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Understanding.... CARE, Pay & Final Pay

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TODAY'S AGENDA

- 1) Pensionable Pay
- 2) CARE Scheme
- 3) Final Pay Calculations
- 4) Final Pay Scenarios



Foreword

- There's lots of regulations
- There's lots to learn
- We can't do it all today (but we'll do most)
 - There's more on line <u>www.lgpsregs.org</u>
- We're only looking at the situation in England and Wales
- There's 89 "Funds" each with their own idiosyncrasies
 - Procedures, forms, timescales, views etc.
 - Therefore, if you're attached to more than one Fund, beware!
- On leaving, the employer decides what benefit
 - Sends information, including financials, to the Fund
 - The Fund then calculate and pay the benefits

PEN LV 1 Staffordshire Pension Fund Local Government Pension Scherre NOTICE OF TERMINATION OF MEMBERSHIP						
First Notice Additional Notice Amended Notice						
Employing body						
Employer number						
Scheme member details						
Sumame						
Title: 🖸 Mr 🔲 Mrs 🔲 Mlss 🔲 Ms 🔲						
Forename(6)						
Home address						
Email address						
Last day of employment						
Last day as member of Scheme						
Employment at date of leaving Scheme						
Hours Worked						
Pay Reference oumber						
Date of bitth						
National Insurance number	_					

Scheme member has opted out of LGPS

Date a	t 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

Scheme member has died in service
Date of death
Informant (name and address)
Next of kin and/or personal representative(s) who can be contacted by Pension Services
Any other relevant information:

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)
- - 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).....
- Other (give reasons)
 2

Tax Year of Leaving	£			Previous Tax Year	٤		
		Cont	racted-(Out Earnings			
"D" or "I" rate Cont	tracted-out earn	ings on w (LEL to	vhich empir 8T, 8T to i	oyee's contributions a PT and PT to UAP)	st co	ntracted-out ra	ite are payat
Tax Year 2015/2016	£			Tax Year 2014/201	5	٤	
Aver	aging Period:	From					
Aver. (Please only provide of previous year's pay of them of pay.	aging Period: details of pay fro etails to be prov	From om 01 Apr ided over	ni in the yes ieat) To	ar of leaving (or the o	iate	of commencer	ment If later) 60/50 Soberne
Aver. Please only provide o previous year's pay of item of pay	aging Period: letails of pay fro	From om 01 Apr ided over From	ni in the yea teat) To	ar of leaving (or the o	fate	of commencer Main Soheme	nent if later) 60/50 Soheme
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Aver. (Please only provide of previous year's pay de litem of pay	aging Period:	From	ni in the yes	er of leaving (or the o		of commencer	50/50 Soheme

.....

Name

NIN0:

Previous Pensionable Pay Previous Financial Year (2015/2016) See separate Notes about Pay (2014 Scheme)

Averaging Period: From

item of pay	From	То	£	Main Soheme	60/60 Soheme

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):

Name: Final Pay NIND

See separate	Notes abou	it Final <mark>Bay</mark>	(2005	Schemej
--------------	------------	---------------------------	-------	---------

item of pay	From	То	£	A week	A year
				-	-
s the employee part-time? If	so, show below	the hours wo	rked as a pro	oportion of w	hole-tim
es, during the above averagin	ig penoa:				

Remarks:

......

Certified Correct
Signed
Date
Contact Details

PEN LV 1 VS.0 March 2016





Pensionable Pay

Pay for pension purposes is "all the pay...declared for tax" except

- Non-Contractual Overtime
- Travelling/Subsistence
- Bought-out holiday entitlement
- Payment in lieu of Notice
- "Please don't leave" payments
- Lease Cars / Cash Equivalent
- Equal Pay Compensation
- Certain returning officer fees
- Environment Agency / LSC "contribution" supplements
- New Towns termination payments
- School Achievement Awards



Pay for pension purposes is "all the pay...declared for tax" except

- Travelling/Subsistence
- Bought-out holiday entitlement
- Payment in lieu of Notice
- "Please don't leave" payments
- Lease Cars / Cash Equivalent



- Payment in consideration of loss of future pensionable payments
- Equal Pay Compensation
- Pay to those on reserved forces service leave
- Certain returning officer fees
- Environment Agency / LSC "contribution" supplements

