



GUIDANCE &

FAQS

LIVING PENSION



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THIS DOCUMENT IS INTENDED AS AN ACCOMPANIMENT TO THE LIVING PENSION STANDARDS AND OUTLINES HOW THOSE STANDARDS ARE INTENDED TO BE APPLIED IN PRACTICE.

Living Pension Guidance

What is the Living Pension?

You can find a short summary about Living Pension on our [website](#) and find more detail in [Living Pension Standards](#).

Definition of Employee

All employees working for the employer must be included within the Living Pension, provided they are aged 18 or over. Although employees can be treated differently according to [auto-enrolment legislation](#) based on age and earnings, a Living Pension employer must offer access to the Living Pension contribution level regardless of whether the employee is automatically enrolled or given the option to opt in.

Where employers can operate contractual enrolment, we do encourage them to enrol all employees, but this is not a core requirement of the Living Pension standard.

Definition of Pay

Under auto enrolment legislation there are four different definitions of pay that can be used by employers, all of which can be found here: [Workplace pension contributions](#) | [MoneyHelper](#). Under the Living Pension, employers can choose to use any of these except for Qualifying Earnings, which only covers earnings between £6,240 - £50,270. Where employers use Qualifying Earnings, they need to move to all earnings up to £50,270 within three years of accreditation (we are calling this Qualifying Earnings Plus).

Auto-enrolment vs Living Pension Explained

Auto enrolment

Government minimum for certain groups of employees

What is it?

8% of earnings between £6,240 & £50,270

How much is that in pounds and pence?

£1,373*

How much do employers have to pay?

3% of earnings between £6,240 & £50,270 (£514.80 per year*)

Is it the law?

Statutory

Does it apply to all employees?

It applies to all employees earning over £10k per year and over age 22**

Living Pension

A savings rate designed to build up a retirement pot based on the real cost of living

What is it?

12% of all earnings up to £50,270

How much is that in pounds and pence?

£2,800*

How much do employers have to pay?

7% of all earnings up to £50,270 (£1,630 per year*)

Is it the law?

Voluntary

Does it apply to all employees?

It applies to all employees***

*based on a Living Wage employee working a 37.5 hour week

**employees under these thresholds but earning above £6,240 have to be given the option to join

***all employees must have access to a Living Pension regardless of age and earnings, whether by auto-enrolment or opting in

Living Pension Accreditation Requirements

Living Pension must meet the minimum 12% contribution, with at least 7% coming from the employer, or a minimum cash amount of £2,800 (with £1,630 coming from the employer). This is a requirement at accreditation.

Living Pension must apply to all employees over the age of 18 regardless of earnings. For those who don't meet the auto enrolment qualifying criteria, they must be given the option to opt-in even if they are not auto enrolled. This is a requirement at accreditation.

Living Pension must apply to all earnings up to £50,270 (whereas auto enrolment only applies to earnings between £6,240-£50,270). This is a requirement within 3 years of accreditation.



Default Contribution Rate for Living Pension

This is the default level at which employees are initially enrolled into the pension scheme. This must meet the 'default' levels laid out in the Standards. The employer contribution can exceed this. Employers can offer a range of contribution options on an 'opt up' or 'opt down' basis, but the level employees are enrolled on must meet the Living Pension standard. In simple terms, the annual contributions are laid out below:

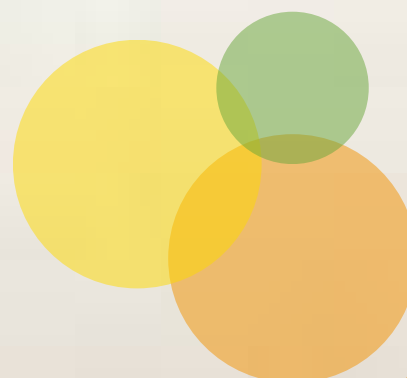
Maximum Employee	Minimum Employer	Minimum Total
£1,170	£1,630	£2,800
5%	7%	12%

Employers can choose to pay **more than the minimums** and **require less from the employee**. There is a maximum employee contribution of 5% as this aligns with the Living Wage calculation and auto-enrolment minimums.

Note that the cash numbers are based on a Living Wage employee working 37.5 hours per week. Where an employee works more or fewer hours than this, the cash amount should be pro-rated as laid out below.

