

Salary Exchange

Everything you need to know
about exchanging your pay



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Introduction

What is salary exchange?

In a nutshell, it's a different way of contributing to your workplace pension so you pay less national insurance.

How?

You and your employer agree to contractually reduce your salary by how much you pay into the pension in return for them paying the contribution on your behalf. This means your employer pays ALL your pension contributions.

Why?

The same amount goes into the pension, but you pay less National Insurance as your salary reduces.

Who?

The benefit of salary exchange only applies if you pay National Insurance, so if you don't pay this then salary exchange is not likely to benefit you.



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Understanding the process

1. You accept a contractual reduction in your salary which your employer pays directly into the pension scheme
2. The reduction is on your gross earnings (your total salary before income tax and National Insurance contributions)
3. This means the amount exchanged is no longer subject to income tax and National Insurance, creating more savings for you.

Salary exchange only affects your contributions, you will continue to receive employer contributions as agreed.



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Salary exchange in action

Example payslip for a **£30,000** salary with **5% pension contribution** based on **basic salary**

As normal

Basic Rate	2500.00	PAYE Tax	265.50
		National Insurance	116.20
		EE Pension	125.00
		ER Pension	75.00
Total Payments	2500.00	Total Deductions	506.70

Net Pay 1993.30

Example: Emma

Age: 29

Salary: £30,000

Annual pension contribution:
£1,500*

With Salary Exchange

Basic Rate	2500.00	PAYE Tax	265.50
Salary Sacrifice	-125.00	National Insurance	106.20
		ER Pension	75.00
Total Payments	2375.00	Total Deductions	371.70

Net Pay 2003.30



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Salary exchange in action

Example payslip for a **£30,000** salary with **8% pension contribution** based on **basic salary**

As normal

Basic Rate	2500.00	PAYE Tax	250.50
		National Insurance	116.20
		EE Pension	200.00
		ER Pension	75.00
Total Payments	2500.00	Total Deductions	566.70

Net Pay 1933.30

Example: Emma

Age: 29

Salary: £30,000

Annual pension contribution:
£2,400*

With Salary Exchange

Basic Rate	2500.00	PAYE Tax	250.50
Salary Sacrifice	-200.00	National Insurance	100.20
		ER Pension	75.00
Total Payments	2300.00	Total Deductions	350.70

Net Pay 1949.30



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Salary exchange in action

Example payslip for a **£30,000** salary with **5% pension contribution** based on **qualifying earnings**

As normal

Basic Rate	2500.00	PAYE Tax	270.70
		National Insurance	116.20
		EE Pension	99.00
		ER Pension	59.40
Total Payments	2500.00	Total Deductions	485.90

Net Pay 2014.10

Example: Emma

Age: 29

Salary: £30,000

Annual pension contribution:
£1,188*

With Salary Exchange

Basic Rate	2500.00	PAYE Tax	270.70
Salary Sacrifice	-99.00	National Insurance	108.28
		ER Pension	59.40
Total Payments	2401.00	Total Deductions	378.98

Net Pay 2022.02



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Boosting your savings

Your employer also makes savings. As you've agreed to a contractual reduction in salary, they see a decrease in National Insurance Contributions.

Why? Because employers pay a 15% National Insurance tax on salaries from April 2025.

So, if you reduce your salary, they pay less.

We all face financial milestones in the lead up to retirement, whether that be; saving for a house deposit, building an emergency fund or saving pots for your children.

By doing salary exchange, you can now continue to save for retirement AND build up your savings for the interim.

This means, with salary exchange you can:

- Continue saving for retirement
- Increase your monthly take home pay
- Get extra savings towards your more immediate goals



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What to consider

Does this apply?

Lower Earnings Limit (LEL)

The LEL for 2025/26 is £125 per week or £6,500 per annum.

Salary Exchange reduces the earnings which are assessed for National Insurance Contributions and means that entitlement to certain State Benefits and Statutory Payments (such as Statutory Sick Pay) if you earn below the LEL may be hindered. If you think this may affect you, salary exchange may not be an efficient way to pay into the pension.

National Minimum Wage (NMW)

The government sets a minimum hourly pay rate for UK employees.

Employers must ensure all employees are paid the NMW or more. Salary Exchange reduces your earnings, so will not be suitable if you earn at or close to the NMW.



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What to consider

Life Events

Mortgage Applications & Other Lending

Commonly, earnings are used when being assessed for mortgages and other types of lending. Salary Exchange reduces total earnings, so could result in being able to borrow less. However, many lenders are prepared to take account of your earnings before any Salary Exchange (called Reference Pay).

Maternity Pay

Earnings AFTER any Salary Exchange will be used to determine Statutory Maternity Pay (SMP).

Considerations:

Short term: Salary Exchange may reduce the amount of SMP payable. Typically, but not always, this will only affect payments in the first 6 weeks of Ordinary Maternity Leave. Reduction is likely to be small.

Long term: During any Statutory leave period where you receive pay from your employer, pension contributions must be maintained by your employer at the levels agreed prior to going on leave. With Salary Exchange (where the total contribution is payable by the employer) the total contribution must be maintained, whereas without Salary Exchange the employer would only need to continue their contributions. There is a potential short-term disadvantage but also a potential long-term advantage and both should be considered on a personal situation basis.

Reference Pay is earnings before Salary Exchange.



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What to consider

Not paying NI already?

Primary Threshold (PT)

The PT from 2025/2026 is £242 per week or £12,570 per annum.

If you earn less than the threshold (or would after taking into account Salary Exchange) then you don't pay National Insurance contributions regardless, so therefore Salary Exchange does not carry the same impact and savings opportunity.

State Pension Age (SPA)

Once you are older than the SPA you don't normally pay any National Insurance Contributions and therefore you won't get National Insurance savings by using Salary Exchange.

If you voluntarily continue paying NICs after SPA, in order to make up a shortfall in your NIC record for State Pension, you can continue to get savings by using Salary Exchange.



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What to consider

Statutory Sick Pay (SSP)

Please refer to the LEL section.

During a period of SSP employers should maintain payment of pension contributions - if you use Salary Exchange the total contribution is payable by the employer so will be higher than if they were only responsible for theirs.

Statutory Redundancy Pay (SRP)

You are only entitled to SRP once you have been employed by the same employer for 2 years or more.

SRP is based on taxable earnings (up to a maximum weekly amount). If taxable earnings after Salary Exchange are less than the maximum weekly amount, it may reduce the amount of SRP entitlement upon redundancy.

The effect of any reduction is likely to be small but this potential loss of benefit should be considered.

Working & Child Tax Credit

Taxable earnings is one of several factors that affects the level of *any) Tax Credit you may be entitled to. As Salary Exchange reduces taxable earnings, the Tax Credit you are entitled to may go up, providing a direct benefit of using Salary Exchange.



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TOMORROW BEGINS TODAY

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