Pensionable Pay redefined in '14

- Main differences
 - Non-contractual overtime now pensionable
 - Payment in consideration of loss of future pensionable payments or benefits is now not pensionable
 - Any pay to a member on RFSL is not pensionable
- Salary sacrifice?
 - Specify in contract of employment as a pensionable emolument
 - See LGPC Circular 244 for details BUT.....
- Autumn Statement 2016
- From 2017, "perk" being taken away
 - But not all perks
 - See Page 8



Pensionable Pay redefined in '14

- Main differences
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 - Payment in consideration of loss of future pensionable payments or benefits is now not pensionable
 - Any pay to a member on RFSL is not pensionable
- Salary sacrifice?
 - Specify in contract of employment as a pensionable emolument
 - See LGPC Circular 244 for details BUT.....
- Sold Leave
 - Non-pensionable (as it is an exclusion)
- "Forced leave"
 - Effectively unpaid leave not salary sacrifice, therefore dealt with under absence rules
 - But could be a forced cut in pay and give Ben Reg 10 entitlement
 - And there's always "net pay deductions"

Exercise 1 – Mr. Workaholic

		2008	2014
£2500.00	Salary	YES	YES
£ 250.00	Performance-related Pay	YES	YES
£1000.00	Cash equivalent of car	NO	NO
£ 500.00	Contractual Overtime	YES	YES
£ 850.00	Non-contractual overtime	NO	YES
£ 296.75	Travelling Expenses	NO	NO
£ 424.75	Subsistence expenses	NO	NO
£ 18.00	First Aid Allowance	YES?	YES?
<u>£ 154.25</u>	Enhancement for w/e working	YES?	YES
<u>£5993.75</u>			
£1000 Honora	ria	IT DEP	ENDS
£3500 Pay-off		NO	NO

The dangers of distorting the "curve"



The pensionable pay curve

- Scheme designed to be fair
- Fair to the employee, fair to the employer
- But there have always been "winners and losers" when it comes to final salary schemes
 - Part of the reason employee contribution banding was introduced
- Volatility = unfairness
- Danger

- Distort the curve and pick up the bill !

Basic Valuation Principles







CARE Scheme

A career average pension

- A Final Salary 60ths scheme would give
 1/60 x membership x "pay at the end"
- A CARE 60ths scheme would give
 1/60 x membership x average pay "throughout"
- So is the end result the same?
- Well, it can be:

Steady Eddie

Eddie is a member for 5 years and his pay increases by 4% per annum.

His pay for those 5 years is as follows:

Year	Earn	ings	Revalued Earning	S	
1	£20,0	000	+4%+4%+4%+4%	=	£ 23,397
2	£20,8	800	+4%+4%+4%	=	£ 23,397
3	£21,6	632	+4%+4%	=	£ 23,397
4	£22,4	497	+4%	=	£ 23,397
5	£23,3	397	+0%	=	<u>£ 23,397</u>
					£116,985
Final Pay	=	£23,3	397		
		• • • • •	/		
CARE	=	£116	,985 / 5 = £23,397		

Of course, Eddie doesn't exist

- There are winners and losers
- LGPS2014 is CARE 49ths
 - With CPI revaluation
- Broadly equivalent to 60ths FS (GAD)
- You can make CARE administration hard
- Take a look at a "GMP":

Commenced May 88, SPA July 2001

	Earnings	Percentage	Revalued
		revaluation	Earnings
1988/89	12005	97	£23,649.85
1989/90	11880	77.8	£21,122.64
1990/91	14366	65.7	£23,804.46
1991/92	16688	50.5	£25,115.44
1992/93	17603	41.3	£24,873.04
1993/94	18235	34.6	£24,544.31
1994/95	18657	30.6	£24,366.04
1995/96	19690	25.1	£24,632.19
1996/97	20078	21.7	£24,434.93
		Total	£216,542.90

 $\frac{20\% \text{ x } \pounds216,542.90}{23} \div 52 = \pounds36.21 \text{ a week}$

And it could be even worse!

