

7. 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. Also, The SFHA Pension Scheme is contracted-out of the Additional State Pension Scheme (S2P) and so employees pay a lower rate of National Insurance. When these two items are taken into account the net cost to the member is less than the contribution rate, as demonstrated in the example below:

Example

Contribution Rate	Salary	Gross Member Contribution
6% x	£12,000 =	£720 p.a. = £60 per month
Less tax relief		(£13.20)
Less NI rebate		(£9.83)
Net Member Contribution		<u>£36.97</u>

This calculation of the Member's Net Contribution assumes that the member pays basic rate tax at 22% and receives a 1.6% contracted-out National Insurance Contribution rebate. The actual effect of the tax relief and NI rebate will differ for each employee depending on salary, lower earnings limits, highest rate of tax being paid, etc.