Secondsight
Part of the **Foster Denovo Group**

Salary Sacrifice – reducing the cost of your pension contributions and increasing your take home pay

What is salary sacrifice?

The concept of salary sacrifice is fairly simple. It is an agreement with your employer, whereby it is requested they reduce your salary, sacrificing (or paying) it in to your pension instead.

How does it work?

You agree to reduce your salary, giving up a percentage that you wish your employer to pay directly in to your pension, before any National Insurance or tax is deducted. This reduces your annual gross salary, but because it decreases the amount of National Insurance you pay, it reduces the cost of your pension contribution, but you still invest the same amount.

What are the advantages?

The main advantage is a reduction in the monthly cost of contributing to your pension. This is good news. You can benefit from an increase in your take home pay, or choose to use the saving to pay more money in to your pension, which may help you towards a better retirement.

Are there any disadvantages?

Potentially, yes:

When you apply for a mortgage, lenders now look at affordability, however a small number of lenders still use a multiplication of salary to calculate affordability. With these lenders a salary sacrifice arrangement could have an adverse effect on your borrowing capacity.

It may reduce your entitlement to State Second Pension. However the Government is considering providing a flat pension, which could mitigate this issue.

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