- Imagine if you had to gross up all those earnings as well (for parttimers etc)!
- People could have a 59 year career!
- There is an alternative solution
 - an account based system



Pension Accounts – a different concept

• Eddie's pension based on 49ths would be:

Membership x Career Average Pay 49

 $5/49 \times \pounds 23,397 = \pounds 2,387.45$

But ran like an account:

Year 1	£20000/49	=	£ 408.16
Year 2	$\pounds 20,800/49 = \pounds 424.49 + (\pounds 408.16 \times 1.04)$) =	£ 848.98
Year 3	$\pounds 21,632/49 = \pounds 441.47 + (\pounds 848.98 \times 1.04)$) =	£1,324.41
Year 4	$\pounds22,497/49 = \pounds459.12 + (\pounds1,324.41 \times 1.04)$) =	£1,836.51
Year 5	£23,397/49 = £477.49 + (£1,836.51 x 1.04) =	£2,387.46

- Each year "actual" pensionable pay is divided by 49
- That's it!
 - (although there is some nitty-gritty later.....)

Types of account and revaluation

- As well as active accounts
 - Deferred accounts
 - Pensioner accounts
 - Survivors' accounts
 - And others
- Active a/c revalued by Treasury Order
- Others by PI (Review) Orders, as now
- "Tricky" issue in year of leaving
 - that's the administering authority's job

Cumulative Pensionable Pay

- "Actual" Pensionable Pay and/or "Assumed" Pensionable Pay
 - In either section of the scheme, in the scheme year





CPP in each section

• Simply because of different accrual rates





 $1/98^{\text{th}}$

Issues with arrears of pay

- What to do with arrears of pay?
 - 2008 pay due for a period, not pay received in a period
 - Otherwise could distort final pay
 - Not relevant consideration in a CARE scheme
- 2014 pay received in a period, not pay due for a period
 - Except when calculating final pay for pre-14 membership!
- What about arrears paid April 14+ in respect of March 14-?
 - Don't add into CARE cumulatives!
 - Take pension on '08 pensionable pay definition at '08 rate
 - But the employer contribution rate can be the rate at time of payment

Separate contracts?

- Separate records must be held for "true" separate jobs at administering authority level
- Separate records must be held for these separate jobs at scheme employer level too
 - As for automatic-enrolment requirements
- Example of "single-employment relationship"
 - 2 concurrent employments where A would be terminated if B stopped
 - 2 sequential employments say a promotion
- On the contrary, SERs wouldn't exist where:
 - 2 concurrent employments where A would NOT be terminated if B stopped
 - 2 sequential employments but with a break in service
- Great care needed with folk paid through timesheet claim!
- And crucially, which data belongs to which record?

Assumed 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



APP – the calculation

- Calculated at an annual rate
 - Applied during the relevant period as a proportion
- 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
- 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 $1 = \pounds 1400$
- Actual PP in Month 2 = £2500 (including £1k bonus, £100 O/T)
- Actual PP in Month $3 = \pounds1400$
- Assumed PP is:
- $(\pounds 1400 + \pounds 1500 + \pounds 1400) / 3 * 12) = \pounds 17200$
- 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:

—			
—	Annual rate	x 3	
_	365		, or
—	<u>Annual rate</u>	x <u>3</u>	
—	12	31	, or
—	<u>Annual rate</u>	x <u>3</u>	
_	12	22	, or

– Something else!

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 sick
 - Going on to no pay OML/OAL/OPL
- 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

Exercise 2 – Mrs Sippy

Calendar monthly paid Mrs Sippy went onto relevant child-related leave on 4 August. Her pay records for this year are as shown. There were no "lump sums" paid to her in the previous financial year.

Please calculate her APP.

April	Мау	June	July	Item
$\begin{array}{c} \pounds 2500 \\ \pounds 250 \\ \pounds 650 \\ \pounds 296 \\ \pounds 1225 \\ \pounds 4921 \end{array}$	$\begin{array}{c} \pounds 2500 \\ \pounds 250 \\ \pounds 775 \\ \pounds 210 \\ \pounds 0 \\ \pounds 3735 \end{array}$	£2600 £ 260 £ 450 £ 174 £ 0 £3484	$\begin{array}{c} \pounds 2600 \\ \pounds 260 \\ \pounds 399 \\ \pounds 305 \\ \pounds 0 \\ \pounds 0 \\ \pounds 3564 \end{array}$	Salary PRP (Bonus) Overtime Expenses One-off honorarium

Exercise 2 – Answer

The relevant pay periods are May, June and July.

