

## 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.

### How much might it cost?

An individual on a basic salary of £30,000 contributing 3%, would see their net (take-home) pay reduce by £60 per month. However a total of £135 per month will be invested into their pension with the addition of the 3% contribution from FXCM.

However if they were to contribute via salary sacrifice then their take home pay would only reduce by £9 per month and £75 would still be invested into their pension. This example shows the worker saving £24 in tax and national insurance if contributing by salary sacrifice, rather than the £15 of tax saving via the net pay method.

### 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's considering providing a flat pension, which could mitigate this issue.

