

Assumed Pensionable Pay

June 2019



TODAY'S AGENDA

- 1) Assumed Pensionable Pay
- 2) What is it?
- 3) Why does it matter?
- 4) How do I calculate it?
- 5) How do I report it?

What is Assumed Pensionable Pay

- Notional pensionable pay
- Replaces actual pay if
 - On reduced pay or no pay due to sickness
 - Reduced or nil pay on RELEVANT child-related leave
 - Reserved Forces Service Leave
- Simply drop Assumed PP into cumulatives rather than Actual PP (if any)
- BUT if Actual is higher – Actual drops in
 - E.g. possible on a KIT day



When is APP not required?

- For any period of unpaid additional maternity, paternity, adoption leave or shared parental leave available at the end of relevant child leave
- For any period of unpaid authorised absence
- If the member has a period of authorised unpaid leave of absence due to industrial action
- Member can pay APCs for the above, so you may be asked for the “lost pay”
- Any unauthorised absence

What is APP?



Why is it important?

Pre 2014 Scheme

- All benefits based on final salary



You could get it right at the end.....

Post 2014 Scheme

- Benefits based on 2 salaries:
 - Final salary (old definition)*
 - Actual salary per year (including overtime and bonuses)
- Incorrect actual salary = Incorrect CARE pension for that year
- Assumed pensionable pay



Data requirements are more onerous – accurate record keeping is

key

How it works: CARE Pension Account

Year 1	$\text{£}20,000/49$	=	$\text{£ } 408.16$
Year 2	$\text{£}20,800/49 = \text{£}424.49 + (\text{£ } 408.16 \times 1.2\%)$	=	$\text{£ } 837.55$
Year 3	$\text{£}21,632/49 = \text{£}441.47 + (\text{£ } 837.55 \times -0.1\%)$	=	$\text{£}1,278.18$
Year 4	$\text{£}22,497/49 = \text{£}459.12 + (\text{£}1,278.18 \times 1\%)$	=	$\text{£}1,750.08$
Year 5	$\text{£}23,397/49 = \text{£}477.49 + (\text{£}1,750.08 \times 3\%)$	=	$\text{£}2,280.07$

- Each year “actual” pensionable pay is divided by 49
- That’s it!

What happens if I don't use APP?

$$\text{Year 1 } \pounds 15,100/49 = \pounds 308.16$$

$$\text{Year 2 } \pounds 20,800/49 = \pounds 424.49 + (\pounds 308.16 \times 1.2\%) = \pounds 736.35$$

$$\text{Year 3 } \pounds 21,632/49 = \pounds 441.47 + (\pounds 736.35 \times -0.1\%) = \pounds 1,177.09$$

$$\text{Year 4 } \pounds 22,497/49 = \pounds 459.12 + (\pounds 1,177.09 \times 1\%) = \pounds 1,647.98$$

$$\text{Year 5 } \pounds 23,397/49 = \pounds 477.49 + (\pounds 1,647.98 \times 3\%) = \pounds 2,174.91$$

- CARE pay understated by £4,900 in Year 1
- Makes £100 difference to pension in that year

Future Inflation Proofing

- Member missed APP in 2014/15 (at age 30) and lost £100 pension build up
- They retire at 68 in 2053
- Difference is 38 years
- Past inflation proofing for period of 38 years = 532% (based on 38 years to 2018)
- Difference at retirement - £532.00 per annum for the rest of that person's life
- If the member survives until age 85 (average life-expectancy), this works out as £9,044 total loss over 17 years pension is being paid ($532 \times 17 = 9,044$)
- Plus pension is then increased on retirement, so could miss a further 58% at death

Quick Questions

- How many people in your organisation are on Maternity Leave / long term sickness absence right now?
- How many people have been on Maternity Leave / long term sickness absence since 2014?
- Are you confident that your Payroll System has reported APP on Year End returns for each person?
- Do you include APP on your Termination Forms if the member was on Maternity Leave / long term sickness absence in Final Year?

