

# Guidance & FAQs



**LIVING  
PENSION**

Last updated October 2025

# Living Pension Guidance



**LIVING  
PENSION**

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

## What is the Living Pension?

You can find a short summary of Living Pension on our [website](#). Living Pension was initially developed for Defined Contribution (DC) Pensions and was later expanded to include Defined Benefit (DB) Pensions. This document covers the criteria for each, as well as general criteria that applies in all cases.

## Defined Contribution (DC) Pensions

### 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?

£1,600\*

How much do employers have to pay?

3% of earnings between £6,240 & £50,270 (£600 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?

£3,150\*

How much do employers have to pay?

7% of earnings up to £50,270 (£1,840 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 £3,150 (with £1,840 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
£1,310	£1,840	£3,150
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 or Default Total Contribution (as appropriate)	X	Average number of hours worked per week by the Employee in the relevant month <hr/> 37.5
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## 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

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



## Alternative structure example

<b>Pre-Accreditation</b>	<b>Employee</b>	<b>Employer</b>	<b>Total</b>
Your company default	3%	5%	8%
Opt up option A	5%	7%	12%
Opt up option B	7%	9%	16%
<b>Post-Accreditation</b>			
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.

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.

## Opt Downs

Employees can choose to opt down to a contribution level lower than the Living Pension (see example above).

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

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

Maximum Employee	Minimum Employer	Minimum Total
£1,310	£1,840	£3,150
5%	7%	12%

Employers do not need to apply both the cash and the percentage target. If overall contributions meet the minimum total annual cash target of £3,150 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 £1,840 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 £3,150 minimum contribution within this 10%.



## Cash or Percentage Target (Cont.)

<b>Pre-Accreditation</b>	<b>Employee</b>	<b>Employer</b>	<b>Total</b>
Your company default	5%	5%	10%
Employee on a Living Wage*	£1,311	£1,311	£2,622
Employee earning £31,500 per annum	£1,575	£1,575	£3,150
<b>Post-Accreditation</b>			
Your company default	5%	5%	10%
Employee on a Living Wage*	£1,311	£1,311 + top up of £529** (£1,840)	£3,150
Employee earning £31,500 per annum	£1,575	£1,575 + top up of £265 (£1,840)	£3,415

\*assuming a 37.5 hour week.

\*\* numbers are adjusted for rounding purposes.





## FAQs for DC

### **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 first pound earned within three years. They will have to increase employer contributions immediately from the statutory minimum of 3% up to 7% (or the cash equivalent) 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 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 £3,150 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 [Hours/37.5]:

£3,150	X	$\frac{\text{Number of hours in your working week}}{37.5}$
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In this example, you would multiply £3,150 x 0.93 (which is 35/37.5) to get the total amount, and £1,840 x 0.93 for the employer amount. So the cash target would be £2,930 total, and £1,711 employer, for full-time employees. For part-time employees, you would then pro-rata .



## FAQs for DC

### **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.



## Defined Benefit (DB) Pensions

Living Pension for DB has been set up using the same principles as Living Pension for DC as much as possible. This includes requirements on who Living Pension applies to, third party contractors and communications, all covered in the last section. There are two key areas where DB varies and these are covered below.

### **Benefit Outcomes**

In order to ensure that the benefits built up by the DB pension meet the Living Pension income target, the scheme must be certified as meeting the AE 'test scheme' standard which covers various defined benefit structures and uses a build-up rate of (at least) 1/120ths for each year of pensionable service.

### **Contribution Rates**

It is recognised that DB pensions are very valuable benefits and that the cost of providing them is high, some of which has to be met by employees. As a result the contributions are often higher than the maximum level of 5% employee set for DC pensions.

In order to monitor the affordability of contributions and ensure that mitigating steps are taken if they prove to be unaffordable, the Living Pension requires employers operating DB pensions with employee contributions above 5% to meet at least one of these 3 criteria:

- All employees are paid an hourly rate of pay that ensures they have at least 95% of real Living Wage after their pension contribution is deducted;
- An alternative pension option is available requiring no more than 5% employee contribution whilst meeting the Living Pension standard (for example a Living Pension compliant DB scheme or the 50:50 option under the Local Government Pension Scheme)
- The opt out rate for each DB pension is no more than 10%.



## All Pension Schemes (DC & DB)

### **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 first pound earned within three years of accreditation.



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### 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:

<b>Auto-enrolment Worker Type</b>	<b>Auto-enrolment Rules</b>	<b>Living Pension Rules</b>
<b>Eligible Jobholder</b>	Must be AE'd and get minimum AE employer contribution	Must be AE'd and get minimum LP employer contribution
<b>Non-eligible Jobholder</b>	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
<b>Entitled Worker</b>	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](#).



### **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.

### **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.

### **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 our methodology (which can be found on our website), [MoneyHelper](#) and [Retirement Living Standards](#) for more information. We provide a template to support employers with this at accreditation.

### **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.



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### **What about third-party contractors?**

When signing up to the Living Pension, employers commit to bring up the pension savings level of those workers employed via third party contractors, as well as direct employees.

As a reminder, this broadly includes any contract which involves an employee providing services (rather than providing goods) and who is working for two or more hours a week, for eight or more consecutive weeks. If in doubt it is best to look at the workers covered by the original Living Wage accreditation as a starting point.

A Living Pension should be applied to the hours worked for Living Pension employer. It does not need to apply to all the hours worked for the third party contractor.

As per the Living Wage, employers have 3 years from accreditation to implement this for all third parties.

Where contractors use auto-enrolment minimums, the employer contribution must be moved from 3% to 7% (or cash equivalent) for all third-party contractors in the first three years, and then a plan put in place to change the earnings basis to first pound earned within another three years after that.

The Living Wage Foundation will provide full support to employers on implementing Living Pension for third party contractors as part of accreditation.

### **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.



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### **What about self-employed workers?**

Self-employed workers are not covered by auto-enrolment legislation. The onus is on the individual to set up their own pension plans and proactively contribute to this. This means self-employed workers technically fall out of scope of the Living Pension.

Employers wishing to accredit as a Living Pension employer who have self-employed contractors should pay an hourly rate of at least Living Wage plus 7% to those contractors and communicate the Living Pension to these workers as they do with directly employed staff. We will share a template communication with accredited employers to help them with this.

### **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.

### **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.



## FAQs

### **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.

### **Can we use salary sacrifice for pension contributions?**

Yes, you can. In addition, if employers invest employer National Insurance savings on pension contributions into employee pension contributions, this amount can be counted towards the employer contribution for the Living Pension standard if it is guaranteed.

Note: Employers must put procedures in place to cap salary sacrifice deduction and ensure National Minimum Wage (NMW) rates are maintained. Please look at the Government website for full information here.





## **Living Wage Foundation**

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