax and NIC savings to boost your pension contribution and your take-home pay stays the same.
- or an **increase to your take-home pay** as a result of paying less income tax and NIC on your reduced salary and your pension contributions stay the same.

If you pay your bonus into your pension by bonus sacrifice, it would also benefit from the same tax and NIC savings. This is a separate agreement between you and your employer.

Your employer pays less in NIC. They can choose to share some or all of their savings with you to increase your pension contributions even more.

Is salary exchange right for everyone?

To help you decide if salary exchange is right for you, here are some things to consider:

- You won't be able to exchange part of your salary if by exchanging part of your salary, it drops below the National Minimum Wage or National Living Wage.
- Your pre-tax salary will reduce by agreeing to exchange part of your salary. This can affect your entitlement to certain employer, state and other benefits.
- Salary exchange used to affect how much you could borrow for a mortgage, however most lenders will now typically lend against a pre-exchanged salary.
- Any tax savings you benefit from will depend on your individual circumstances. and tax allowances could change in the future.
- If you're a higher rate taxpayer, your pension contributions could provide higher tax and NIC savings. This is because your pension contribution is taken out of your gross salary before tax.
- Salary exchange may not be suitable if you earn more than £260,000 with a tapered annual allowance. If this applies to you, you could incur additional annual allowance tax charges.

The rules about salary exchange may change in the future. If you're not sure salary exchange is right for you, talk to a financial adviser.

Salary exchange – a case study

Sam's paid £27,000 each year before tax and is interested in learning more about salary exchange. Sam's heard salary exchange could increase the total amount being paid into his pension by £238 each month, or top up his current take-home pay by £162.

Sam has three options:

1. Do nothing and keep his take-home pay and pension contributions as they are.
2. Use salary exchange to increase his pension contributions and keep his take home pay the same.
3. Use salary exchange to increase his take home pay and keep his pension contributions the same.

If you don't already have a financial adviser, you can find one in your area by visiting royallondon.com/find-a-financial-adviser. Advisers may charge for their services – though they should agree any fees with you upfront.

Our examples below will make these options clearer.

1 **What happens if Sam chooses not to take advantage of salary exchange?**
Sam changes nothing and his take-home pay and pension contributions stay the same.

His take-home pay stays at £21,302. **His pension contribution stays at £2,160.**	Sam's salary before salary exchange			Sam's pension before salary exchange		
	Sam's salary		£27,000	Sam's pension contribution		£1,080
	Sam's pension contribution	−	£1,080	Tax relief from the government	+	£270
	Tax and NIC	−	£4,618	Employer contribution	+	£810
	Sam's take-home pay	=	**£21,302**	Total pension contribution	=	**£2,160**

2 **What happens if Sam decides to use salary exchange to increase his pension contributions?**

His take-home pay stays at £21,302. **His pension contribution increases to £2,398.**	Sam's salary after salary exchange			Sam's pension after salary exchange		
	Sam reduces his salary, adding £1,588 to his pension as an employer contribution.		£25,412			
	Tax and NIC	−	£4,109	Employer contribution (£1,588 salary exchange + £810 employer's own contribution)	+	£2,398
	Sam's take-home pay	=	**£21,302**	Total pension contribution	=	**£2,398**
	Extra pension contribution after salary exchange			**£238**		

3 **What happens if Sam decides to use salary exchange to increase his take-home pay?**

His take-home pay increases to £21,464. **His pension contribution stays at £2,160.**	Sam's salary after salary exchange			Sam's pension after salary exchange		
	Sam reduces his salary, adding £1,350 to his pension as an employer contribution.		£25,650			
	Tax and NIC	−	£4,186	Employer contribution (£1,350 salary exchange + £810 employer's own contribution)	+	£2,160
	Sam's take-home pay	=	**£21,464**	Total pension contribution	=	**£2,160**
	£162			**Additional take-home pay after salary exchange**		

All figures are annual amounts and are based on tax and NI rates for the 2023/24 tax year.

Want to find out more about salary exchange?

Contact your employer to find out if they offer this option and get more information. Your employer should be able to provide a personalised salary exchange statement showing how it could affect your salary.

Remember, salary exchange is an agreement between you and your employer.

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