Your Future Compass

RETIREMENT GUIDE

Salary sacrifice is changing in 2029: what it means for your pay

From April 2029 a £2,000 annual cap applies to the National Insurance saving on salary sacrifice. Income tax relief is untouched. Worked figures at ten salary levels, the counter-intuitive point that the cost peaks near £50,000, what it means for bonus sacrifice, and what your employer loses too.

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Salary sacrifice is changing in 2029: what it means for your pay

Salary sacrifice is the arrangement where you give up part of your salary and your employer pays it into your pension instead. Because the money never counts as salary, it escapes both income tax **and** National Insurance, which is what makes it more efficient than paying into a pension from your take-home pay.

From **6 April 2029**, one half of that stops being unlimited.

What is actually changing

Only the **first £2,000 you sacrifice in a tax year** will still escape National Insurance. Anything above that will be treated as earnings, and both you and your employer will pay National Insurance on it.

Three things it is worth being precise about, because early coverage of this change was not:

- **Income tax relief is not affected.** HMRC's own note says the income tax relief on employee and employer pension contributions "remain unchanged". Every pound still goes into your pension free of income tax. This is a National Insurance change and nothing else.
- **You can still sacrifice as much as you like.** There is no cap on what you contribute. The £2,000 is a cap on the *National Insurance exemption*, not on the arrangement.
- **It starts in 2029, not now.** You have until 6 April 2029 under the current rules.

What it costs, by income

The figures below assume you contribute **8% of salary** by sacrifice, which is roughly the employee side of a typical workplace scheme. They use today's National Insurance rates and thresholds: 8% between £12,570 and £50,270, 2% above that, and 15% for employers.

SALARY	SACRIFICED	ABOVE THE CAP	YOU PAY	PER MONTH	YOUR EMPLOYER PAYS
£25,000	£2,000	£0	**£0**	£0	£0
£30,000	£2,400	£400	**£32**	£2.67	£60
£35,000	£2,800	£800	**£64**	£5.33	£120
£45,000	£3,600	£1,600	**£128**	£10.67	£240
£50,000	£4,000	£2,000	**£160**	£13.33	£300
£60,000	£4,800	£2,800	**£56**	£4.67	£420
£80,000	£6,400	£4,400	**£88**	£7.33	£660
£100,000	£8,000	£6,000	**£120**	£10.00	£900
£125,000	£10,000	£8,000	**£160**	£13.33	£1,200
£150,000	£12,000	£10,000	**£200**	£16.67	£1,500

Read down the "You pay" column and you will notice it does not behave the way you would expect.

The counter-intuitive bit: the cost peaks near £50,000

Someone on **£50,000 pays about £160 a year more**. Someone on **£60,000 pays about £56**, a third as much, on a bigger salary and a bigger contribution.

That is not an error. Employee National Insurance is 8% between £12,570 and £50,270, and only **2% above** £50,270. Once your pay after sacrifice sits above that line, the extra earnings created by the cap are taxed at 2% rather than 8%. So the yearly cost climbs with salary up to around £50,000, drops sharply just past it, then climbs slowly again as contributions grow.

If you earn somewhere in the £45,000 to £52,000 band and sacrifice a meaningful amount, you are in the part of the curve where this change costs the most relative to your pay. Not the part most people would guess.

Bonus sacrifice is where it bites

Sacrificing a whole bonus is the single most common way to clear the £2,000 cap by a long way. On top of a regular 8% contribution:

SALARY	PLUS A £10,000 BONUS SACRIFICED	YOU PAY	YOUR EMPLOYER PAYS
£40,000	£13,200 total	**£896**	£1,680
£60,000	£14,800 total	**£560**	£1,920
£90,000	£17,200 total	**£304**	£2,280

Same shape as before: the £40,000 earner pays the most, because far more of their sacrifice sits in the 8% band.

Your employer is affected more than you are

Look at the last column of both tables. In most rows the employer pays **two to five times** what the employee does, because employer National Insurance is 15% on the whole excess with no upper limit.

That matters to you for a practical reason. Many employers currently pass some or all of their National Insurance saving into your pension as a sweetener for using sacrifice. If that saving shrinks, some may reduce what they add. Nobody has to, and plenty will not, but it is a fair question to ask your payroll or HR team well before 2029 rather than discovering the answer in a payslip.

Is salary sacrifice still worth it?

On these figures, for most people, yes. You keep full income tax relief on everything, you keep the National Insurance saving on the first £2,000, and the extra cost above that is measured in tens of pounds a month at most for typical contributions. That is a smaller change than the headlines suggested.

What it does do is narrow the gap between salary sacrifice and ordinary pension contributions. If you chose sacrifice purely for the National Insurance and you contribute far more than £2,000, the arrangement is less compelling than it was, and it may be worth revisiting the comparison closer to the time.

Some things worth thinking about, none of which are recommendations:

- **If you were planning a large one-off sacrifice** (a bonus, a redundancy payment, a catch-up contribution), the rules are more generous before 6 April 2029 than after.
- **Sacrifice can reduce more than tax.** Lower salary on paper can affect mortgage affordability, statutory maternity or paternity pay, and some benefits. That was true before this change and remains true.

- **Sacrifice cannot take you below the National Minimum Wage.** Employers usually cap the arrangement for this reason.
- **The annual allowance still applies** to what goes in, separately from all of this.

What to do now

Nothing urgent. This starts in 2029, and the rates and thresholds above could have moved by then, so treat the figures as the shape of the change rather than a forecast of your 2029 payslip.

Two things are worth doing this year. Find out how much you actually sacrifice, which is on your payslip and is often more than people think once a bonus is included. And ask your employer whether they intend to change what they contribute, because that number is likely to matter more to your pension than your own National Insurance bill does.

Then look at the part that dwarfs both: how much you are putting in, and for how long. A few tens of pounds a month of National Insurance is a small figure next to the contribution rate itself.

Where to get free, impartial help

For free, impartial guidance, the government's MoneyHelper service covers pensions and workplace benefits, and over-50s can book a free Pension Wise appointment to talk through taking money from a pension. Your employer's payroll or HR team can tell you what you currently sacrifice and what they intend to do from 2029. For your own circumstances, speak to a qualified, regulated financial adviser.

Sources. HMRC, *Salary sacrifice reform for pension contributions effective from 6 April 2029*, and *Changes to salary sacrifice for pensions from April 2029* (announced at Autumn Budget 2025). National Insurance rates and thresholds: gov.uk, *National Insurance rates and categories*, 2026/27.