

# Time to review your Salary Sacrifice options

The increase to National Insurance Contributions will trigger a review and encourage a higher uptake of Salary Sacrifice arrangements



### Salary Sacrifice

Your employees will already be saving into a Workplace Pension Scheme. With the correct implementation and communication of Salary Sacrifice, your employees could benefit further from the news of a National Insurance Contribution increase and mitigate the cost of National Insurance increase on their take home pay from April 2022.

### How Salary Sacrifice works

Salary Sacrifice is the exchange of salary for a non-cash benefit, such as additional pension contributions. You can use salary sacrifice for other non-financial benefits too such as cycle to work or a company car.

If employees are paid a bonus, they can also sacrifice some or all of the bonus for extra pension contributions. The advantage of salary sacrifice is that employees will save on tax and national insurance contributions and from an employer perspective, you will save on employers national insurance as well. The savings come from the exchange of salary for pension contributions before the employee is taxed on their earnings.

## Position today

Traditional Pension Contribution Basis  
versus Salary Sacrifice 'Exchange'

EMPLOYEE	Before Salary Exchange (traditional pension structure)	After Salary Exchange (today)
Gross Salary	£30,000.00	£28,500.00
Income Tax	£3,486.00	£3,186.00
NI Contribution	£2,451.84	£2,271.84
Net Annual Contribution (5% gross / 4% net)	£1,200.00	£0.00
Net Pay	£22,862.16	£23,042.16 (take home pay increases by £180.00 per annum)

EMPLOYER	Before Salary Exchange	After Salary Exchange
Gross Salary	£30,000.00	£28,500.00
NI Contribution	£2,920.08	£2,713.08
Pension Contribution	£900.00	£2,400.00
Cost to Employer	£33,820.08	£33,613.08

PENSION CONTRIBUTION	Before Salary Exchange	After Salary Exchange
Employee Pension Contribution (5%)	£1,500.00	£0.00
Employer Pension Contribution (3%)	£900.00	£2,400.00
Pension Contribution	£2,400.00	£2,400.00

## Position from April 2022

Following the introduction of a 1.25% employee and employer increase to National Insurance Contributions

EMPLOYEE	Before Salary Exchange (traditional pension structure)	After Salary Exchange (April 2022)
Gross Salary	£30,000.00	£28,500.00
Income Tax	£3,486.00	£3,186.00
NI Contribution	£2,707.04	£2,508.29
Net Annual Contribution (5% gross / 4% net)	£1,200.00	£0.00
Net Pay	£22,606.96	£22,805.71 (take home pay increases by £198.75 per annum*)

\*This is broadly similar to pre-salary exchange/pre-NIC increase take home pay

EMPLOYER	Before Salary Exchange	After Salary Exchange
Gross Salary	£30,000.00	£28,500.00
NI Contribution	£2,957.04	£2,747.42
Pension Contribution	£900.00	£2,400.00
Cost to Employer	£33,857.04	£33,647.42

PENSION CONTRIBUTION	Before Salary Exchange	After Salary Exchange
Employee Pension Contribution (5%)	£1,500.00	£0.00
Employer Pension Contribution (3%)	£900.00	£2,400.00
Pension Contribution	£2,400.00	£2,400.00

## For an employer with 200 employees...

The potential saving to employees is

**£39,700**

The potential saving to the employer is an additional

**£41,924**

These figures are based upon the assumptions above and the employer saving may be retained or used to enhance the overall employee benefit arrangements.

It is important that any salary sacrifice arrangement is structured and communicated correctly. Contact us for more information and a free review of your own arrangements.

### Contact us

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