

# Employer Pension Guide - Annex 4E

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# Calculating partnership contributions

## Tax

Employee contributions are calculated after the deduction of basic rate tax, currently 20%, (regardless of the tax status of the employee). The provider then claims basic rate tax relief from HM Revenue & Customs and credits it to the employee's pension fund. Higher rate taxpayers claim their additional tax relief via their annual tax return. Please note that any changes to the main basic rate of tax will affect the net employee contributions that are deducted by payroll, so the examples below will need to be adjusted.

Employer contributions are calculated and paid gross (i.e. before tax).

## Calculations and examples

Age related contributions are calculated according to the employee's age at the beginning of the current tax year (i.e. on 6 April last):

Table 1:

partnership age related contributions	
Employee's age at start of current tax year	Employer contribution - % of pensionable earnings
under 31	8
31-35	9
36-40	11
41-45	13.5
46 and over	14.75

## Employer matching contributions:

If the member makes regular contributions, the employer matches these up to a maximum of 3%. Employer matching contributions will only apply to monthly contributions paid by the employee. You must take care when calculating the matching contributions as the aim is to match on a gross basis. This means that the amounts paid to the provider as (a) the employee contribution and (b) the employer matching contribution are not the same.

If an employee decides to make a one-off lump sum contribution, this will not attract matching contributions, and the employee should deal with the provider direct.

### Example 1: employee does not contribute



Sam has pensionable earnings of £1,000 (gross) in the month. Sam was aged 20 at the beginning of the tax year. Sam has not opted to pay any contributions.

Employer's age-related contribution =  $8\% \times £1,000 = £80$

### Example 2: employee contributes up to 3%



Sue has pensionable earnings of £1,500 (gross) in the month. Sue was aged 28 at the beginning of the current tax year. Sue has chosen to pay contributions of 2%.

Sue's net contribution =  $2\% \times 0.80 \times £1,500 = £24.00$  (grossed up to £30 by the provider). The 0.80 factor reflects the deduction of basic-rate tax.

Employer's age-related contribution =  $8\% \times £1,500 = £120$

Employer's matching contribution =  $2\% \times £1,500 = £30$

Total employer contribution = £150

Total payment to the provider =  $£150 + £24.00 = £174$

**Example 3:** employee contributes over 3%

Ian has pensionable earnings of £2,000 (gross) in the month. Ian was aged 40 at the beginning of the current tax year. Ian has chosen to pay contributions of 5%.

Ian's net contribution =  $5\% \times 0.80 \times £2,000 = £80$  (grossed up to £100 by the provider)

Employer's age-related contribution =  $11\% \times £2,000 = £220$

Employer's matching contribution =  $3\% \times £2,000 = £60$  (employer matching contribution is restricted to 3%)

Total employer contribution = £280

Total payment to the provider =  $£280 + £80 = £360$



