

Pension Pointers

Pension Pointers is a series of factsheets covering a range of topics to assist employers with the administration of the Local Government Pension Scheme in Berkshire.

Pensionable Pay



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Local Government
Pension Scheme

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THE ROYAL COUNTY OF
BERKSHIRE
PENSION FUND

Pensionable Pay

Under the CARE scheme a member builds up Annual Pension based on the pensionable pay they have earned during each scheme year from **1 April** to **31 March**. A formula is applied to the pensionable pay figure to calculate the Annual Pension as follows:

If a member is in the **MAIN Section** of the LGPS they build up Annual Pension based on the following formula:

Pensionable Pay earned from 1 April to 31 March / 49 = Annual Pension

If a member is in the **50/50 Section** of the LGPS they will build up Annual Pension based on the following formula:

Pensionable Pay earned from 1 April to 31 March / 98 = Annual Pension

EXAMPLE

A member receives the following payments between 1 April 2018 to 31 March 2019.

Basic Salary	£24,500.00
London Weighting	£500.00
Contractual Overtime	£485.50
Total Pensionable Pay	£25,485.50

The Annual Pension they have built up within the **MAIN Section** of the LGPS for this year is **£520.11**
(£25,485.50 / 49 = £520.11)

If this member was contributing to the **50/50 Section** of the LGPS they would build up annual pension of **£260.05** (£25,485.50 / 98 = £260.05)



Definition of Pensionable Pay

The definition of pensionable pay under the 2014 Scheme is not vastly different to that under the 2008 Scheme with one exception - from 1 April 2014 non-contractual overtime became pensionable as will pay received for additional hours worked.

A further change is that a payment in consideration of loss of future pensionable payments or benefits became non pensionable. For example, where an employer changes an employee's contract to remove contractual overtime and gives a lump sum payment in consideration for the loss of future pensionable payments (because the number of voluntary hours of overtime are expected to be less than the former number of contractual hours of overtime), that lump sum would be non-pensionable.

Regulation 20 (meaning of pensionable pay) of the LGPS Regulations 2013 (as amended) is replicated below for reference:

20.—(1) Subject to regulation 21 (assumed pensionable pay), an employee's pensionable pay is the total of—

- (a) all the salary, wages, fees and other payments paid to the employee, and
- (b) any benefit specified in the employee's contract of employment as being a pensionable emolument.

(2) But an employee's pensionable pay does not include—

- (a) any sum which has not had income tax liability determined on it;
- (b) any travelling, subsistence or other allowance paid in respect of expenses incurred in relation to the employment;
- (c) any payment in consideration of loss of holidays;
- (d) any payment in lieu of notice to terminate a contract of employment;
- (e) any payment as an inducement not to terminate employment before the payment is made;
- (f) any amount treated as the money value to the employee of the provision of a motor vehicle or any amount paid in lieu of such provision;
- (g) any payment in consideration of loss of future pensionable payments or benefits;
- (h) any award of compensation (excluding any sum representing arrears of pay) for the purpose of achieving equal pay in relation to other employees;
- (i) any payment made by the Scheme employer to a member on reserve forces service leave;
- (j) returning officer, or acting returning officer fees other than fees paid in respect of—
 - (i) local government elections,
 - (ii) elections for the National Assembly for Wales,
 - (iii) Parliamentary elections, or
 - (iv) European Parliamentary elections.

Pensionable Pay Checklist

We have provided a quick reference pensionable/non-pensionable checklist of the most common payroll elements.

Pay Element	Pensionable	Non-Pensionable
Basic Salary	✓	
Bonus/Honorarium	✓	
Buying and Selling of Annual Leave		✓
Car Allowance		✓
Contractual Overtime	✓	
*NON-Contractual Overtime	✓	
First Aid Allowance	✓	
Pay in Lieu of Notice (PILON)		✓
London Weighting	✓	
Mileage Claims		✓
Pay in Lieu of Holiday		✓
Severance Payment		✓
Sleeping in Allowance	✓	
Statutory Maternity Pay (SMP)	✓	
Statutory Sick Pay (SSP)	✓	

* NON-Contractual Overtime must not be included in final pay calculations. Under the LGPS 2008 regulations non-contractual overtime is defined as non-pensionable pay.



