

Pension contributions

This guide will explain what is classed as pensionable pay and how this would look on your payslip.

A pension contribution is the amount you pay into your pension each time you are paid. If you are an [eligible](#) or non-eligible jobholder, your employer will also make contributions into your pension pot. The government contributes too, in the form of [tax relief](#).

Your pensionable pay

Your pensionable pay (sometimes called your *pensionable earnings*) are the earnings used by your employer when calculating the amount of money you'll contribute to your pension pot.

For eligible and non-eligible jobholders, there is a minimum total contribution that must be made into your pension. This is 8% (in the tax year 22/23) of your pensionable pay, of which your employer must contribute a minimum of 3% , and the rest will be contributed by you. Remember, this is a minimum and both you and your employer may choose to contribute more.

There are three methods of calculating your pensionable pay. Once your employer has chosen the method that fits their employees best, your minimum contribution and their minimum contribution will be calculated from this figure.

Let's take a look at how your employer might calculate your pensionable pay...

1. Qualifying Earnings Method

One option is to calculate pensionable pay based on qualifying earnings. Qualifying earnings refer to a salary range. This range is gross earnings between £6,240 and £50,270 (for the tax year 2022/23). Your qualifying earnings is the amount of money between this range. This is what your, and your employers pension contributions will be calculated on.

2. Basic Pay Method

Pension contributions are calculated on your basic pay only. Using this method, basic pay is your basic salary before any overtime, bonuses, or commission.

3. Total Earnings Method

Your employer might choose to calculate your pensionable pay through your total earnings. This is, quite simply, all of the money you've earned added together (except income from dividends).

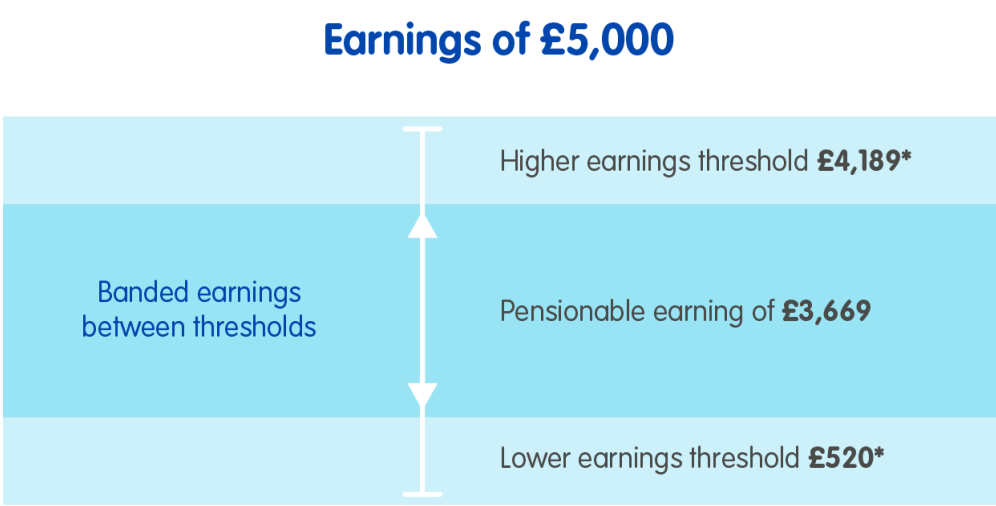
The most commonly used definition of pensionable pay, in smaller businesses, is qualifying earnings.

In the following worked example we will explain how contributions are calculated, and more importantly, how they will show on your payslip.

- Jack is a worker who has been assessed as an eligible jobholder and is enrolled to the company workplace pension.
- Pensionable pay is calculated on his qualifying earnings and is a Relief at Source scheme.
- Jack’s contribution is 5% gross and his employer contributes 3%.

Firstly, we need to work out Jack’s qualifying earnings for this month.

Remember, Jack’s qualifying earnings are his earnings between the lower and higher earnings threshold, as below.



Employee Contribution

Jack’s contribution is 5% gross. For a relief at source scheme, tax relief will be added by the pension provider. Therefore, the deduction from his pay will be 4% net.

4% of £3,669 qualifying earnings = **£146.76**. This is Jack’s total pension contribution for this month, and the figure that appears on his payslip.

Employer contribution

Now let’s apply the same process to calculate what his employer will be contributing. The employer is contributing 3% of ‘qualifying earnings’. There is no tax relief on employer contributions.

3% of £3,669 qualifying earnings = **£110.07**.

How would this look on Jack's payslip?

COMPANY NAME		EMPLOYEE NAME		DATE	
Cox and Co TEST001		11 : Jack Frost		30/11/2022	
DEPARTMENT (IF APPLICABLE)		N.I. NUMBER & TABLE		TAX CODE	PAY METHOD
-		A		1257L	Credit transfer
PERIOD					
M8					
TOTALS YEAR TO DATE		RATE	HOURS	PAYMENTS	
				DEDUCTIONS	
TAXABLE PAY	35,000.00			Salary	1. 5,000.00
TAX	5,618.53				Tax 952.07
					National Insurance 393.14
					Pension Contribs. 2. 146.76
NI EMPLOYEE	3,108.00				
NI EMPLOYER	4,415.86				
NI'ABLE PAY	35,000.00				
PENSION ER TP	3. 110.07				
PENSION EMPLOYEE	4. 1,284.15				
PENSION EMPLOYER	5. 770.49				
		HOURS	0.00	TAXABLE PAY	5,000.00
		EMPLOYERS NATIONAL INSURANCE	585.40	NON TAXABLE PAY	0.00
				TOTAL PAY	5,000.00
				DEDUCTIONS	1,528.66
				NET PAY	3,471.34

- 1. Salary - monthly salary .
- 2. Pension contribs — the net deduction from pay this month.
- 3. Pension ER TP — Employer pension contribution this month.
- 4. Pension Employee—total employee contributions for the year to date.
- 5. Pension Employer—total employer contributions for the year to date.