

# TOP UP.

It all adds up when you're helping clients plan for retirement. That's why it makes sense to be tax efficient now in favour of a more secure future. One way is for them to consider sacrificing part of their salary and investing it into their pension to top up their retirement fund.



## WHAT IS SMART SALARY SACRIFICE?

- Smart Salary Sacrifice is an arrangement where your client agrees to go without part of their salary/bonus in exchange for a non-cash benefit, which is usually a pension contribution from their employer.
- As the salary is sacrificed rather than being paid there is a saving of National Insurance for both the employee and the employer. As a result of this a higher pension contribution can be paid without reducing the employee's net income.
- Bonus payments may also be sacrificed in the same way.

## WHY USE SMART SALARY SACRIFICE?

- The National Insurance (NI) saving can be used to boost the pension contribution of the individual whilst leaving take home pay unchanged.
- For employees the savings are greatest when earnings are less than the upper earnings limit (£42,475 tax year 2011/2012).



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### HOW CAN SMART SALARY SACRIFICE WORK?

- In this example employee earns £38,000 each year
- Initially both employer and employee pay 5% a year pension contribution
- If a salary sacrifice scheme was implemented and all NI savings were paid into the pension scheme then the situation would be as follows:

EMPLOYEE	BEFORE SMART SALARY SACRIFICE	AFTER SMART SALARY SACRIFICE
Gross Salary	£38,000.00	£35,764.70
Income Tax	£5,725.00	£5,657.94
NI Contribution	£3,693.00	£3,424.76
Net Annual Contribution	£1,520.00	£0.00
<b>Net Pay</b>	<b>£26,682.00</b>	<b>£26,682.00</b>

  

ADDITIONAL CONTRIBUTION	BEFORE SMART SALARY SACRIFICE	AFTER SMART SALARY SACRIFICE
Employee Pension Contribution	£1,900.00	£0.00
Employer Pension Contribution	£1,900.00	£4,443.76
<b>Total Pension Contribution</b>	<b>£3,800.00</b>	<b>£4,443.76</b>

**An additional £643.76 is paid into the employee's pension plan – an extra 16.9% with no reduction in take home pay!**

### THINGS TO CONSIDER

- This example assumed that the employer was passing all the NI saving onto the employee. In practice this may not be the case.

### SUMMARY OF EMPLOYEE BENEFIT

- Take home pay is not affected
- The employee receives a higher pension contribution
- Smart Salary Sacrifice enhances a valuable benefit from the employer.

For further information about Legal & General's pension options please talk to your Legal & General contact or call:

**0845 273 0008**

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