Assumed Pensionable Pay (APP)

Assumed Pensionable Pay (APP) replaces the concept of notional pay in cases of reduced contractual pay or nil pay as a result of:

- **Sickness or injury;**
- **Relevant child related leave (i.e. ordinary maternity, paternity or adoption leave and any paid additional maternity, paternity or adoption leave)**
- **Reserve Forces Service Leave.**

Example 1 – Calculating APP

APP is calculated as an annual rate then applied to the relevant period as a proportion of that rate.

For monthly paid employees APP is calculated using the average of the member's pensionable pay for the **3 complete months** prior to the **Relevant Event** after removing any pensionable lump sum and overtime payments.

The Relevant Event

The Relevant Event is the date on which the employee drops to reduced contractual pay or nil pay due to sickness or injury, or commences child related leave (i.e. ordinary maternity, paternity or adoption leave or paid shared parental leave), or the date the member commenced reserve forces service leave.

The annual rate of APP is calculated as follows:

A monthly paid employee has received the following pensionable pay in the three complete months prior to the Relevant Event.

Month 1	£1,400,
Month 2	£2,500 (including a £1,000 regular bonus and £100 overtime)
Month 3	£1,400

The calculation of APP is as follows:

$$\text{Annual rate of APP} = (\text{£1,400} + \text{£1,500} + \text{£1,400})/3 \times 12 = \text{£17,200}$$

Note that the £1,000 bonus and £100 overtime payment is removed prior to the averaging and grossing up calculation. This is because the £1,000 bonus and £100 overtime have already been included in the Cumulative Pensionable Pay (CPP) prior to going onto APP and so it would be inappropriate to include it again in the calculation of APP as to do so would result in double counting.

APP may be increased at the time of calculation where the employer, at their sole discretion, decides to add back into the APP any regular lump sum payment paid in the last 12 months before the relevant event. The employer must determine, at the point APP commences, whether there is a 'reasonable expectation' that a regular lump sum payment received in the previous 12 months would be paid again during the period where APP applies and, if so, whether that lump sum already paid should be added back into the APP annual rate figure.

APP Example

A monthly paid employee commences a period of reduced pay due to sickness absence on **15 June** and stays on reduced pay until 3 September. They return to work on full pay on **4 September**. The employee is in the MAIN Section throughout. During their sickness absence their pensionable pay builds up for them as follows:

Month	Pensionable Pay (PP)	Assumed Pensionable Pay (APP)
June	14 days of PP (1-14 June)	16 days of APP (15-30 June)
July	0 days of PP	1 month of APP (1-31 July)
August	0 days of PP	1 month of APP (1-31 August)
September	27 days of PP (4 - 30 September)	3 days of APP (1-3 September)

The member then leaves their employment the following March. They earn **£22,200.00** per annum (**£1,850 per month**) at their date of leaving. Their APP figure is calculated using the three complete months prior to the date the member's pay first reduced (i.e 15 June) - **March, April and May** and is calculated as follows:

Relevant Event	15 June
March	£1,780.50
April	£1,850.00
May	£1,850.00
Total	£5,480.50
Monthly APP = £5,480.50 / 3 = £1,826.83	

The LGS15C Leaver notification is completed taking into account the PP and APP during the member's year of leaving:

Month	PP/APP SPLIT	Pensionable Pay (PP)	Assumed Pensionable Pay (APP)
April	1 month of PP	£1850	£0.00
May	1 month of PP	£1850	£0.00
June	14 days of PP (1-14 June) 16 days of APP (15-30 June)	863.33	£974.31
July	1 month of APP (1-31 July)	£0.00	£1826.83
August	1 month of APP (1-31 August)	£0.00	£1826.83
September	3 days of APP (1-3 September) 27 days of PP (4 - 30 September)	£1665.00	£182.68
October	1 month of PP	£1850	£0.00
November	1 month of PP	£1850	£0.00
December	1 month of PP	£1850	£0.00
January	1 month of PP	£1850	£0.00
February	1 month of PP	£1850	£0.00
March	1 month of PP	£1850	£0.00
TOTALS		£17,328.33	£4,810.65

