

Qualifying Earnings

Our auto-enrolment pension scheme is calculated on qualifying earnings, that is any earnings between the lower earnings limit and upper earnings limit, or between £120 and £967 per week. Therefore, if an employee earns less than £120, then their pensionable earnings will be £0, and they will not have any contributions. Similarly, if an employee earns more than £967, then their pensionable earnings will not be more than £847 (i.e. £967 less £120).

Relief At Source

There are two methods for calculating work place pension contributions:

1. relief at source: the employer deducts 4% after tax and passes it to the pension provider, who claims basic rate tax relief from HMRC, increasing the contributions to 5%
2. net pay arrangement: the employer deducts 5% before tax is taken

Compass uses the relief at source method for all its pension scheme, which means we are going to deduct 4% of any qualifying earnings.

NOTE: higher-rate tax payers can claim tax relief at the higher rate, therefore their contributions will be uplifted to 6%

Effect of Qualifying Earnings and Relief At Source

If an employee earns £967 or more per week, qualifying earnings will not be more than £847. Further, under Relief At Source, the employer deducts 4% for employee contributions.

Therefore, the most that will be deducted for employee contributions is $£847 \times 4\% = £33.88$.

Similarly, if an employee earns £967 or more per week, then the employer contributions will not be more than $£847 \times 3\% = £25.41$

NOTE: there is no uplift on the employer contributions under relief at source as these contributions are not deducted after tax.

Can I contribute more than my qualifying earnings?

Short answer: Yes.

Long answer: Yes, but you cannot contribute more than the following limits:

- 100% of your in-year earnings
- £40,000 per year, or
- £1,073,100 per lifetime.

Can I make my own pension contributions and still receive tax relief?

Short answer: Yes, and your pension provider will apply for 20% tax relief on any contributions that you make, or 40% if you are a higher rate tax payer.

Long answer: Yes, but you are still limited by the above limits.

Further reading

Further information is available from Money Helper, our pension provider (The Peoples Pension) and HMRC.

<https://www.moneyhelper.org.uk/en>

<https://thepeoplespension.co.uk/auto-enrolment/>

<https://www.gov.uk/tax-on-your-private-pension>