The pensionable pay in those months is:

May	$\pounds2500 + \pounds250 + \pounds775 = \pounds3525$
June	$\pounds2600 + \pounds260 + \pounds450 = \pounds3310$
July	$\pounds2600 + \pounds260 + \pounds399 = \pounds3259$

Total pensionable pay is:

23525 + 23310 + 23259 = 210094

Assumed Pensionable Pay is:

 $\pounds10094 \times 12/3 = \pounds40376$



Final Pay Calculations

Benefit Regulation 8-11

- Total pay on which contributions were paid, or were deemed to be paid, in the last year of employment
 - Concurrents can't select pay from another job
 - Can't use unaggregated membership
- Best of the last 3 years
 - Either of 2 preceding "anniversary" years
- Absences
 - OML/OPL/OAL + paid AML/SPL/AAL use w/t equivalent pay
 - Unpaid AML/SPL/AAL use w/t equivalent pay only if APCs have been paid to cover the whole of the period
- The differential on APCs is crucial!
 - We'll explore some examples later today

Benefit Regulation 8-11

- Illness/Injury
 - Reduction/loss of pay is disregarded
- Leave, Gaps or Part-years
 365/n
- Fees "average of" not "best of"
- Certificates of protection
- Benefit Regulation 10
- Why does it have to be this hard?!

WHOLE-TIMERS

- The Regulations say a whole-timer is:
 - an employee whose contract of employment provides –
 - (a) that he is such an employee for the Scheme, or
 - (b) that his contractual hours are not less than the number of contractual hours for a person employed in that employment on a whole-time basis".
- So, is a full-time term-timer a whole-timer?
 - More about that later
- Is a School Crossing Patroller a whole-timer?

Whole-timers

Mrs Easy retired at age 60 on 30 September 2015. She is whole-time, monthly paid and her rates of pay over the last three years have been:

1 October 2012£15,000 p.a.1 April 2013£15,600 p.a.1 April 2014£16,440 p.a.1 April 2015£17,400 p.a.



Final Year:

1 October 2014 to 31 March 2015 \pounds 16,440 x 6/12 = \pounds 8220 1 April 2015 to 30 September 2015 \pounds 17,400 x 6/12 = \pounds 8700 \pounds 16920

Mrs Easy - continued

Year –1

1 October 2013 to 31 March 2014	£15,600 x 6/12 =	£ 7800
1 April 2014 to 30 September 2014	£16,440 x 6/12 =	<u>£ 8220</u>
		<u>£16020</u>
Year –2		
1 October 2012 to 31 March 2013	£15,000 x 6/12 =	£ 7500
1 April 2013 to 30 September 2013	£15,600 x 6/12 =	<u>£ 7800</u>

£15300

The best of her last three years is her final year, so her final pay is **£16920**.

Mrs Even Easier

Retires at age 60 on 30 September 2015

1 April 2014£16,440 p.a.1 April 2015£17,400 p.a.

Final Year: $\pounds 16,440 \times 182/365 = \pounds 8197.48$ 01/10/14 to 31/03/15 $\pounds 16,440 \times 182/365 = \pounds 8197.48$ 01/04/15 to 30/09/15 $\pounds 17,400 \times 183/365 = \pounds 8723.84$ £16921.32

Less than one-ten-thousandths difference (a precision engineer would probably accept that!)

Monthly-paid folk are rarely that simple! Here's Mrs Not-so-Easy

Retires at age 60 on 29 September 2015. She is monthly paid and her rates of pay over the last year were:

1 April 2014 £16,440 p.a. 1 April 2015 £17,400 p.a.

Final Year

30 Sept 2014 to 31 March 2015 £16,440 x 6/12 = £ 8220.00

£<u>16,440</u> x 1/30 = £ 45.67 12

1 April 2014 to 29 Sept 2015

 $\pounds 17,400 \times 5/12 = \pounds 7250.00$ $\pounds 17,400 \times 29/30 = \pounds 1401.67$ 12

£16917.34 p.a.

Mrs Not-so-Easy-made-easy

Retires at age 60 on 29 September 2015

- 1 April 2014 £16,440 p.a.
- 1 April 2015 £17,400 p.a.

Final Year:

30/09/14 to 31/03/15 01/04/14 to 29/09/15

£16,440 x 183/365 = £17,400 x 182/365 = £ 8242.52 £ 8676.16 £16918.68

Your go!

Exercise 3 – Calculation of Final Pay

Calculate the final pay for monthly paid Eric Herrick who left active membership on 28 January 2016.

