

## **SALARY SACRIFICE**

### **ENHANCING YOUR EMPLOYEE BENEFIT PROGRAMME & DELIVERING SAVINGS**



**Cartwright Group Ltd · Actuaries and Consultants**

**T: 01483 860 201 · E: [enquiries@cartwrightgroup.co.uk](mailto:enquiries@cartwrightgroup.co.uk) · W: [www.cartwrightgroup.co.uk](http://www.cartwrightgroup.co.uk)**

# Salary Sacrifice

## Competing for market share – staff attraction, retention and motivation

Competing for market share is often difficult. Tough economic conditions such as those currently being experienced can place additional strain on employers, reducing budgets and investment spend and placing pressure on the cost of human capital.

Yet, to aid success, it is important that the most talented people are attracted and retained – a competitive, modern and flexible benefits programme can help with this, but can be expensive.

Companies are often seeking ways to reduce costs in this area without affecting the benefits programme that is in place. One solution to this which is growing in popularity is salary sacrifice (sometimes also called 'salary exchange'), which can generate significant savings for employers, whilst also increasing the take-home pay of their employees.

Such solutions are often used as the forerunner to a fully flexible benefits programme.

## What is salary sacrifice?

A salary sacrifice happens when an employee agrees to give up (sacrifice) the right to receive part of their salary or remuneration due under their Contract of Employment, in exchange for their employer providing some other form of non cash benefit to the same value.

By sacrificing salary, the employee no longer earns the salary for tax or National Insurance purposes, immediately saving National Insurance of up to 11% of the salary being sacrificed (for basic rate taxpayers). The treatment of the sacrifice for tax purposes depends on the benefit being provided.

The employer also saves National Insurance, typically at 12.8% of the sacrifice. They are free to utilise these savings as they wish – some agree to share these with their employees.

## What benefits can be included?

Theoretically, it is possible to sacrifice salary for any form of benefit that can be provided via an employer, including voluntary benefits (where the employer merely facilitates access, rather than pays toward the benefit).

However, not all benefits will attract tax and / or National Insurance relief for the employee, and salary sacrifice may simply be a simpler method of purchasing the benefit, potentially receiving a 'group discount'. Flexible benefit structures lend themselves to offering a wide range of benefits under a sacrifice agreement, as the administration burden is often handled by sophisticated IT systems.

Typical benefits offered by employers include:

|                            |                             |
|----------------------------|-----------------------------|
| Childcare Vouchers         | Pension contributions       |
| Cycle to work schemes      | Buying / selling holiday    |
| Additional life assurance  | Personal accident insurance |
| Critical illness insurance | Dental insurance            |
| Travel insurance           | Cars for work schemes       |
| Bus for work schemes       |                             |

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## Is it all good news?

Generally, salary sacrifice arrangements are considered to be advantageous for both employers and employees. But there are some downsides to be aware of:

| Key upsides  | Key downsides  |
|--|--|
| National Insurance savings for both employer and employee  | Lower earnings can affect accrual or entitlement to certain State benefits   |
| Some employers may choose to share their savings   | Employees cannot sacrifice below National Minimum Wage   |
| Certain benefits attract tax relief for the employee   | Can lead to increased employer costs during periods of Maternity Leave   |
| Immediate tax relief is granted for higher rate tax payers (contract-based pension arrangements)                               | Can potentially impact on salary related benefits, future pay reviews, overtime, bonuses and credit applications   |
| Offering a wide range of benefits can help staff motivation, attraction and retention, with little direct cost to the employer | Once agreed, the sacrifice remains in place, and cannot usually be varied, except at specified intervals (usually annually), or if circumstances change ( <i>a Lifestyle Event</i> ) |
| Can be used by an employee to 'drop' down to a lower tax band / rate   |  |
| Implementation and running costs can often be met entirely from the savings  |  |
| Employer savings can be used elsewhere in the business   |  |

## How can we help?

It is important that any arrangement meets the requirements of the employer and their employees, and is established correctly.

We work with our clients to design, implement, communicate and manage their fully tailored arrangement.

We can survey employees to better understand what benefits they value, and provide access to online modelling and joining tools, including the facility for data capture and total reward statements.

## What does it cost?

Our services are tailored to each client, and our costs reflect the level of support that is required, including any technology solution that is used. Please contact us to discuss your particular requirements in more detail.

In many cases, the implementation costs can be met from the employer National Insurance savings generated in the first year.

## Contact information:

If you would like to discuss this further, please get in touch with your usual contact at Cartwright, or call **Martin Ralph** on 01483 860 201 or 07789 986 161 (email: [martin.ralph@cartwrightgroup.co.uk](mailto:martin.ralph@cartwrightgroup.co.uk)).

## Cartwright Group Ltd



# About Cartwrights

## Profile

Cartwright Group Ltd is an independent pension and benefits consultancy with offices in Godalming, Surrey and Farnborough, Hampshire.

With a history dating back to 1986 under our original name of I S Cartwright & Co, we specialise in the provision of high quality actuarial, consulting and administration services for company pension and employee benefit programmes.

Through our highly qualified and experienced team of actuaries, consultants and administration staff, we adopt an integrated team-based approach to client management, working in partnership and proactively focusing on the key issues affecting our clients.

## Services

We provide the full range of actuarial, consulting and administration services to our clients to allow them to effectively and efficiently manage their pension and employee benefit arrangements.

We also provide actuarial advice in non-pension areas including: loss assessments, valuing life interests, cash flow models for retirement villages and reversionary property portfolios.

Our team will focus on anticipating and identifying concerns and needs before they develop into problems, and will suggest appropriate action plans.

We have the skills, experience and resources to help businesses, trustees and employees face the challenges ahead –

***our clients' responsibilities are our responsibilities***

## Take a step in the right direction...

The decisions you make today about the future of your pension and employee benefit arrangements have never been more crucial. Make the right decisions for your business with Cartwright Group by your side providing all the services and advice you need...in plain English.



Mill Pool House · Mill Lane · Godalming ·  
Surrey · GU7 1EY. Tel: 01483 860 201

Web: [www.cartwrightgroup.co.uk](http://www.cartwrightgroup.co.uk)

Suite 7 · Second Floor · The Hub · IQ Farnborough ·  
Farnborough · Hampshire · GU14 7JP. Tel: 01252 894 883

Email: [enquiries@cartwrightgroup.co.uk](mailto:enquiries@cartwrightgroup.co.uk)