

Salary Sacrifice FAQs

Additional Voluntary Contributions paid via SMART Pensions

1. What is SMART Pensions?

SMART Pensions is a salary sacrifice arrangement, which is a different way of making contributions to your workplace pension. It enables the vast majority of employees and the Company to pay lower National Insurance (NI) contributions. As a result, most employees who use SMART Pensions receive higher take-home pay than if they didn't use SMART Pensions.

When you participate in SMART Pensions, you do not make contributions direct to your pension scheme from your pay. Instead, the Company pays an amount equivalent to your contributions to the pension scheme.

You can find more information about salary sacrifice via MoneyHelper: [Salary sacrifice and your pension](#)

2. Hasn't the option for pension contributions to be paid via SMART Pensions already been in place for some time?

Yes, but only for your regular pension contributions, not for additional voluntary contributions (AVCs). All contributions, including any AVCs, can now be paid via SMART Pensions.

3. Are there any restrictions on AVCs paid via SMART Pensions?

Yes, payments made via SMART Pensions, or any other salary sacrifice arrangement are restricted to your gross salary above the National Minimum Wage (NMW).

This means any benefit, including AVCs, won't be paid via salary sacrifice if by doing so it takes your pay below the NMW.

For example, if you earn £35,000 a year and the NMW equivalent is £23,795 (for your hours), the maximum you can sacrifice is roughly £930 per month or £860 if paid on a lunar basis.

You can find the NMW rates at: [National Minimum Wage and National Living Wage rates](#)

4. How does this effect other benefits I pay via salary sacrifice such as the green car scheme?

Both your regular pension contributions and AVCs will be calculated for salary sacrifice before green car and / or other reward benefits. If after sacrificing salary for pension and AVCs your remaining gross salary is sufficiently above the National Minimum Wage (NMW) to allow you salary to be sacrificed for the green car scheme or other reward benefits, then there will be no change to how these benefits are paid.

If your remaining gross salary is not sufficiently above the NMW to allow green car or other reward benefits to be paid in full via salary sacrifice, then these benefits will be paid as a net deduction meaning you will pay income tax and national insurance contributions prior to these benefits being taken from your pay.

For example, if you earn £35,000 a year and the NMW equivalent is £23,795 (for your hours), the maximum you can sacrifice is roughly £930 per month or £860 if paid on a lunar basis.

If your monthly regular pension contribution was £204, and you choose to pay 5% of your salary as an AVC (which would be £146) and your green car was £500, this is a total spend of £850, which is above the NMW and therefore all these benefits will be paid via salary sacrifice.

However, if your monthly regular pension contribution was £204, you choose to pay 10% of your salary as an AVC (which would be £292) and your green car was £500, this is a total spend of £996, which would mean your salary falling below the NMW. Therefore, only your regular pension and AVCs will be paid via salary sacrifice. Your green car payment will be collected after your NI and income tax have been paid.

Example: Green Car with monthly rental £500 additional cost of deductions being made Net (after tax)

Tax band	Paid from gross (salary sacrifice)	Paid from net (After tax)	Difference in monthly deduction
20% taxpayer	£500	£625	+ £125
40% taxpayer	£500	£833	+ £333

If your preference is to pay other benefits (such as green car) via salary sacrifice rather than your AVCs then you can opt out of SMART Pensions for you AVCs, see Q10 to find out how.

You can find the NMW rates at: [National Minimum Wage and National Living Wage rates](#)

5. Who can't / shouldn't participate in salary sacrifice?

There are a few employees who are not eligible to participate in salary sacrifice including:

- Any employees whose pay would fall below the National Living Wage as a result of salary sacrifice.
- Expatriate or overseas employees, other than those on short-term assignments, for whom different taxation and/or social security arrangements apply.
- Employees whose annual gross rate of pay is less than the Lower Earnings Limit (£542 a month for 2025/26, details can be found at: [Rates and allowances: National Insurance contributions](#)) or who fall below this level at any time during the year, may not benefit from salary sacrifice, as they may lose entitlement to certain State benefits.

6. Does the Company benefit from salary sacrifice?

Yes, the Company also pays lower NI on employees' salaries under salary sacrifice.

7. Would salary sacrifice affect my income tax position?

No, salary sacrifice only affects NI payments. Income tax payments would be unaffected. AVCs are already paid from gross income just like other pension contributions.

8. Does the more you earn mean the more you save?

Yes, to a certain extent. Once your earnings exceed the Upper Earnings Limit (£4,189 a month for 2025/26, details can be found at: [Rates and allowances: National Insurance contributions](#)) NI rates reduce on the balance of earnings above this limit from 8% to 2%. Employees earning above this amount will therefore save proportionately less.

9. How long will salary sacrifice last?

There is no end date planned. However, if the tax/National Insurance regime or the law changes, or it is no longer viable for BAE Systems to operate this arrangement, the Company reserves the right to withdraw salary sacrifice.

10. What should I do if I decide to opt out of SMART Pensions?

Paying your contributions through salary sacrifice is not compulsory. Employees can opt in or out of salary sacrifice for pension contributions by submitting a request via the Employee Service Centre.

The initial process to opt out of salary sacrifice for AVCs only is different. If you do not wish to pay your AVCs by salary sacrifice from January 2026 please request an opt out form by emailing dcoversightcommittee@baesystems.com. To ensure payroll receive your instruction for January's pay, the completed form must be returned by email to the same email address no later than 12 December 2025.

From 15 December 2025, you will be able to opt in or out of salary sacrifice for AVCs at any time via the Employee Service Centre.

11. What happens if I decide to stop paying AVCs?

You can choose to stop, start or change your AVCs at any time, this does not affect salary sacrifice on your regular pension contributions. You will however resume paying more NI contributions if you stop paying AVCs.

12. How will salary sacrifice affect my State Pension?

Salary sacrifice does not impact your ability to build up the single-tier new State Pension. Information on the new State Pension is available at: [The new State Pension: What you'll get](#)

13. Would salary sacrifice impact any benefits I get from the State?

Entitlement to some State benefits, such as statutory sick pay, incapacity benefit and job seekers allowance are based on the amount of NI that has been paid. Provided you continue to earn more than the Lower Earnings Limit (about £6,500 a year for 2025/26) on a regular basis after the application of salary sacrifice, your entitlement to these benefits will not change.

14. Can I pay my regular monthly pension contributions by salary sacrifice, but not pay my AVCs by salary sacrifice (or vice versa)?

You are permitted to opt out of salary sacrifice for your AVCs and continue paying your regular pension contributions by salary sacrifice, if you wish. It is important to note however that if you decide to opt out of salary sacrifice for your regular pension contributions, you cannot pay AVCs via salary sacrifice.

15. Does salary sacrifice affect mortgage applications?

Traditionally, lenders use your take-home salary to determine what you can afford. If you're taking home less due to a salary sacrifice scheme, this may have impacted your mortgage affordability. However, as salary sacrifice schemes have become more popular in the UK, more lenders have begun to consider your gross salary before any salary sacrifice benefits are deducted. You should check with your mortgage lender if you are uncertain what figures they need for your application.

16. I am on International Assignment; how does this impact me?

Different rules may apply whilst you are on international assignment, please speak to your global mobility contact to discuss your particular circumstances