Pro-rated Contribution Rate for Living Pension

Default Employer Contribution	X	Average number of hours worked per week by the Employee in the relevant month
or		37.5
Default Total Contribution (as appropriate)		



Current and New Employees

At implementation, all employees must be given access to a Living Pension. Where employers are using a % target and have previously paid 3% under auto-enrolment minimums, this must be moved to 7% at accreditation.

- New employees should be enrolled on the Living Pension level from point of accreditation.
- Existing employees do not need to be moved to the Living Pension level if they have not opted to do this and it requires them to pay more (see example below).

Example Contribution Structures

Moving from auto enrolment to Living Pension.

Pre-Accreditation	Employee	Employer	Total
Your company default	5%	3%	8%
Post-Accreditation			
Your company default	5%	7%	12%

Alternative structure example

Pre-Accreditation	Employee	Employer	Total
Your company default	3%	5%	8%
Opt up option A	5%	7%	12%
Opt up option B	7%	9%	16%
Post-Accreditation			
Opt down option A	3%	5%	8%
Your company default	5%	7%	12%
Opt up option B	7%	9%	16%

New employees should be enrolled on a Living Pension level by default from implementation, and this should be the base level from this point forward.

*In all cases, employees can be excluded where they have Annual or Lifetime Allowance Protections in place as this will not be those with inadequate pension savings.

Opt Outs

Employees can choose to opt out as per auto-enrolment legislation. When they are re-enrolled (which should be done within 3 years based on the employer re-enrolment date) they should be enrolled on the Living Pension default level.

We will work with each employer to set a target to increase the number of existing employees saving at Living Pension and this will be reviewed annually.

Where employees opt out on grounds of financial hardship, we encourage employers who can to still pay their minimum default contributions, but this is not a requirement of the Living Pension standard.

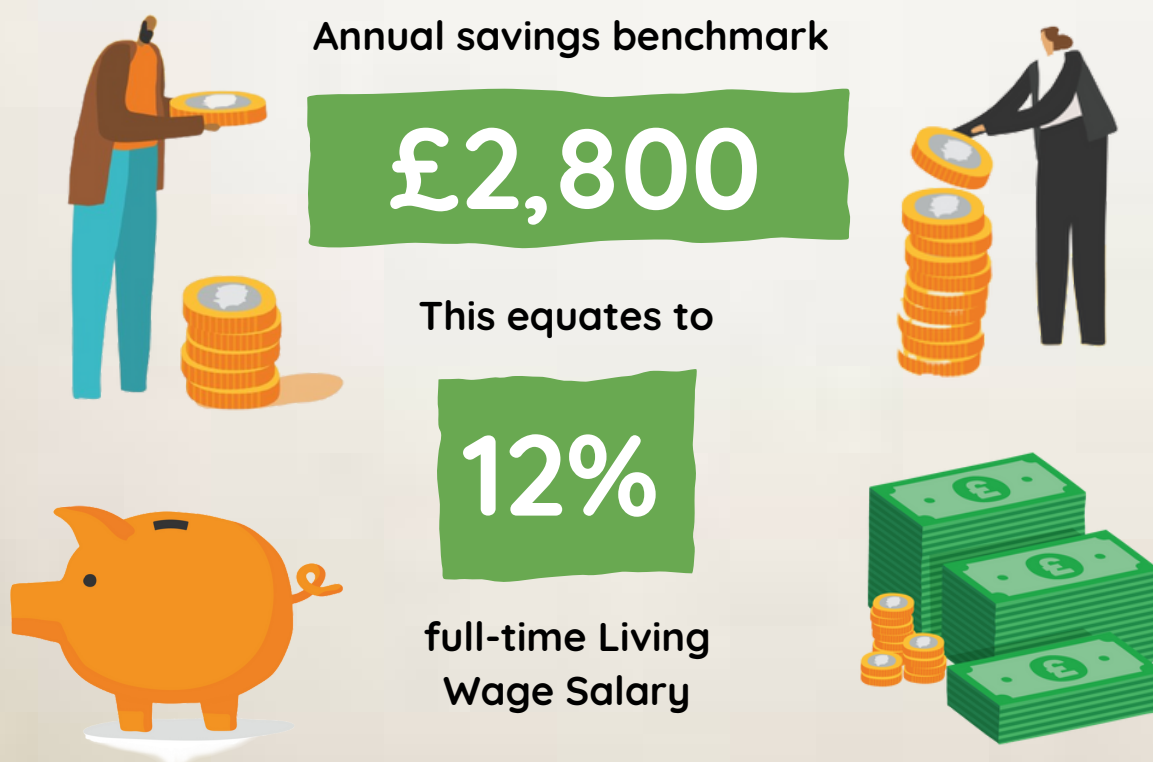
Cash or Percentage Target

The Living Pension target can be met either using a percentage or cash minimum.

