

Pension Salary Exchange

In a series of short articles we consider the employment tax challenges 2025 will present to employers. In this article we consider how to manage the increase in **employer's National Insurance (NIC)**.

The increase in employer's National Insurance (NIC) from 13.8% to 15% which will come into effect from 6 April 2025. Furthermore, the employer's Class 1 NIC threshold will reduce from £9,100 to £5,000.

This equates to an average annual increase of approximately £620, which will vary depending upon each employee's salary.

What can employers do to help manage the increase in employers NIC?

Fortunately, the Government has not made any changes to tax relief on pension contributions. Consequently, pension salary exchange remains the most effective way to help manage the impending increase in employer's NIC.

Pensions salary exchange

Under a pension salary exchange, the employee agrees to give-up part of their salary, in return the employer will pay the employee's pension contributions on their behalf. For further details please read the following article [linked here](#).

Benefits

Benefits for the employee

- ♦ Savings in NIC.
- ♦ Mechanism for tax efficient pension savings.
- ♦ Obtaining immediate tax relief.

Benefits for employer

- ♦ Switching from salary to employer funded pension contributions will reduce the employer's NIC bill by 15%
- ♦ Opportunity to 'flex' the staff salary budget.

Both employers and employees need to be mindful that by entering to a pension salary exchange, an employee's hourly rate of pay must not fall below the National Minimum or Living wage rates.

What is the impact?

If employers do nothing and do not offer a pension salary sacrifice, they will see their salary bill increase by more than 2% (a combination of the increase in the NIC rate and reduction in the Class 1 NIC threshold).

The following example provides a high-level summary.

Auditor	No of clients
50 employees (average salary of between £35K and £60K)	Annual increase in Class 1 employer's NIC of approximately £50K*
Impact on pension salary sacrifice	Reduction to the increase in employer's NIC by approximately £28K. Creating a saving of £22K

*Based on 6% employee pension contributions.

The introduction of a pension salary exchange will see the variation in the employee's terms and conditions of employment. This is something which will need to be carefully explained to employees and a key component to launching or reinvigorating any pension salary exchange is good quality staff communications.

Staff communications

We help clients draft all written communication, explaining what the employer is proposing to introduce and what this will mean to the employee.

We also provide staff presentations, either in person or via Team's and Zoom during which we help explain what a pension salary exchange means and answer any employee questions.

What to do next?

Making use of a pension salary sacrifice is the most efficient way to help partly mitigate the impact the increase in employer's NIC.

Contact a member of the Employment Taxes team to discuss implementing a pension salary exchange scheme or how to re-vamp your existing scheme.



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