Make the most of your **pension savings**

A guide to increasing your pension contributions with salary exchange

ROYAL LONDON

Savings added to pension contributions

You could make your money work harder by using salary exchange to **boost your pension savings.**

What's salary exchange?

It's a tax efficient way to make payments into your pension plan. With salary exchange you reduce part of your salary for a non-cash benefit from your employer. For example an increased pension contribution.

Sometimes called salary sacrifice, it works in the same way other salary related benefit schemes work.

What are the benefits?

You pay less tax and National Insurance Contributions (NIC) because your salary is reduced. This provides an opportunity to save money.

Salary exchange is commonly used to boost your pension by agreeing with your employer to exchange part of your gross salary each month for an increased pension contribution. This means the money you've exchanged will show as an employer contribution on your benefit statement.

You'll see an **increase to your pension contributions** as a result of using the tax and NIC savings to boost your pension contribution. Your take-home pay stays the same.

If you pay your bonus into your pension by bonus sacrifice, it would also benefit from the same tax and NIC savings. This is a separate agreement between you and your employer.

Your employer pays less in NIC. They can choose to share some or all of their savings with you to increase your pension contributions even more.

Is salary exchange right for everyone?

To help you decide if salary exchange is right for you, here are some things to consider:

- You won't be able to exchange part of your salary if by exchanging part of your salary, it drops below the National Minimum Wage or National Living Wage.
- Your pre-tax salary will reduce by agreeing to exchange part of your salary. This can affect your entitlement to certain employer, state and other benefits.
- Salary exchange used to affect how much you could borrow for a mortgage, however most lenders will now typically lend against a pre-exchanged salary.
- Any tax savings you benefit from will depend on your individual circumstances and tax allowances could change in the future.
- If you're a higher rate taxpayer, your pension contributions could provide higher tax and NIC savings. This is because your pension contribution is taken out of your gross salary before tax.
- Salary exchange may not be suitable if you earn more than £200,000 with a tapered annual allowance. If this applies to you, you could incur additional annual allowance tax charges.

The rules about salary exchange may change in the future. If you're not sure salary exchange is right for you, talk to a financial adviser.

Salary exchange – a case study

Sam's paid £27,000 each year before tax and is interested in learning more about salary exchange. Sam's heard salary exchange could increase the total amount being paid into his pension by £375 each year.

Sam's employer has set up their salary exchange arrangement so that savings are used to increase his pension contribution. There is no change to his take home pay.

If you don't already have a financial adviser, you can find one in your area by visiting royallondon.com/find-a-financial-adviser. Advisers may charge for their services – though they should agree any fees with you upfront.

Our examples below will make these options clearer.

1 What happens if Sam agrees to contribute to his pension via salary exchange?

	Sam's salary after salary exchange			Sam's pension after salary exchange		
His take-home pay stays at £21,880. **The overall contribution to his pension increases to £2,535.**	Sam's salary		£25,500			
	Tax and NIC	-	£3,620	Employer contribution (£1,500 salary exchange + £1,035 employer's own contribution)	+	£2,535
	Sam's take-home pay	=	**£21,880**	Total pension contribution	=	**£2,535**
	Extra pension contribution after salary exchange			**£375**		

2 What happens if Sam chooses not to take advantage of salary exchange?
Sam's employer changes nothing and his take-home pay and pension contributions stay the same.

	Sam's salary before salary exchange			Sam's pension before salary exchange		
His take-home pay stays at £21,880. **His pension contribution stays at £2,160.**	Sam's salary		£27,000	Sam's pension contribution		£1,080
	Sam's pension contribution	-	£1,080	Tax relief from the government	+	£270
	Tax and NIC	-	£4,040	Employer contribution	+	£810
	Sam's take-home pay	=	**£21,880**	Total pension contribution	=	**£2,160**

All figures are annual amounts and are based on tax and NI rates for the 2026/27 tax year*.
Figures are rounded to nearest pound.

Want to find out more about salary exchange?

Your employer should be able to provide a personalised salary exchange statement showing how it could affect your salary.

Remember, salary exchange is an agreement between you and your employer.

*Based on English rates.

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We're happy to provide your documents in a different format, such as braille, large print or audio, just ask us when you get in touch.

April 2026

L 14 PD 0011/11 NIC