

A guide to Pensionable Pay

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Administered in partnership




How will this webinar work?

No Notes

Cambridgeshire Pension Fund Northamptonshire Pension Fund

A guide to Pensionable Pay

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West Northamptonshire Council
Cambridgeshire County Council
Administered in partnership

CUSTOMER EXCELLENCE
CSE

Meeting chat

- Mio Yewman joined the meeting.
- Mio Yewman named the meeting to Webinar - a guide to formulating your LGPS discretions policy.
- Unknown User (Guest) and 6 others were invited to the meeting.

Type a new message



What we will cover:

- The terminology of Pensionable Pay
- Differing elements of pensionable pay / assumed pensionable pay
- When, how and why you will need to tell us about pensionable pay

By the end you will:

- Know the methodology of how to work out a members pensionable pay
- Help improve the customer journey
- Better understand your responsibilities as a scheme employer



Scheme overview

1 / 49th

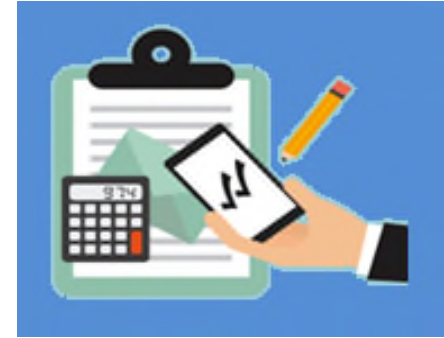
- Currently – an account based scheme with 1/49th accrual and CPI revaluation:
 - Every scheme year a deposit equal to a 49th of a member's pay in that year is added to their pension account
 - Can exchange part of pension for tax free lump sum
- 50/50 section - pay half, get half: needs recording separately on your i-Connect returns.
- Normal Pension age linked to State Pension Age (SPA) (minimum age 65).
- Voluntary retirement from age 55 (subject to reduction) without requiring employer consent.
- Useful link for members:
<https://lgssmember.pensiondetails.co.uk/home/members/lgps/active-members/about-the-scheme/how-is-my-pension-calculated.html>

Why do you ask for so much information?

- **Member benefit administration**
 - 2014 scheme based on CARE pay
 - 2008 scheme based on Final Pay
 - 1998 scheme based on Final Pay
- **Valuation purposes**
 - Employer contribution rates
 - Contribution payments reconciliation
- **Good governance**
 - **Increased scrutiny e.g Pensions Regulator and Scheme Advisory Board**



Common Pay Definitions



Pensionable Pay

- members normal pay, plus any shift allowances, bonuses, overtime and statutory sick pay. **This is the pay that member's pay contributions on.**

Cumulative Pensionable Pay

- all pensionable pay received in the Scheme Year for the employment, PLUS any Assumed Pensionable Pay. **Used to calculate benefits.**

Assumed Pensionable Pay

- pay employers calculate when a member is on reduced/nil pay due to sickness/parental leave. **This is the pay that employers pay employers contributions on.**

Final Pay

- **Used for Final salary benefits.** Normally the pay in respect of a member's final year of scheme membership on which they paid contributions, or one of the 2 previous years if this is higher.



Pensionable Pay

An employees pensionable pay is the total of:

“all the salary, wages, fees and other payments paid to the employee and any benefit specified in the employee’s contract of employment as being a pensionable emolument”

Note:

- non-contractual overtime (incl. excess hours) is pensionable
- Some types of salary sacrifice items are pensionable e.g. childcare voucher schemes
- Some exceptions. i.e. Holiday paid in Lieu is NOT pensionable!

We need Pensionable Pay details:

- **Monthly Returns**
- **Leaver certificates** – correct to the date the member left

Cumulative Pensionable Pay

- Benefits are built up based on Pensionable Pay for each year (1 April to 31 March)
- Cumulative Pensionable Pay = Pensionable Pay **PLUS** any assumed Pensionable Pay
- Cumulative Pensionable Pay is required separately per section and per employment
- Cumulative Pensionable Pay sometimes referred to as CARE Pay by our teams



Cumulative Pensionable Pay Example

Mr Burgundy works part time as a Teaching Assistant in a school.

- His full time equivalent salary from April 2020 is £18,966
- His part time salaries are: April 2020: £8675 (PT hours: 20/37hpw, 44/52 wpy – 45.738%)
- He receives a non consolidated bonus of £200 in January 2021
- In July 2020 he changed from the main section of the Scheme to the 50/50 section and opts to rejoin the main section from October 2020



Month	Main Section	50/50 Section
April '20	722.92	
May '20	722.92	
June '20	722.92	
July '20	-----	722.92
August '20	-----	722.92
September '20	-----	722.92
October '20	722.92	
November '20	722.92	
December '20	722.92	
January '21	722.92 + 200 (non consol. Bonus)	
February '21	722.92	
March '21	722.92	
<u>Total Cumulative Pensionable Pay in 2020/21</u>	<u>6706.28</u>	<u>2,168.76</u>

