



# Employee Cost Calculator

## Calculation of the net cost to the employee

The Government encourages employees to join pension schemes by granting **tax relief** on their contributions. The net cost to the employee is therefore considerably less than the gross contribution.

To calculate the net cost for yourself or your employees, simply complete the following calculations below:

### A. Gross contribution

Contribution rate  % X £  Salary p.a. = £  Gross contribution p.a.

**Please note:** employee contribution rates are set by the employer. The rate entered here should be that agreed by your organisation for new members of the Flexible Retirement Plan.

### B. Tax relief

Gross contribution (see A) Employee's highest tax rate  
£  x 20% or 40% = £

**Please note:** someone who is only just into either the 20% or 40% tax band will only get tax relief at 20% or 40% on part of their contributions. Income tax rates may change in the future. Please contact your Payroll Department for up-to-date rates.

### C. Net cost

Amount to deduct from employee's pay is:

A ÷ 12 = £  per month

But, the net cost to the employee is:

(£  A - £  B) ÷ 12 = £  per month

### D. Employer contribution

Your employer may also contribute towards your retirement benefits. These contribution rates will be as advised by your employer to your employees. Please enter that rate here:

Contribution rate  % X £  Salary p.a. = £  Gross contribution p.a. ÷ 12 = £  per month

## Example

### A. Gross contribution

Contribution rate 6% x £15,000.00 = £900.00 p.a.

### B. Tax relief

Gross contribution £900.00 x 20% = £180.00

### C. Net cost

Amount to deduct from employee's pay is: £900.00 ÷ 12 = **£75.00 per month**

But, the net cost to the employee is: (£900.00 - £180.00) ÷ 12 = **£60.00 per month**

### D. Employer contribution

Contribution rate 6% x £15,000.00 p.a. = £900.00 p.a. ÷ 12 = **£75.00 per month**

An interactive Employee Cost Calculator Form is available online [www.thepensiontrust.org.uk](http://www.thepensiontrust.org.uk)