



# UNDERSTANDING SALARY EXCHANGE

*The tax-efficient employee benefit saving  
companies thousands each year.*





# AN INTRODUCTION TO SALARY EXCHANGE

There can be huge benefits for both employers and employees by focusing on employee engagement and optimising your workplace pension scheme (WPS) with the use of tools such as salary exchange.

## What is Salary Exchange?

Salary exchange (also known as salary sacrifice) offers valuable National Insurance Contribution (NIC) savings for both employers and employees on the value of employee pension contributions.

Due to changes to National Insurance in recent years, an increasing number of employers are implementing salary exchange to create employer NIC savings to help offset their increased NIC costs.

## How does it work?

When an employee elects to contribute into a pension via salary exchange, they are agreeing to a reduction in their salary in exchange for an additional employer's pension contribution.

As a result of exchanging a monetary amount, the employee saves Income Tax at their marginal rate (often a benefit for higher rate taxpayers who may be missing out on 40% tax relief on pension contributions if paid on a non-salary exchange basis) and NIC, thus reducing the cost of paying the pension contribution.



## WHAT ARE THE BENEFITS TO EMPLOYERS AND EMPLOYEES?



As the employee is taking a reduction in salary, both parties pay less National Insurance, therefore creating a monetary saving for employee and employer.

For the employee, the same level of pension contribution is paid into the workplace scheme but at a lower cost, a welcome saving as we navigate the current cost-of-living crisis.

Employers benefit too by saving 15% NIC on the value of the employee pension contributions - in simple terms, a saving of £15.00 for every £100 paid by an employee.

Whilst Workplace Pension Schemes are a legislative requirement, it is essential that they not only meet your objectives and obligations as a business but are also cost effective and attractive to employees.

### For example:

For a company with 50 employees, an average employee salary of £30,000 and a default employee contribution of 5% of basic salary, the savings are as follows:

Annual company NIC saving (assuming all employees participate) = **£11,250 every year.**

Employee NIC saving of **£10pm /£120 pa.**

It is worth noting that this is an annual saving which over the years will add up to a considerable amount which the company can put to further use. Typically, these savings are used in one of the following ways:

- Retain the savings
- Reinvest all or part of the savings back into the employees' pension
- Use the savings to pay towards new or additional employee benefits



# SALARY EXCHANGE CASE STUDY

Could salary exchange save your business money as well as helping with retention and recruitment? Read here how one client was able to do just that with the help of our trusted, corporate advice specialists.

An Oxfordshire-based client got in touch regarding their Workplace Pension Scheme, as they were dissatisfied with the level of service from their previous Independent Financial Adviser.

The first step was to review their existing scheme in detail which, as a result, identified three key challenges:

1. It was no longer competitive in the market.
2. It was not set-up as effectively as possible for their employees.
3. They were not utilising salary exchange.

The decision was then made to change scheme provider and introduce salary exchange, as well as offering staff presentations and 1-2-1 clinics to

boost employee engagement and increase their understanding of this employee benefit.

As a result, the new scheme started with a 100% uptake rate of salary exchange, creating an employer NIC saving of £14,500 every year. This comfortably covered the cost of the fees involved, and the remainder will be used towards further employee benefits in the future.

Aside from the monetary value, this created a buzz with employees – which is no easy task when talking about pensions – and helped reinforce the financial benefit in their take home pay.

Employees also stepped away from clinics and presentations feeling more confident in their understanding of their pension and their financial

situation. Furthermore, the new pension provider offers better tools for staff to interact with their pension, understand their current provision, and help them to plan for what their retirement may look like.

Overall, the initial pension scheme review went on to offer great emotive and monetary returns for both employees and employers. As HR teams across all sectors continue to battle with recruitment and retention, optimised and cost-effective employee benefits such as this can really go a long way to help.

We are currently working with many other clients to review their workplace pension schemes and assess whether salary exchange would be a good option for them to implement.



## ARE SALARY EXCHANGE RULES CHANGING?

Our advisers will work with you to understand your current provisions and objectives to identify any areas for potential optimisation and offer ongoing consultancy support.



In the 2025 Autumn Budget, the Chancellor announced changes to Salary Exchange from April 2029.

Currently, when an employee pays into their pension via Salary Exchange, the employer and employee benefits from full NIC savings on the full value of the employee contribution.

However, from 2029, a cap of £2,000 per annum will be applied to Salary Exchange contributions, meaning any payments above the cap will be subject to employer and employee NIC.

Whether you are an employer or employee, our workplace pension scheme specialists at Integrity365 can give you more information on the changes and how they may impact your financial plans.

However, whilst the savings will be reduced where an employee pays above the cap, ultimately, Salary Exchange will remain a beneficial and tax-efficient tool.



## HOW CAN INTEGRITY365 HELP YOU?

If you would like to discuss this in greater detail or have any clients you feel may benefit from a no-obligation meeting, please contact Craig Pritchard who specialises in workplace pensions at Integrity365.

The key to a successful launch of Salary Exchange is employee understanding. Without this, the company will not achieve the desired take-up rate, impacting the financial savings.

Integrity365 work with employers and employees to clearly explain the facility and benefits, so employees not only understand the advantages, but also appreciate the value of this benefit.

We can work with clients on a one-off basis to help implement or act as the workplace pension scheme advisers on an ongoing basis. This ongoing support provides reassurance an independent specialist is working for the benefit of the company and providing education and guidance to the scheme members.

### Get in touch:

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Please note: this guide was printed in April 2026 and all information is correct as at this date.

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