JLT Employee Benefits

AE Smart

FACT SHEET 130. Which Earnings Should I Use

This fact sheet explains what earnings components should be included when you assess employees and when you calculate contributions.

Key Facts

> Qualifying earnings are an employee’s total earnings and must be used for assessment.
> You can use different definitions of pensionable salary for calculating pension contributions.
> Pensionable salary should be at least equal to basic pay.

Introduction

Auto-enrolment rules cover what earnings components you should use when you are:

> Assessing what category employees fall into (see *Fact Sheet 100: What Is Auto-Enrolment?*)
> Calculating pension contributions.

Qualifying Earnings

You use Qualifying Earnings to assess what category a worker falls into. Qualifying earnings cover almost everything that an employee earns. It comprises:

a. salary, wages, commission, bonuses and overtime;
b. statutory sick pay;
c. statutory maternity pay;
d. ordinary statutory paternity pay or additional statutory paternity pay;
e. statutory adoption pay.

This is a closed list, so other forms of remuneration do not count. In particular, benefits-in-kind (P11D earnings) and expenses do not count as qualifying earnings.

It is up to you to determine what payments make up qualifying earnings.

Allowances

Allowances are common area of doubt. As a rule, you should include allowances unless they are a reimbursement of expenses.

For example, Employer A provides a car allowance to workers based on their grade. This benefit is included in the contract of employment as part of workers’ salaries. The allowance counts as earnings.

Employer B provides a car allowance to workers who have to travel as part of their job. As this is a business expense, it is not included in the contract of employment. The allowance does not count as earnings

Tips and Troncs

Tips and troncs do not count as qualifying earnings. Tips are paid in cash by a customer to the employee directly. Troncs are a special

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arrangement used to distribute tips, gratuities and service charges.

Pensionable earnings

Pensionable earnings are used to calculate an employee's pension contributions.

Statutory minimum contributions are based on a band of the employee's qualifying earnings between £5,772 and £41,865 (2014/15).

You can use another definition of pensionable pay, provided that it is at least as good as basic pay (see *Fact Sheet 400: Do I Need To Certify?)*

Basic Pay

The definition of basic pay is different to the definition of qualifying earnings.

Here, a scheme can use its own definition of pensionable pay provided that it is at least equal to basic pay without any deductions.

Basic pay is defined as the gross earnings of the jobholder, less the gross amount of:

> any commission, bonuses, overtime or similar payments;
> any shift premium pay; and
> any reasonable allowance with respect to any duty of the jobholder that is ancillary to the main duties of the jobholder's employment.

Some schemes uses definitions of pensionable pay that are based on an anniversary, such as "basic pay on the previous 1 April". These definitions might not meet the auto-enrolment definition of basic pay. You should talk to your AE Guide if you are in this position.

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