Cumulative Pensionable Pay Quiz

Mrs Brown is a Business Manager in a School. She leaves employment on 30th November. She has been in both Sections of the Scheme during the Scheme Year. **What additional Pay would you include? Bonus points for working out the amount of Cumulative Pensionable Pay for each section?**



<u>Month</u>	<u>Main Section</u>	<u>50/50 Section</u>	<u>Additional Pay</u>
April	£1,100		£100 (Overtime)
May	£1,100		£200 (Non Contractual Overtime)
June	£1,100		£100 (Travel Allowance)
July		£1,100	
August		£1,100	£250 (Overtime)
September		£1,100	£250 (Overtime)
October		£1,100	
November		£1,100	£600 (Pay in lieu of notice)

Answer:
 Cumulative Pensionable Pay (Main Section) :
 £3,600 (inc £300 add pay)
 Cumulative Pensionable Pay (50/50 Section):
 £6,000 (inc £500 add pay)

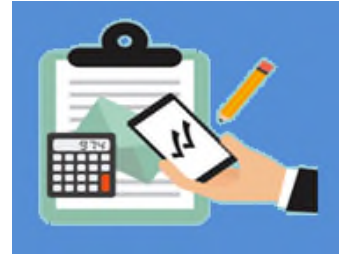
Assumed Pensionable Pay



- Assumed Pensionable Pay replaces the actual Pensionable Pay received during:
 - ✓ periods of sickness on reduced or nil pay
 - ✓ reduced or nil pay during relevant child related leave (ordinary and paid additional)
 - ✓ reserve forces service leave
- Based on last complete 3 months or 12 weeks Pensionable Pay
 - ✓ Calculate the average and make it to annual rate to apply
 - ✓ Remove any lump sums first, but a regular lump sum can be added back
 - ✓ Include any Assumed Pensionable Pay previously credited in the relevant period.

Assumed Pensionable Pay

– exceptions & reporting



- Exception: actual pay is higher such as on Keep in Touch day – use pensionable pay, not assumed pensionable pay
- Following Keep in Touch day, Assumed Pensionable Pay is not recalculated and continues to be based on the three months/12 weeks prior to the start of the reduced/unpaid pay period
- If unpaid sick leave crosses two 31 March, Assumed Pensionable Pay is increased / decreased by Treasury Order revaluation (CPI)
- Assumed Pensionable Pay drops into Cumulative Pensionable Pay
- DO NOT drop both Pensionable Pay and Assumed Pensionable Pay into cumulative for the same day

Assumed Pensionable Pay Example

- Mr Burgundy goes on a reduced pay due through sickness on the 13th April 2021 to 31st May 2021. The Assumed Pensionable Pay is calculated using the average actual pay received through January to March (the 3 months prior to reduced pay):

Month	Amount Received (£)
January	£1,200
February	£1,400
March	£1,400
Total	£4,000

- The Pensionable Pay is therefore $£4000 \div 3\text{mths} = \underline{£1,333.33}$ per month or x by 12 months: £16,000 annually.
- The Assumed Pensionable Pay is for the period **13/04/21 to 31/05/21** using the annual salary is:
 $(£16,000 \div 12\text{mths}) \div 30 \text{ days in April} \times 18 \text{ days} = £800$
 $(£16,000 \div 12\text{mths}) \div 31 \text{ days in May} \times 31 \text{ days} = £1,333.33$
- Total Assumed Pensionable Pay for the period of absence $£1333.33 + £800 = £2,133.33$.**



Assumed Pensionable Pay Quiz

Mr Fry goes on reduced pay due to sickness on 22nd June – 28th July.

Using the information below please advise what the **Assumed Pensionable Pay** for the period would be?

Month	Pay Received for Month
February	£1,400
March	£2,000
April	£1,500
May	£1,400
June	£1,360
July	£880
August	£1,500

March: £2,000
April: £1,500
May: £1,400

$2000 + 1500 + 1400 = 4,900 \times 4 = \text{£}19,600$

Annual Assumed Pensionable Pay
22.06.2020 to 30.06.2020 = 9 days
01.07.2020 to 28.07.2020 = 28 days

$(\text{£}19,600 \div 12\text{mths})(\div 30 \text{ days}) \times 9 \text{ days} = \text{£}490$

$(\text{£}19,600 \div 12\text{mths})(\div 31 \text{ days}) \times 28 \text{ days} = \text{£}1,475.27$

$\text{£}490 + \text{£}1,475 = \text{£}1,965.27$ (**Assumed Pensionable Pay for the Period**)

An illustration on the left side of the slide shows a hand in a dark suit sleeve dropping a single gold coin into a large stack of similar gold coins. The stack is composed of many individual coins piled on top of each other, with some coins having 'GBP' written on them. The background behind the coins is a teal color with some white sparkles.

Final Pay

- Final Pay is the pay which is used to calculate pre 1 April 2014 benefits
- Pre 1 April 2014 definition of Pensionable pay (**e.g. not including non-contractual overtime**) received in the last 365 days before a member leaves the scheme
- If the member is part time, this will still be based on their full time equivalent salary
- If pay in the 2 preceding years is higher than current year, that higher year should be used for the benefits calculation – Need to inform us of the 12 month average FTE in the last 3 years on the Leaver's Certificate.