Opt Downs

Employees can choose to opt down to a contribution level lower than the Living Pension (see example above). We will work with each employer to set a target to increase number of existing employees saving at Living Pension and this will be reviewed annually.

Again, where employees opt down on grounds of financial hardship, we encourage employers who can to still pay their minimum contributions, but this is not a requirement of the Living Pension standard.



Cash or Percentage Target Cont.

Employers do not need to apply both the cash and the percentage target. If overall contributions meet the minimum total annual cash target of £2,800 per employee (for full-time employees working a 37.5 hour week), then they do not need to meet the minimum 7% employer contribution and the maximum 5% employee contribution. However, there does need to be a minimum cash contribution of £1,630 from the employer per employee.

The cash target allows employers to focus on lower earners. Using this approach, employers can keep their current percentage schemes and top up those on lower salaries to ensure they are meeting the cash target.

For example, if an employer offers a matching scheme starting at 5%, where the employee pays 5% and the employer will match this with 5%, giving an overall contribution of 10%, this would not meet the Living Pension standard (12% overall contributions). However, the employer could opt for the cash target and top up all employees who do not meet the overall £2,800 minimum contribution within this 10%.

Pre-Accreditation	Employee	Employer	Total
Your company default	5%	5%	10%
Employee on a Living Wage*	£1,170	£1,170	£2,340
Employee earning £28,000 per annum	£1,400	£1,400	£2,800
Post-Accreditation			
Your company default	5%	5%	10%
Employee on a Living Wage*	£1,170	£1,170 + top up of £460	£2,800
Employee earning £28,000 per annum	£1,400	£1,400 + top up of £230 (£1,630)	£3,030

*assuming a 37.5 hour week

FAQs



Who does the Living Pension apply to?

As with the Living Wage, the Living Pension applies to directly employed and third party workers. Employers operating under auto-enrolment legislation should enrol all eligible employees onto the Living Pension and give access to a Living Pension for all employees, regardless of auto-enrolment eligibility. We support the Government's plans to reduce the age threshold for auto enrolment to 18, and we encourage employers who can to adjust their contracts and enrol all employees regardless of age and earnings.

This table shows how compliance with the Living Pension standard compares with the auto-enrolment rules:

Auto-enrolment Worker Type	Auto-enrolment Rules	Living Pension Rules
Eligible Jobholder	Must be AE'd and get minimum AE employer contribution	Must be AE'd and get minimum LP employer contribution
Non-eligible Jobholder	Must be given right to opt into AE and get minimum AE employer contribution	Must be given right to opt into AE and get minimum LP employer contribution
Entitled Worker	Must be given right to opt into AE but do not have to be given AE employer contribution	Must be given right to opt into AE and get minimum LP employer contribution

You can still apply postponement rules in accordance with [auto-enrolment legislation](#).

What benefits are there to an employer when becoming a Living Pension employer?

Providing workers with stability and security in retirement is the right thing to do, and it could also prove beneficial to recruitment and retention. YouGov polling for the People's Pension found that 69% of workers thought pension contributions were an important benefit when looking for a new job, and 83% valued the pension contributions offered by their current employer. By signing up to a Living Pension, employers can differentiate themselves as an organisation with a market-leading pensions offer.

Do employers need to be Living Wage accredited to be Living Pension accredited?



Yes, employers need to be Living Wage accredited to be Living Pension accredited. This is because we want to ensure that all workers can have an acceptable standard of living both now and in the future.

12%

Why have you chosen 12% as the baseline?

The [Resolution Foundation](#) calculated that Living Wage employees would need to save 11.2% of their salary from the age of 25 and throughout their working lives to meet a Living Pension target pot, assuming they start with little to no savings. This percentage increases with age and on average this is 16% across ages 25-45. In order to set a target that was pragmatic but stretching, and which would ensure workers starting out can save enough for retirement, we set the level a little above the minimum in percentage terms. The cash amount is then calculated every year in line with the Living Wage using 12%.

