SALARY SACRIFICE vs RELIEF AT SOURCE

HARGREAVES LANSDOWN

WITH SALARY SACRIFICE

Example Salary	£25,000
Salary after "Salary Sacrifice"	£23,750
Employer contribution (3% employer + 5% employee)	£2,000 (i.e £750 + £1,250)
Your contribution	N/A
Income tax saved on pension contribution	£250
NI saved on pension contribution	**£100**
Amount your pension contribution "costs"	**£900**
Saving made by using Salary Sacrifice compared to Relief at Source	**£100**
Take home pay (after tax, NI, and pension contribution)	**£20,619.60**

With Salary Sacrifice, you agree to reduce your contractual salary by £1,250 from £25,000 to £23,750. Your employer then makes additional pension contributions equal to the amount of your reduction in salary plus the normal employer pension contribution.

The reduction in your salary is £1,250 so in one sense that's what the contribution costs. But it's not a fair comparison because you would have to pay tax and NI if you took the money as salary. You would only receive £900 as take home pay.

Those who pay tax at a higher rate do not need to claim back any further relief from HM Revenue & Customs.

WITHOUT SALARY SACRIFICE (RELIEF AT SOURCE)

Example Salary	£25,000
Employer contribution (3%)	£750
Your contribution (5%)	£1,250
Amount your pension contribution "costs"	**£1,000**
Income tax saved on pension contribution	£250
NI saved on pension contribution	£0
Take home pay (after tax, NI, and pension contribution)	**£20,519.60**

With Relief at Source, your contributions are deducted from your net pay i.e. after income tax and NI. Your pension contribution attracts income tax relief (20% for basic-rate tax payers) which Hargreaves Lansdown claims on your behalf for your pension. Anyone who pays a higher rate of tax will have to claim back any further tax relief from HM Revenue & Customs separately.

So to get to the desired contribution of £1,250 you have to put in £1,000. The tax relief is usually received around 6 weeks after your contribution so there is a slight delay. You won't have saved any NI on your contribution.

Please note that the government has confirmed a new £2,000 cap on salary exchange which will come in from April 2029. This means that from then, both employer and employee National Insurance will be payable on contributions into your pension above £2,000 per year which are funded by salary exchange.

IMPORTANT NOTES
We wrote this factsheet to give you useful information about how pension contributions work, but it's not personal advice. If you're not sure whether a particular investment is right for you, please ask for advice. This information sheet is based on our understanding of current and draft legislation and practice effective from 10 March 2026, and government announcements. The examples used apply to rest of UK taxpayers. Scottish taxpayers pay different rates of tax so their savings may be different. Pension tax rules can change, and their benefits depend on your circumstances. Investments can fall as well as rise and we therefore believe investing should only be considered for the long term (5+ years). As with all investments, you could get back less than you put in. You can't usually get money you put in a pension back until age 55 (rising to 57 in 2028).

Hargreaves Lansdown
One College Square South
Anchor Road Bristol BS1 5HL

0117 314 1795
invest@hl.co.uk
www.hl.co.uk