Final Pay Example remember Mr Burgundy?



Mr Burgundy works part time as a Teaching Assistant.

- His full time equivalent salary from April 2020 was £18,966, increasing to £20,180 from September 2020.
- His actual annual salaries are (PT hours 45.738%): April 2020: £ 8,674.67; September 2020: £9229.93
- He receives a non consolidated bonus of £200 in January 2021
- He retires from his Teaching Assistant post on 31st March 2021

Date From	Date to	FTE Pay (£)
01/04/2020	31/08/2020	£18,966.00
01/09/2020	31/03/2021	£20,180.00

To calculate his final pay –

$$01/04/2020 - 31/08/2020 = £18,966 \div 12 \text{ months} \times 5 \text{ months} = £7,902.50$$

$$01/09/2020 - 31/03/2021 = £20,180 \div 12 \text{ months} \times 7 \text{ months} = £11,771.67$$

$$£7,902.50 + £11,771.67 + £200 \text{ (bonus)} = \underline{\underline{£19,874.17 \text{ Final Pay}}}$$

Final Pay Quiz

Mr Henry is leaving employment on the 12th November 2020. During his time in employment he didn't have any reductions in pay, only increases.

Can you calculate his Final Pay from the financial year prior to his leaving using the information below?



Date From	Date To	Salary
13/11/2019	31/03/2020	£24,500.00
01/04/2020	12/11/2020	£26,000.00

Part one: 13/11/2019 to 31/03/2020: 4 months and 18 days

$$\begin{aligned}£24,500 \div 12 \text{ months} \times 4 \text{ months} &= £8,166.67 \\£24,500 \div 12 \text{ months} \div 30 \text{ days (in Nov)} \times 18 \text{ days} &= £1,225.00 \\£8,166.67 + £1,225.00 &= £9,391.67\end{aligned}$$

Part two: 01/04/2020 to 12/11/2020 : 7 months and 12 days

$$\begin{aligned}£26,000 \div 12 \text{ months} \times 7 \text{ months} &= £15,166.67 \\£26,000 \div 12 \text{ months} \div 30 \text{ days (in Nov)} \times 12 \text{ days} &= £866.67 \\£15,166.67 + £866.67 &= £16,033.34\end{aligned}$$

Total Final pay for the year before he left: £9,391.67 + £16,033.34 = **£25,425.01**

What do I do when a member is on child related leave

- In the Regulations child related leave means:
 - Ordinary adoption leave;
 - Ordinary maternity leave;
 - Additional maternity or adoption leave during which the member receives some pensionable pay;
 - Paternity leave;
 - Shared parental leave during which the member receives some pensionable pay; or
 - Paid parental bereavement leave
- It does not include any additional unpaid leave that can be taken at the end of paid child related leave
- When a member is on child related leave then you will calculate and add Assumed Pensionable Pay to any cumulative pensionable pay.



What do I do when a member is on child related leave?

- Contributions



- Employer will pay pension contributions on Assumed Pensionable Pay, whilst the member pays contributions only on the pay they receive
- Additional unpaid parental leave and unpaid shared parental leave is treated the same as unpaid leave:
 - ✓ No contributions are paid by either party initially
 - ✓ Recorded as a service break
 - ✓ The member can then elect to pay an Additional Pension Contribution to cover the 'lost pension' – if elects, then the service break will be removed.
 - ✓ If elects within 30 days you will pay 2/3^{rds} of the Additional Pension Contribution, the member 1/3rd

What do I do when a member is on sick leave?

- If a member is on reduced or nil pay due to sickness/injury then you would calculate Assumed Pensionable Pay for that period.
- You will pay pension contributions on Assumed Pensionable Pay, whilst the member pays contributions only on the pay they receive.
- There is no need for the member to pay an Additional Pension Contribution as no pension is lost. A member on sick or injury leave is deemed to be a fully paid up member of the Scheme.



Sick leave, child related leave and the 50/50 section

- Should a member be in the 50/50 section when they go on nil contractual pay then from the first day of the next pay period they should be moved into the main section of the scheme (provided they are still on nil pay)
- Onus on member to then move back to the 50/50 section
- Form of protection for members



50/50 Section
1/98th

Reporting leavers - Leavers Certificates

- Employers with 12 months i-Connect submission history
 - No need to send us Leaver's Certificate for a leaver without immediate benefits payment.
- Leaver's Certificate will always be required for;
 - Retirements (voluntary, flexible, redundancy, ill health etc) – 2 weeks before retiring
 - Death in service – ASAP
 - All other cases requires urgent benefits calculations
 - This is because the i-Connect submission would be received after their leave date resulting in late payment of benefits.
- Every Leavers Certificate and monthly membership data via i-Connect that we received should have all relevant areas fully completed
 - Leaving date and Reasons for Leaving on i-Connect
- We rely on you for the correct data, so that the members' pensions are calculated correctly!



Any questions?

