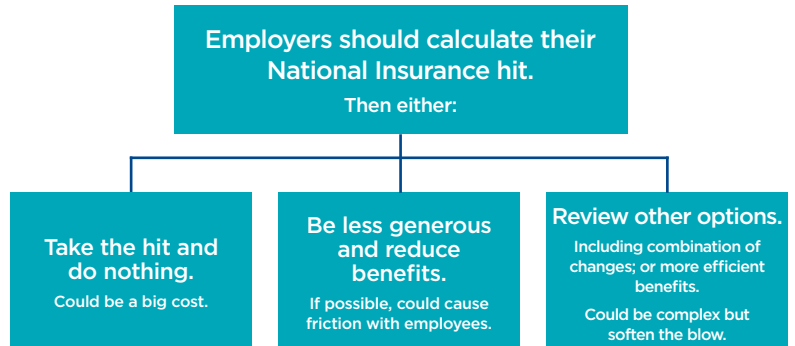


What employers should do now ahead of the 2029 salary sacrifice cliff edge

Another pensions tax-change bomb explodes in April 2029, as valuable salary sacrifice arrangements are restricted by the Government. Employers have three choices on how to deal with this. Chris Barnes explains more.



£2k pa
salary sacrifice
cap

Review your options:
take the hit, be less generous, or find savings elsewhere

Know your exposure
to understand the cost impact now

The 2029 salary sacrifice cliff edge

Salary sacrifice lets employees swap salary for a different benefit from their employer, including additional employer pension contributions. At present, this delivers an unlimited National Insurance saving for both employee and employer: the more salary that is swapped, the greater the saving for both. But from April 2029, only the first £2,000 of salary swapped each year will qualify for this relief.

For example, an employee on a £40,000 salary who swaps 10% (£4,000) into their pension will see annual losses of £160. For their employer, the same change means additional National Insurance costs of £300, or up to £300,000 across a workforce of 1,000 of similar employees.

It's the employer that decides how their salary sacrifice arrangements work, and it's the employer that will face the greatest cost hit, so action is needed now by every employer that uses it. But before they do anything, employers need to understand both their own tax hit and that of their employees. They also need to understand how their existing arrangements are structured.

Understand your exposure

Under salary sacrifice, employers can either keep their National Insurance savings or share them with employees. Many that keep the saving use it to help fund other benefits, including pensions, life assurance and ill health cover, so the question for them is how they will pay for these from 2029. For those sharing the saving with employees, the question is how they will explain the loss to staff, assuming they don't plan to cover it themselves. After all, it's not the employers' fault. This is a tax change. We are helping a lot of employers understand their exposure as a first step.

So, once an employer understands its position, what can it do?

Option 1 – Take the hit. For most employers, this is the likely outcome, but they need to understand the consequences and scale of it first. How much saving will be lost? How will this affect budgets from 2029 onwards? How will the messaging be

managed internally, including with the board, and communicated to employees? And will it affect investment or growth plans?

Option 2 – Be less generous. If looking at all options this will come up. For some employers it may not be possible or palatable. For some it may be necessary, but we may well see a rise in minimum contributions in future. Perhaps it means cutting employer pension contribution rates. This would likely require consultation with employees, who can object, but in most cases it would be for the employer to decide whether to push ahead. Of course, this means lower retirement pots for employees, though there are ways to mitigate that. We have seen investment returns vary between pension schemes by up to 10% over the last year, so ensuring employers are in the best-performing scheme can boost outcomes.

Option 3 – There could be other solutions to mitigate the cost. Reviewing the cost of other benefits, such as life assurance, is one way to ensure these are as low as possible. There may also be tax efficiencies on other benefits that are being missed and could be maximised. For some employers though, the numbers involved could be significant enough to affect hiring plans, employee replacements, or future investment as they work to balance budgets.

The most complex, but perhaps the most pragmatic approach is to combine the above: perhaps it means taking on some of the cost while also look at cost effectiveness of benefits. Is it worth the effort? It depends. The first stage is to know what the cost impact will be, and to do that now. That way, most potential tactics remain open. For example, some employers with the greatest losses are looking at phased changes, or potential offsets against salary increases over the coming years.

The £2,000 threshold is now confirmed in legislation and the change date isn't moving. Working out your exposure is straightforward but leave it too long and a considered plan becomes a rushed one.

Beyond this article

What should DC schemes be doing now?
Explore our checklist

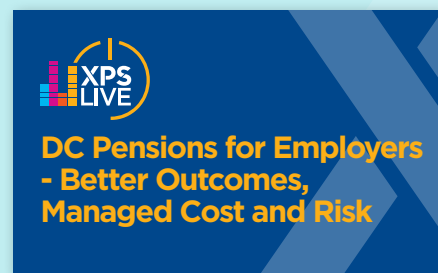


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April 2029 can seem a long way off and there is a lot of change involving pensions at the moment. The April 2029 pensions salary sacrifice change could have a material effect on employers' budgets, hiring and investment plans and the earlier it's considered, the more options employers may have to deal with this.

Find out more

For further information, please get in touch with **Chris Barnes** or speak to your usual XPS Group contact.



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