His rates of pay in the last 3 years were:

29 January 2013	£17472 p.a.
1 April 2013	£18000 p.a.
1 April 2014	£19200 p.a.
1 Sept 2014	£23502 p.a.
1 April 2015	£24678 p.a.
1 June 2015	£20160 p.a.

Eric Herrick – the answer

29 January 2015 to 28 January 20	16					
29/01/15 – 31/03/15 @ £23502/12	=	£1958.50	Χ	2 ³ / ₃₁	=	£ 4106.53
01/04/15 – 31/05/15 @ £24678/12	=	£2056.50	X	2	=	£ 4113.00
01/06/15 – 28/01/16 @ £20160/12	=	£1680.00	Χ	7 ²⁸ / ₃₁	=	£13277.42
				•		£21496.95
29 January 2014 to 28 January 20	15					
29/01/14 – 31/03/14 @ £18000/12	=	£1500.00	X	2 ³ / ₃₁	=	£ 3145.16
01/04/14 – 31/08/14 @ £19200/12	=	£1600.00	Χ	5	=	£ 8000.00
01/09/14 – 28/01/15 @ £23502/12	=	£1958.50	X	4 ²⁸ / ₃₁	=	<u>£ 9602.97</u>
				•		£20748.13
29 January 2013 to 28 January 20	14					
29/01/13 – 31/03/13 @ £17472/12	=	£1456.00	X	2 ³ / ₃₁	=	£ 3052.90
01/04/13 – 28/01/14 @ £18000/12	=	£1500.00	X	9 ²⁸ / ₃₁	=	<u>£14854.84</u>
				•		£17907.74
29 January 2015 to 28 January 20	16 (365ths me	ethod)		
29/01/15 – 31/03/15 @ £23502		X	62/	365	=	£ 3992.12
01/04/15 – 31/05/15 @ £24678		X	61/3	365	=	£ 4124.27
01/06/15 – 28/01/16 @ £20160		X	242/3	365	=	<u>£13366.36</u>
						£21482.75

PART-TIME MEMBERS

- Before 1/4/14 membership accrued as a fraction
 - "The numerator of that fraction is the number of contractual hours during the part-time service and its denominator is the number of contractual hours of that employment if it were on a whole-time basis".
- Final Pay
 - "In the case of part-time employment, the final pay is the pay which would have been paid for a single comparable whole-time employment"
- But why did we bother?!

A typical part-timer....?

Venus Williams left 31 December 2015 She had worked 20 hours a week out of a possible 37 She received part-time pay as follows:

1 January 2015 to 31 March 2015 at £6,000 p.a.

1 April 2015 to 31 December 2015 at £6,600 p.a. Therefore:

- $\pounds6,000 \times 3/12 = \pounds1,500.00$
- $\pounds6,600 \times 9/12 = \pounds4,950.00$

 $\pounds6,450.00 \times 37/20 = \pounds11,932.50$

NB: £11,969.59 if performed on 365ths method

And her sister.....

Serena Williams left 31 December 2015 She had worked 20 hours a week out of a possible 37 until 1 July 2015 when she reduced to 16 hours per week. She received part-time pay as follows:

1 January 2015 to 31 March 2015 at \pounds 6,000 p.a. 1 April 2015 to 31 June 2015 at \pounds 6,600 p.a. 1 July 2015 to 31 December 2015 at \pounds 5,280 p.a. Therefore: \pounds 6,000 x 3/12 = £1,500.00 x 37/20 = £ 2,775.00 \pounds 6,600 x 3/12 = £1,650.00 x 37/20 = £ 3,052.50 \pounds 5,280 x 6/12 = £2,640.00 x 37/16 = £ 6,105.00

 $\pounds 0,105.00$ $\pounds 0,105.00$ $\pounds 0,105.00$ $\pounds 0,105.00$ $\pounds 11,932.50$

NB: £11,969.60 if performed on 365ths method

HOURS/PAY PROPORTIONALITY

- In the CARE world it matters not one jot
- But for anyone with pre-1/4/14 rights, it does
- Member A vs Member B and Member C
- And don't forget Member D!
- Difficult to grasp now we're operating CARE
 - so let's pretend we aren't for a few slides
 - And we've a 60th accrual right through

Member A

- 100% whole-time
- Gets £10,000 plus £2000
- Work for 10 years
- Pays 5.5%: £120,000 x 5.5% = £6,600
- Payback ?
- Well, it's 10/60 x £12,000 = £2,000 p.a.

