

Howden Employee Benefits

# Salary exchange for pensions



An essential guide for employers

**HOWDEN**

## What is salary exchange?

Salary exchange, also known as salary sacrifice, is a tax efficient way of making pension contributions that benefits both businesses and employees.

Employees agree to exchange a portion of their salary for an equivalent employer pension contribution. This reduces their gross salary, which means they pay less National Insurance and tax.

## What are the benefits?



### The benefits to employers

- **National Insurance savings**  
With a reduced salary, your business pays less employer National Insurance, which can either be retained by the business, reinvested into employees' pension plans or used to fund other employee benefits. Giving you flexibility on how to use your NI savings.
- **Enhanced employee benefits**  
Offering salary exchange makes your benefits package more attractive, helping to retain and attract top talent.
- **Support employee retirement planning**  
By simplifying retirement savings, you're helping employees secure their long-term financial future.



### The benefits to employees

- **Savings on National Insurance**  
With salary exchange, employees pay less National Insurance, leading to increased take-home pay.
- **Tax relief**  
Contributions are typically deducted net of basic rate tax (20%) from net pay, known as 'relief at source'. Higher and additional rate taxpayers then need to reclaim the additional 20% or 25% tax relief from HMRC. Moving to salary exchange means that these employees receive full tax relief immediately, so administratively easier for them.

Overall, salary exchange makes pension contributions easier, more tax-efficient, and more beneficial for both employers and employees.

# How much could you save?

Did you know you could save **£225 per employee** per year or more by implementing salary exchange? If you had 50 employees using salary exchange, the total savings could be over **£11,250 per annum!**\*

## A salary exchange example

An employee earning £30,000 per year contributes 5% of their salary (amounting to £1,500 annually) to their pension, which the employer matches with an additional 5%. The employer's National Insurance rate is 15% for the 2025/26 tax year.

Without salary exchange	With salary exchange
The employee pays pension contributions from their salary after tax and national insurance net of basic rate tax	Under salary exchange, the employee agrees to reduce their salary by £1,500 annually. You contribute this amount directly to the pension, reducing the employee's gross salary to £28,500
You pay National Insurance on the full salary	You pay National Insurance, on the reduced salary
$\text{£30,000} - \text{£5,000}$ (Secondary NI Threshold) $\times 15\% = \text{£3,750}$	$\text{£28,500} - \text{£5,000}$ (Secondary National Insurance Threshold) $\times 15\% = \text{£3,525}$

Employer National Insurance savings  $\text{£3750} - \text{£3525} = \text{£225}$  per employee, per annum.

This highlights how salary exchange is not only a cost-effective way to enhance employee benefits but also a smart way to save your business money.

\* Salary sacrifice savings will vary depending on your contribution rates, salary, take up and employee headcount.

# About us

Howden Employee Benefits is part of the Howden Broking Group. Our expert team works with clients of all sizes to provide dedicated employee benefits consultancy.

We have won many industry awards for our work and are widely recognised for our innovative and creative people-first approach to benefit design.

We understand that today's diverse workforce is looking for tailored employee benefits that meet ever-changing lifestyle and wellbeing needs. So, we design, implement, and manage your benefits to keep them relevant and fit for purpose - now and for the future.

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