

# Briefing note

## LGPS - Salary Sacrifice on Additional Voluntary Contributions



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In the 2025 Autumn Budget it was announced that, from April 2029, any Salary Sacrifice employee pension contributions above £2,000 annually will no longer be exempt from National Insurance Contributions (NICs). This may impact members within the LGPS who pay Additional Voluntary Contributions (AVCs).

Following the announcement there has been some confusion and misunderstanding about what it means and its potential impact on members. We've set out some Q&A's below that we hope will provide some clarity.

### Does the change affect all LGPS members?

No, it will only affect active members, from 1 April 2029 onwards, who meet both of the following criteria:

- 1) they pay AVCs that exceed £2,000 per annum, and
- 2) they use a Salary Sacrifice mechanism provided by their employer to pay these AVCs. .

All other members are unaffected. For the avoidance of doubt, the change has no impact on regular employee contributions that active members pay to fund their main statutory LGPS benefits.

### What is Salary Sacrifice and how can it benefit LGPS members?

In the LGPS, a mechanism known as Salary Sacrifice can be used by its employers for members who make AVCs.

Members using the mechanism agree to give up a proportion of their salary in return for their employer paying the equivalent amount into their pension. The benefit to the member and their employer is that both make savings in National Insurance Contributions (NICs). The member also makes Income Tax savings on their AVCs.

The savings emerge because NICs and Income Tax are both dependent on a member's earnings. Salary Sacrifice reduces a member's salary in exchange for paying an AVC, and therefore reduces the earnings that NICs and Income Tax are based on.

### How are the benefits of Salary Sacrifice affected by the Autumn 2025 Budget?

There will be a change to how pension contributions, such as member's AVCs, made via Salary Sacrifice will be treated for NIC purposes.

From April 2029, only the first £2,000 of employee pension contributions made via Salary Sacrifice per year will receive NI relief. Additional contributions above this level will no longer receive any relief. The change also impacts the NI relief the employer receives when AVCs are made.

The member's Income Tax relief is unaffected by this change – they will still receive full relief on any level of AVCs they make.

### **Will members be able to contribute more than £2,000 in AVCs?**

Yes, members will be able to continue to contribute more than £2,000 per year, but any AVCs (above the £2,000 level) will be subject to NICs. The annual assessment period relies on the tax year.

### **How much is this going to impact a member's take-home pay?**

Before April 2029, there will be no impact on a member's tax-home pay. From April 2029, the impact is based on how much the member contributes annually via AVCs paid via Salary Sacrifice and on their earnings level:

- Where AVCs are less than £2,000 per year, there will be no change to take-home pay.
- Where AVCs exceed £2,000 per year, take-home pay will reduce. The change is expected to be modest for most members. For example, a member earning £40,000 per year and contributing 8% via AVCs (£3,200) would see their take-home pay reduce by £96 per year, or £8 per month.

### **Does this change the gross amount of contributions that are paid into the member's AVC pot?**

No, if a member continues to make the same level of AVCs, the amount going into their pension pot from AVCs will be the same.

### **How will this impact employers in the LGPS?**

There will also be a cost impact for employers. Previously, employers saved 15% on Salary Sacrifice pension contributions via NI cost savings on all member AVCs, but this will be capped at 15% savings on up to £2,000 of AVCs (i.e. a maximum saving of £300).

As an example, for a member earning £40,000 per year and making a contribution of 8% via AVCs (£3,200), the employer had a NI cost saving of £480. From April 2029, this NI cost saving to the employer will reduce to £300 and therefore a cost increase of £180 per year.

The employer will also need to report the amount sacrificed to HMRC through payroll.

Employers do not currently pay NICs on their own contributions to their employees' pensions, and this is not proposed to change.

### **How will the proposed change work in practice?**

We are still awaiting further guidance on how this change will be implemented. In particular, the mechanics of how the cap will apply in practice are still to be determined.

### **Do Hymans offer support in this area?**

Yes, we can help to assess the potential impact of Salary Sacrifice on your AVC members or for your employers. We can also review your AVC offering.

We're a named supplier under the National LGPS Framework for AVC services (lot 2) and have a deep knowledge of the AVC provider market and its complexities, including with-profits. Our AVC team can be contacted at [DCAVCTeam@hymans.co.uk](mailto:DCAVCTeam@hymans.co.uk).

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