

# Salary Sacrifice FAQs

## Pension 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.

Exchanging pension contribution via a salary sacrifice arrangement is covered in your contract of employment.

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

### 2. What pension contributions are paid via SMART Pensions?

Unless you have opted out of SMART pensions, or you are not eligible for payments via salary sacrifice, all pension contributions ordinarily deducted from pay including, from January 2026, Additional Voluntary Contributions ("AVCs") are paid via SMART pensions.

### 3. Are there any restrictions on pension contributions 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 pension contributions, 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 affect 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 contributions and AVCs your remaining gross salary is sufficiently above the 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.

Expanding on the earlier 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 leaves your earnings after the deductions above the NMW and therefore all these benefits can be paid via salary sacrifice.

However, if instead you chose to pay 10% of your salary as an AVC (which would be £292) this is a total spend of £996, which would mean your salary falling below the NMW. Therefore, only your regular pension and AVCs would be paid via salary sacrifice. Your green car payment will be collected after your NI and income tax have been paid. The possible impact of this is shown in the examples below:

*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 pension and or AVCs then you can opt out of SMART Pensions for all pension contributions, or just your AVCs, see Q9 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 Minimum 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 National Insurance contributions 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.

## 8. 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.

The Government has recently announced that it will cap the amount that can be saved via salary sacrifice. This change is not expected until 2029 and the Company will monitor developments.

## 9. 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 (“ESC”) portal:

[SMART Opt Out or Opt In – All BAE Systems pension schemes](#)

If you do not have access to the ESC portal please call 0208 068 2868 to help progress your request.

## 10. 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](#)

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

Entitlement to some State benefits, such as Statutory Sick Pay, Incapacity Benefit and Jobseekers 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.

## 12. Can I pay my regular monthly pension contributions by SMART Pensions, but not my AVCs (or vice versa)?

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

## 13. 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.

## 14. 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.