APP – the calculation

- Calculated at an annual rate
 - Applied during the relevant period as a proportion

There are 3 ways of calculating the annual APP value:

- For non-monthly paid staff:
 - Calculate average of actual PP in last 12 weeks
 - After removing “lump sums”
 - Gross up to a year (e.g. $52.143/12$ or $365/84$)
 - If < 12 weeks exist, use whatever available
- For monthly paid staff:
 - Same principle but 3 months rather than 12 weeks

APP – the calculation

- The easiest way is to look back over the last 12 months, although this can only be done if it gives a more representative value
- This “simplicity” may lose a little “accuracy” but is easily programmable

APP – one example

- Monthly paid employee goes onto half-pay sick during Month 4
- Actual PP in Month 1 = £1400
- Actual PP in Month 2 = £2500 (including £1k bonus, £100 O/T)
- Actual PP in Month 3 = £1400
- Assumed PP is:
 - $(£1400 + £1500 + £1400) / 3 * 12 = £17200$
- The £1000 is excluded for good reason!
- However, if you consider there's a reasonable expectation that any "lump sum" paid in the last 12 months would have been paid during the period when APP applies
 - You have discretion to include it
- Don't forget the APP and separate employments rule too

APP – proportioning

- Proportion of annual rate of APP most important
- Use the same method you use for “actual pay”
- For 3 days in August this could be:

–

$$\frac{\text{Annual rate}}{365} \times 3, \text{ or}$$

–

$$\frac{\text{Annual rate}}{12} \times \frac{3}{31}, \text{ or}$$

–

$$\frac{\text{Annual rate}}{12} \times \frac{3}{22}, \text{ or}$$

Adjusting APP

- One circumstance where APP is later increased
 - Where APP continues past a 2nd 31st March
 - (e.g. long-term sickness)
- Increased on account of inflation
 - (using Treasury Order)
- Will be increased in future years too if APP still applies

50/50 and APP

- Two triggers for moving back to “main”
 - Going onto no pay
- Moved to main section on first day of next pay period
 - Assuming they’re still on no pay then of course
- Say someone (monthly paid) drops from half pay sick to no pay sick in the middle of August
- They will move into the main scheme from 1 September
- APP as a value will not change but
 - In August APP/12 drops into 50/50 CPP
 - In September, APP/12 drops into Main CPP

How Do I report APP?

- Year End Report
- i-Connect
- Termination Form

- **Your Payroll may not hold / report this amount unless you have programmed it to do so**

Year End Report

- Ensure that the APP reports back to the CARE pay column on report if required

i-Connect

- **How do I record assumed pensionable pay?**
- **This should be included in pensionable pay (data item 39) and the main and/or 50/50 section cumulative pay (data items 52 and 53).**

Termination form

- This only works where the member was on relevant leave in last 2 Financial Years



NOTICE OF TERMINATION OF MEMBERSHIP

First Notice Additional Notice Amended Notice

Employing body

Employer number

Scheme member details

Surname

Title: Mr Mrs Miss Ms

Forename(s)

Home address

Last day of employment

Last day as member of Scheme

Employment at date of leaving Scheme

Hours Worked

Pay Reference number

Date of birth

National Insurance number

Scheme member has opted out of LGPS

Date at which gave notice of opting out .

- Form PEN 2A is attached
- Form PEN APT 1 is attached *(if not previously sent to Pension Services)*

continued over

Name: [REDACTED]

NINo: [REDACTED]

Scheme member has died in service

Date of death [REDACTED]

Informant (name and address) [REDACTED]

Next of kin and/or personal representative(s) who can be contacted by Pension Services [REDACTED]

Any other relevant information: [REDACTED]