Pop that result in a table:

Pays in 10 years Annual Pension Fair?

Member A	£6600	£2000	



Pin back yer lugholes!

Pays in 10 years Annual Pension Fair?

Member A	£6600	£2000	\checkmark

And now for Member B and Member C

- Both 50% of whole-time
- Member B gets £5,000 basic only
- Member C gets £5,000 plus £2000
- Work for 10 years
- B pays 5.5%: £50,000 x 5.5% = £2,750
- C pays 5.5%: £70,000 x 5.5% = £3,850
- Payback ?

Let's look at the Regs

- Membership accrues as a fraction
 - "The numerator of that fraction is the number of contractual hours during the part-time service and its denominator is the number of contractual hours of that employment if it were on a whole-time basis".
- Final Pay
 - "In the case of part-time employment, the final pay is the pay which would have been paid for a single comparable whole-time employment"
- But is Member A the right comparator for both Member B & Member C?

If so, all 3 have final pay of £12,000

Pays in 10 years Annual Pension Fair?

Member A	£6600	£2000	\checkmark
Member B	£2750	£1000	
Member C	£3850	£1000	

If so, all 3 have final pay of £12,000

Pays in 10 years Annual Pension Fair?

Member A	£6600	£2000	\checkmark
Member B	£2750	£1000	×
Member C	£3850	£1000	×

Member B₂ gets final pay of just £10,000 instead

	Pays in To years	Annual Pension	Fair?
Member A	£6600	£2000	\checkmark
Member B	£2750	£1000	×
Member C	£3850	£1000	×
Member B v2	£2750	£833.33	

Device in 10 vie are Annual Device

Member B₂ gets final pay of just £10,000 instead

	Pays in TO years	Annual Pension	Fair?
Member A	£6600	£2000	
Member B	£2750	£1000	×
Member C	£3850	£1000	×
Member B v2	£2750	£833.33	

Development Annual Development

Happy to keep Member C "capped" at £12,000?

Pays in 10 years Annual Pension Fair? £2000 Member A £6600 £1000 Member B £2750 £1000 Member C £3850 Member B v2 | £2750 £833.33 Member C £1000 £3850

As there aren't 2 weekends every week (more's the pity):

(£5,000 x 2) + £2000 = £12,000

But forgetting that fact for a minute:

 $(\pounds 5,000 + \pounds 2000) \times 2$ = £14,000

What about Member C₂ having final pay of £14,000 instead?

	r ays in to years	Annual i ension	1 all :
Member A	£6600	£2000	\checkmark
Member B	£2750	£1000	
Member C	£3850	£1000	
Member B v2	£2750	£833.33	\checkmark
Member C	£3850	£1000	
Member C v2	£3850	£1166.67	

Pave in 10 years Annual Poncian

Enir?

What about Member C₂ having final pay of £14,000 instead?

	r ays in to years	Annual i choidh	1 all :
Member A	£6600	£2000	\checkmark
Member B	£2750	£1000	
Member C	£3850	£1000	
Member B v2	£2750	£833.33	\checkmark
Member C	£3850	£1000	
Member C v2	£3850	£1166.67	\checkmark

Pave in 10 years Annual Poncian

Enir?

But.....

- There's the Member D Conundrum
- Member D follows Member A's work pattern for 9 years, then Member C's for 1 year.
- If you apply Member C₂ logic to Member D
 - Member D gets a higher pension than Member A but having paid less contributions in

-i.e. 9.5/60 x £14000 = £2,216.67

- So most administering authorities don't condone grossing up pay "this far"
- Where does that leave us?