CUMULATIVE PENSIONABLE PAY RECEIVED DURING PERIOD 1 APRIL 2016 TO DATE OF LEAVING Please do not include APP figure here	£ 17,328.33
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ASSUMED PENSIONABLE PAY(LEAVE OF ABSENCE)	
Required for any relevant period where the employee has received reduced or no pay as a result of sickness or injury or due to a period of paid child-related leave. NOTE: If at any time during a period of reduced or nil contractual pay the employee's actual earnings are greater than the APP please substitute Actual Pay for APP for these days e.g KIT days.	£ 4,810.65

Ill-Health Retirement and Death in Service APP

APP will need to be calculated when an employer terminates an active member's employment on the grounds of:

- **Permanent ill-health with a Tier 1 or Tier 2**
- **Death in Service of an active scheme member**
- **or where a Tier 3 ill health pension is awarded which is subsequently uplifted to a Tier 2 ill health pension.**

The APP figure is calculated in the normal way but using the average of the pensionable pay for the 12 (weekly) or 3 (monthly) complete pay periods prior to the date of termination / death (including any APP credited in and relating to those pay periods), to which any regular lump sums paid in the 12 months prior to the date or retirement / death which the employer determines there is a 'reasonable expectation' would again have been paid to the member are added back into the annual rate of APP.

Example:

A member retires on ill-health Tier 1 on **20 November 2019**. Their monthly salary was **£1,958.33** increasing to **£2,050** from **1 September 2019**. Their APP is calculated as follows:

Relevant Event	20 November 2016
August 2019	£1,958.33
September 2019	£2,050.00
October 2019	£2,050.00
Total	£6,058.33
£6058.33 / 3 X 12 = £24,233.32	

This figure is then entered into the following box on page 4 of the LGS15C Leaver notification:

ASSUMED PENSIONABLE PAY	
ASSUMED PENSIONABLE PAY (Ill-health retirement or Death in Service)	£ 24,233.32 (Please quote annual APP amount)

The annual APP figure is used to calculate the ill-health enhancement (under tier 1 or tier 2 and the Death Grant payable (which is 3 times the annual APP) plus the enhancement attached to the Dependants pension (if applicable).

Ill-health Retirement Tier 1	Full enhancement to member's NPA based on the annual APP figure
Ill-health Retirement Tier 2	Enhancement based on 25% of the period from member's date of leaving to NPA based on the annual APP figure
Death in Service	Tax-free Death Grant equal to three times the member's annual APP at date of Death

Glossary of Pension Terms

49th	Pension build up rate under the MAIN Section of the LGPS
50/50 Section	Section of the LGPS under which members pay half their normal pension contribution rate and build up a 98 th of their pensionable pay each Scheme year.
98th	Pension build up under the 50/50 Section of the LGPS
APP	Assumed Pensionable Pay
CARE	Career Average Revalued Earnings Scheme
CPP	Cumulative Pensionable Pay
LGPS	Local Government Pension Scheme
LGS15C	Leaver notification sent to the pension team
MAIN Section	Section of the LGPS under which members pay their normal pension contribution rate and build Up a 49 th of their pensionable pay each Scheme year
Pensionable Pay	Elements of pay from which pension contributions are deducted



Contact Information

If you have any queries regarding pensionable pay please contact us on **01628 796 668**. Alternatively you can e-mail info@berkshirepensions.org.uk

Where can I find out more?

Royal County of Berkshire Pension Fund Website:

www.berkshirepensions.org.uk

LGPS Regulations Berkshire Pension Fund Website:

www.lgpsregs.org

LGPS Payroll Guide to the 2014 Scheme:

<http://www.lgpslibrary.org/assets/gas/ew/Pv3.9c.pdf>

LGPS HR Guide:

<http://www.lgpslibrary.org/assets/gas/ew/HRv3.11c.pdf>

National LGPS Member Website:

<https://www.lgpsmember.org>



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