Employers who can give access to higher contribution levels for those who have a larger savings gap are encouraged to do so, and it is a requirement that all employees are made aware of the increasing savings target needed for older workers. Full details of the requirements can be found [here](#) and the methodology [here](#).

We currently auto-enrol employees using Qualifying Earnings, do we have change the pay basis for the Living Pension?

Where employers use Qualifying Earnings, they need to move to all earnings up to £50,270 within three years (we are calling this Qualifying Earnings Plus). They will have to increase employer contributions immediately from the statutory minimum of 3% up to 7%, but for the first three years this can remain on Qualifying Earnings to allow for phasing of increased costs to both the employer and employee.

Why is the cash amount vastly below the total contributions for higher paid staff?

The intention of the Living Pension standard is to ensure an adequate base level for everyone, with a focus on the lowest paid. This does not act as a replacement for legal minimums, which must continue to apply across all employees, including for highest earners (for example, anyone earning over £41,500 on auto-enrolment minimums should see more than £2800 going into their pension pots per year).

The cash benchmark is intended to ensure that no matter the percentage structure used by employers, the minimum for a full-time employee will always be the total cash amount.



Does the Living Pension have an upper age limit as with Auto Enrolment?



No, there is no upper age limit with Living Pension. We encourage all employers to offer a Living Pension to all employees over the age of 18. Employees over state pension age do not have to be automatically enrolled into the Living Pension scheme, but they should be given access to opt in and get the Living Pension level.

Note: Tax relief is only available on relevant UK earnings up to the age of 75. Contributions made to a pension after age 75 are not eligible for tax relief.

Why have we kept the upper earnings limit?

We have tried to keep the Living Pension standard as closely aligned to auto enrolment as possible. In reality, those earning over the upper earnings limit of £50,270 will be getting more than £2,800 going into their pension, even if they are on the auto-enrolment minimums. However, there is nothing stopping employers from applying contributions to base salaries.

Our standard working week is 35 hours. How can I apply the cash amount?

To apply the cash to a non-37.5 hour working week, you will need to multiply the cash amount by $[\text{Hours}/37.5]$:

£2800	X	$\frac{\text{Number of hours in your working week}}{37.5}$
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In this example, you would multiply £2,800 x 0.93 (which is 35/37.5) to get the total amount, and £1,630 x 0.93 for the employer amount. So the cash target would be £2,604 total, and £1,516 employer, for full-time employees. For part-time employees, you would then pro-rata .

Our company has a matching scheme. What is the best way for us to meet the Living Pension Standard?

This will depend on how your scheme is structured but we have found that employers often opt for the cash target when they have a matching structure. This allows them to keep this set up and focus on those lower earners. For more information, please see the 'Cash or Percentage Target' section in the Guidance above (page 5).

What do Living Pension communications to employees need to cover?

Communications must be issued to all employees annually covering the basic Living Pension standard and highlighting the need to plan individually, with signposting to the methodology, MoneyHelper and Retirement Living Standards for more information. We provide a template to support employers with this at accreditation.



What about third-party contractors?

All employees covered under the Living Wage must be included in the Living Pension standard and be implemented for all third parties within 3 years (as per Living Wage).



Where auto-enrolment minimums are used, the employer contribution must be moved from 3% to 7% for all third-party contractors in the first three years, and then a plan put in place to change the earnings basis to Qualifying Earnings Plus (see above) within another three years after that. The Living Wage Foundation will guide employers through this.



Some third-party contractors work for other organisations as well as ours, so how can we administer this with our suppliers?

In order to make this as easy and flexible for all as possible, the higher pension contributions in respect of work done for Living Pension employers can be met through a cash top up into the workers' pension scheme. This can be done on a frequency that works for the employer and third party, but must be done no less than annually, and would have to be pro-rated and paid in the final payroll if somebody leaves.

How much does it cost to be accredited?

Living Pension accreditation fees vary based on size and sector of each organisation in the same way as the Living Wage and Living Hours. As most of the work will be required in supporting and setting up the initial accreditation, there is a higher upfront fee and then a lower annual fee thereafter. Full details are shown in the Living Pension licence agreement and will be discussed with employers before signing up.