Scheme member has left employment

Reason for leaving

- Retirement at age 60 or over
 - Employer's determination that any reduction for early payment of benefits should not apply (Full Strain Cost to be recharged to employer)
- Voluntary decision to leave employment below age 55
- Voluntary Decision to leave employment age 55 to 60
 - Rule of 85 not to apply (Full Cost to be deducted from Member Pension)
 - Rule of 85 to apply in accordance with Scheme Employer Policy (Partial Strain Cost may be recharged to employer)
 - Employer's determination that any reduction for early payment of benefits should not apply (Full Strain Cost to be recharged to employer)
- Ill-health retirement: employer's determination dated [REDACTED] to terminate employment on grounds that ill-health or infirmity of mind or body renders employee permanently incapable of discharging efficiently the duties of his/her employment and is not immediately capable of undertaking any gainful employment before State Pension Age (or 65 if later). (Attach copy of medical opinion upon which determination was based.) The level of ill-health award is –
 - Tier 1: unlikely to be capable of undertaking gainful employment before Normal Pension Age.
 - Tier 2: unlikely to be capable of undertaking gainful employment within 3 years of leaving employment but likely to be capable of undertaking gainful employment before Normal Pension Age
 - Tier 3: likely to be capable of undertaking gainful employment within 3 years of leaving employment.
- Dismissal on grounds of business efficiency
- Dismissal by reason of redundancy
- TUPE (give details of new employer) [REDACTED]
- Other (give reasons) [REDACTED]

Name: NINo: **Pension Scheme Contributions**

Tax Year of Leaving	£ <input type="text"/>	Previous Tax Year	£ <input type="text"/>
---------------------	------------------------	-------------------	------------------------

CARE**Cumulative Pensionable Pay****Current Financial Year ()***See separate Notes about Pay (2014 Scheme)**(Please only provide details of pay from 01 April in the year of leaving (or the date of commencement if later) – previous year's pay details to be provided overleaf)*

Item of pay	From	To	£	Main Scheme	50/50 Scheme

Did the employee have any period of qualifying unpaid absence (sickness, Child-related leave, strike, authorised absence) above? If so, please ensure that APP has been provided, rather than Actual Pay. Give details of the dates of absence below (these periods should match the Assumed Pensionable Pay period calculated above):

Name: [REDACTED]

NINo: [REDACTED]

**Previous Pensionable Pay
Previous Financial Year ([REDACTED])**

See separate Notes about Pay (2014 Scheme)

Item of pay	From	To	£	Main Scheme	50/50 Scheme

Did the employee have any period of qualifying unpaid absence (sickness, Child-related leave, strike, authorised absence) in the averaging period above? If so, show details below (these periods should match the Assumed Pensionable Pay period calculated above):

[REDACTED]

Name: []

NINo: []

Final Pay

See separate Notes about Final Pay (2008 Scheme)

Averaging Period: From [] to [] (date of leaving)



Item of pay	From	To	£	A week ✓	A year ✓

Was the employee part-time? If so, show below the hours worked as a proportion of whole-time, with dates, during the above averaging period:

[]

Remarks:

[]

Certified Correct

Signed [] Date []

Designation []

Contact Details []

PEN LV 1 OS V7.0 May 2018

Why don't Pensions Services tell me APP is missing?

- We have 38,000 active members
- CARE Pay can and does vary year on year
- We don't record hour changes (if you're not an i-Connect employer)
- We can't tell if CARE pay is different year on year for valid reasons
- We have to update the 38,000 records (across 450 employers / 150 payroll sites) within 3 months

APP – Deaths and Ill Health

- Pension Services use APP to calculate benefits for Deaths and Ill Health
- **Has there been a reduction in contractual hours during the relevant pay periods wholly or partly because of a condition that caused or contributed to the Ill-Health retirement?**
- If the Independent Registered Medical Practitioner (IRMP) certifies YES to this question, then the APP figure is to be calculated on the pay the member would have received during this time – treated as if they had not been working reduced contractual hours.

Resources to help

- Staffordshire Pension Fund have their own Pay and Absence guides available on the Employer section of the website
- LGA Payroll Guide – this has a breakdown of the system requirements for reporting APP etc.

<http://www.lgpsregs.org/resources/guidesetc.php>

And Finally.....

