

# NHS Pension Schemes 2023/13

**Who should read:** NHS HR and Payroll Managers  
GP Practice Managers  
Direction Bodies  
Practitioner Services Division (PSD)  
Dental Payments

**Action:** To read and circulate to all interested parties

**Subject:** Salary Sacrifice

**Date:** 08 December 2023

**The purpose of this circular is to clarify the position in the NHS Pension Scheme (Scotland) (NHSPS[S]) in relation salary sacrifice schemes and the effect on contributable salary.**

Key information in this circular:

- Salary sacrifice is pensionable under the NHSPS(S) for the two established salary sacrifice schemes detailed below:
  - Childcare vouchers
  - Cycle to Work Scheme (bicycles and cycling safety equipment)
- All other salary sacrifice schemes ran by employers should be treated as being non-pensionable.

## **Background**

Salary sacrifice occurs when an employee gives up the right to receive part of their salary due under their contract of employment and in exchange receives a non-cash benefit. It does not apply where an employee receives full pay and then buys a service from the employer.

National insurance contributions (NICs) will be payable on the reduced salary. The sacrificed element is not liable to NICs. The employee makes a saving although there may be implications for state benefits which are dependent on NICs.

The position on salary sacrifice was previously set out in NHS Pension Scheme Circulars [2005/05](#) and [2011/5](#) which confirmed that salary sacrifice is pensionable under the NHSPS(S) provided that the salary sacrifice scheme meets the criteria laid down by the HM Revenue and Customs (HMRC) and a contractual arrangement varying the employee's terms and conditions relating to pay is

entered into. This approach is broadly consistent with other Scottish public service pension schemes.

The position with salary sacrifice has changed since the last circular in 2011 with new salary sacrifice arrangements emerging and others falling away. In addition, from 6 April 2017, the UK Government removed any tax and national insurance advantages for salary sacrifice schemes, except in a limited number of salary sacrifice arrangements. Two of the these types of arrangements which are currently made available to NHS members by some employers are:

- **Childcare vouchers provided by the employer for qualifying childcare**
- **Cycle to work schemes (bicycles and cycling safety equipment)**

### **Confirmation of position on Salary Sacrifice**

Going forward, the intention is that **salary sacrifice will remain pensionable in the NHSPS(S), however, it will be limited to the two schemes detailed above: childcare vouchers and cycle to work.** The salary sacrifice schemes must meet the criteria laid down by HMRC and a contractual arrangement varying the employee's terms and conditions relating to pay must have been entered into.

Guidance on Salary Sacrifice Schemes is available from the HMRC website at: [www.gov.uk/guidance/salary-sacrifice-and-the-effects-on-pay](http://www.gov.uk/guidance/salary-sacrifice-and-the-effects-on-pay)

For these two salary sacrifice arrangements only, pension contributions are payable on the amount, which is being sacrificed and, therefore, contributions are deducted from the members gross salary before the deduction for the salary sacrifice arrangement.

All other salary sacrifice arrangements, including for ultra-low emission vehicles, should be treated as being non-pensionable, i.e., pension contributions should not be paid on the sacrificed salary and contributions should be deducted from salary after the amount sacrificed has been taken off.

### **Existing Salary Sacrifice Arrangements**

We are aware that there has been some confusion about the pension treatment of salary sacrifice arrangements given the changes that have taken place since the last circular on this subject was issued in 2011, and that there is an inconsistency across employing authorities. Therefore, where employees have an existing salary sacrifice arrangement which is incorrectly treated as pensionable or non-pensionable (as per the criteria set out above) these can continue to be treated in the same way until the end of that arrangement or the salary sacrifice is renegotiated. However, prospectively, from the date of this circular, only salary sacrifice for the two schemes detailed above (childcare and cycle to work) is pensionable and all other arrangements should be treated as being non-pensionable.

**Note: Where a non-pensionable salary sacrifice arrangement is in place, it is the reduced salary that will be used in future pension awards. Please ensure all members are made aware of this fact.**

Please contact [sppapolicy@gov.scot](mailto:sppapolicy@gov.scot) if have any enquiries about this circular.

**SPPA Policy Team  
08 December 2023**