How often is the Living Pension Standard reviewed? Or how often and when will the Living Pension Standard change?

As the cash target is linked to the Living Wage (12% of a full-time Living Wage based on a 37.5 hour week), the cash target will be reviewed each year in line with the Living Wage. This is announced in autumn each year.

In addition to this, we will work with the Resolution Foundation to review the standard at appropriate intervals to ensure it remains fit for purpose. This will be done every two years.

If there are existing trade union agreements which cover the same areas as the Living Pension accreditation, which should take precedence?



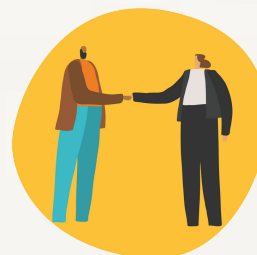
Where the Living Pension offers greater contribution levels within a Defined Contribution arrangement than existing trade union agreements, accredited employers should implement Living Pension to achieve and maintain accreditation. Where any trade union agreements exceed Living Pension, the accreditation in no way reduces the employer's obligation to meet these existing requirements.

Does the Living Pension apply for Defined Benefit schemes?

The Living Pension only applies to Defined Contribution arrangements as it is a benchmark for contribution levels only. We recognise that Defined Benefit arrangements are extremely valuable benefits, and very sought after by employees due to the guarantees they offer. However, they are also very complex and due to the benefits they guarantee, they often require contributions that are much higher than those we are accrediting the Living Pension on. If you operate a Defined Benefit arrangement and wish to seek accreditation, do get in touch as we will monitor demand and review this position once the scheme has been running successfully for a period of time.

What about people with pension protections (annual/lifetime allowances)?

They can be excluded from the Living Pension as it is clearly not in their interests to be enrolled into the pension and they are not the group of people who need their pension contributions increased.



Can we use three month postponement with Living Pension?

You can continue to postpone auto enrolment for new employees. We have designed Living Pension to work within the auto enrolment regulation framework.

What is the difference between a Living Pension and the Retirement Living Standards?

The Retirement Living Standards have been developed by the Pensions and Lifetime Savings Association (PLSA) to help individuals picture what kind of lifestyle they could have in retirement and how much they would need to afford this. The Living Pension is a savings target employers can sign up to, which will support employees in reaching the minimum level of income in retirement needed for an acceptable standard of living in retirement. Both standards are based on independent research by Loughborough University and can be looked at side by side by employers and employees.

What about apprentices?

Apprentices are required to be auto enrolled if they are eligible. Find out more here - [Apprenticeships explained | MoneyHelper](#). Our policy is that they should be given access to the Living Pension in the same way as all other employees, but if you choose to pay an apprentice hourly rate rather than the real Living Wage, it can be calculated on that basis. If you use a % target this will happen automatically, but if you use a cash target it will be based on their hourly rate (below is an example of a 18 year old apprentice on a 37.5 hour week using the latest pay rates published here: [Become an apprentice: What you'll get - GOV.UK \(www.gov.uk\)](#).)



Hourly rate = £5.28

Annual pay = £10,296*

Annual pension contribution = £1,235.52 (12%)

Employer contribution = £720.72 (7%)

As an 18 year old they would not be automatically enrolled but they should be given the option to join the pension on the above basis.

*based on 37.5 hour week (£5.28 x 37.5 x 52)

If we operate salary sacrifice and use the cash target, can the National Insurance saving count towards the cash target?

If employers invest the National Insurance saving they make on pension contributions into employees' pension, this amount can be counted towards the cash target if they are accrediting on this basis.

What assumptions have been made about State Pensions when calculating the Living Pension?

The Living Pension target assumes workers will have a full state pension at state pension age. If state pension changes, this will be taken into account when the Standard is reviewed every two years.

Does both the employer and the employee need to contribute to the pension to meet the Living Pension standard?

At enrolment, the employer must contribute at least 7% to the employees pension and the remaining amount can come from the employee to meet the standard of 12%. However, if an employer wanted to contribute more than 7%, even the whole 12%, they are welcome to do so.

If an employee opts down to pay less than the enrolment minimum or opts out altogether, there is no obligation for the employer to continue contributing at Living Pension level or at all. We encourage employers who can to still pay their minimum contributions, but this is not a requirement of the Living Pension standard.





THANK YOU

LIVING
PENSION

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