But seriously

- CARE takes care of it going forward
 - Member D's last year would be in the CARE world so all OK
- But for anyone who had the proportionality issue prior to 1/4/14
 Final Pay is Key
- And most people would argue it is better to have the odd underpayment rather than the odd overpayment
- Your Fund's view expressed in their Final Pay notes:
 - "The final pay provided for part-time employees should be on a whole-time equivalent figure i.e. the pay that they would have received had they been employed on a whole-time, whole-year basis. This principle extends to any allowances they may receive. In general if any element of pensionable pay would have been paid at a higher amount in respect of more hours had the employee been whole-time then those amounts should be used for the calculation"

TERM-TIME MEMBERS

- A T/T working full-time for 44 weeks of the year and earning £20,000 **could** have a final pay of:
 - £20,000 x 52/44 = £23,636.36
 - With membership accruing at 44/52nds
- Or they could have this approach as an alternative:
 - Membership = 100% of whole time
 - $Pay = \pounds 20,000$
- Each administering authority goes its own way!
 - NB: "Equaters" can't agree on 52 / 52.143 / 52.167 etc.
 - Staffordshire are an "equater" whole-time, whole-year basis
- Although the membership angle has gone with CARE
 - The final pay angle has not

VARIABLE-TIME MEMBERS (FEES)

- Average over final 3 years
- Employer has discretion to substitute with average of "3 in 10"

-(years ending 31 March)

- Done to "iron out" fluctuations in an attempt to ensure fairness
- Let's give Mrs Easy some fees.....

Mrs Easy-with-Fees

Retired at age 60 on 30 September 2015

She is monthly paid and her annual salary rates in the last year were:
1 April 2014 £16,440 p.a.
1 April 2015 £17,400 p.a.

In addition she received fees:

In respect of 01/10/12 to 30/09/13 £3750 In respect of 01/10/13 to 30/09/14 £6100 In respect of 01/10/14 to 30/09/15 £4352

Final Year:

1 October 2014 to 31 March 2015 $\pounds 16,440 \times 6/12 =$ $\pounds 8220$ 1 April 2015 to 30 September 2015 $\pounds 17,400 \times 6/12 =$ $\pounds 8700$ Average of fees $\pounds 14,202/3 =$ $\pounds 4734$

£21654

CERTIFICATES OF PROTECTION (in respect of drops/restrictions pre-1/4/08)

- Proverbial "Pain" to administer !
- "Best of the last 13 years"
- Actually means the greater of:
 - Best of the last 5 years, and
 - Best average of 3 consecutive years in the last 13 years
- Look at the state of Mrs COP !



Mrs COP

Pay over last 13 years

01/10/2011 to 30/09/2012 £15,419 01/10/2010 to 30/09/2011 £14,518 01/10/2009 to 30/09/2010 £13,797 01/10/2008 to 30/09/2009 £13,256 01/10/2007 to 30/09/2008 £12,742 01/10/2006 to 30/09/2007 £12,240 01/10/2005 to 30/09/2006 £11,753 01/10/2004 to 30/09/2005 £14,473 01/10/2003 to 30/09/2004 £13,674 01/10/2002 to 30/09/2003 £12,908 01/10/2001 to 30/09/2002 £12,379 01/10/2000 to 30/09/2001 £11,778 01/10/1999 to 30/09/2000 £11,237

Calculation of final pay

Last 5 years pay

01/10/2011 to 30/09/2012 £15,419£15,419.0001/10/2010 to 30/09/2011 £14,5182.60% £14,895.4701/10/2009 to 30/09/2010 £13,7976.83% £14,739.3401/10/2008 to 30/09/2009 £13,2568.46% £14,337.4601/10/2007 to 30/09/2008 £12,742 11.17% £14,165.28

Three year averages

01/10/2009 to 30/09/2012 £14,578£14,578.0001/10/2008 to 30/09/2011 £13,8572.60% £14,217.2801/10/2007 to 30/09/2010 £13,2656.83% £14,171.0001/10/2006 to 30/09/2009 £12,7468.46% £13,824.3101/10/2005 to 30/09/2008 £12,245 11.17% £13,612.7701/10/2004 to 30/09/2007 £12,822 16.11% £14,887.6201/10/2003 to 30/09/2006 £13,300 20.46% £16,021.1801/10/2002 to 30/09/2005 £13,685 24.24% £17,002.2401/10/2001 to 30/09/2004 £12,987 27.85% £16,603.8801/10/2000 to 30/09/2003 £12,355 31.62% £16,261.6501/10/1999 to 30/09/2002 £11,798 34.57% £15,876.57

Calculation of final pay

Last 5 years pay

01/10/2011 to 30/09/2012 £15,419£15,419.0001/10/2010 to 30/09/2011 £14,5182.60% £14,895.4701/10/2009 to 30/09/2010 £13,7976.83% £14,739.3401/10/2008 to 30/09/2009 £13,2568.46% £14,337.4601/10/2007 to 30/09/2008 £12,742 11.17% £14,165.28

Three year averages

BENEFIT REGULATION TEN

- Reduction in pay during continuous period of employment
 - but not as a result of ceasing a temporary post
 - or flexible retirement
- Because:
 - Chooses to carry on in lower grade / less responsibility
 - Equal pay achievement with other employees
 - Job evaluation
 - Loss of / reduction in pensionable emoluments
 - Rate of increase in future pay restricted
- Occurs in last 10 years and post 31/3/08
- Can choose best average consecutive 3 years in the last 13 ending on a 31st March

A few points worthy of note:

- Election should be made by the member at least 1 month BEFORE leaving
 - and in writing to the administering authority
- The pay figure the member can select doesn't have to be the highest
- TUPE protection to Reg 10(1)(a)
 But ought to apply to (b) to (e) also
- Many Funds act pragmatically / sensibly
 - Election by date / member selecting figure / TUPE rules

Claire Vision leaves 30/9/2020

Year to 30/9/20 Year to 31/3/20 Year to 30/9/19 Year to 31/3/19 Year to 30/9/18 Year to 31/3/18 Year to 31/3/17 Year to 31/3/16 Year to 31/3/15 Year to 31/3/14 Year to 31/3/13 Year to 31/3/12 Year to 31/3/11 Year to 31/3/10 Year to 31/3/09 Year to 31/3/08

£17,250 £16,920 £16,470 £16,020 £15,660 £15,300 £14,760 £14,247 £17,850 £16,764 £15,981 £15,183 £14,418 £13,890 £13,290 £12,750

Claire Vision – leaves 30/9/2020

Last 3 years pay

01/10/2019 to 30/09/2020 £17,250.00 01/10/2018 to 30/09/2019 £16,470.00 01/10/2017 to 30/09/2018 £15,660.00

Three year averages

01/04/2017 to 31/03/2020 01/04/2016 to 31/03/2019 01/04/2015 to 31/03/2018 01/04/2014 to 31/03/2017 01/04/2013 to 31/03/2016 01/04/2012 to 31/03/2015 01/04/2011 to 31/03/2014 01/04/2009 to 31/03/2012 01/04/2008 to 31/03/2011 01/04/2007 to 31/03/2010

£16,080	
£15,360	1.55%
£14,769	4.54%
£15,619	6.89%
£16,287	8.70%
£16,865	11.43%
£15,976	13.86%
£15,194	16.32%
£14,497	20.27%
£13,866	23.69%
£13.310	27 41%



 $\pounds16,080.00$ $\pounds15,598.08$ $\pounds15,439.51$ $\pounds16,695.15$ $\pounds17,703.97$ $\pounds18,792.67$ $\pounds18,190.27$ $\pounds17,673.66$ $\pounds17,435.54$ $\pounds17,150.86$ $\pounds16,958.27$ *

* What's in an interjection?



Final Pay Scenarios

AUTHORISED LEAVE

- Authorised leave of absence in the final year
- Does not pay APCs
- "Break" in active membership therefore
 - From 1 October 2014
 - To 30 November 2014
- Left on 30 April 2015
- Calculation of Final Pay thus:

Arthur Highsleeve (1)

01/05/2014 - 30/09/2014 (153 days) £15501/12 * 5 = £ 6,458.75

1/10/2014 – 30/11/2014 (61 days for which no APCs paid)

1/12/2014 - 31/12/2014 (31 days) £15501/12 * 1 = £ 1,291.75

1/1/2015 - 30/04/2015 (120 days) $\pounds 16500/12 * 4 = \pounds 5,500.00$

Total = £13,250.50

Final pay:

 \pounds 13,250.50 * 365 / (120 + 31 + 153) = \pounds 15,909.32

Arthur Highsleeve (2)

01/05/2014 – 30/09/2014 (153 days) \pounds 15501/365 * 153 = \pounds 6,497.68

1/10/2014 – 30/11/2014 (61 days for which no APCs paid)

1/12/2014 – 31/12/2014 (31 days)

1/1/2015 - 30/04/2015 (120 days) $\pounds 16500/365 * 120 = \pounds 5,424.66$

 $\pounds 15501/365 * 31 = \pounds 1,316.52$

Total = £13,238.86

Final pay:

 \pounds 13,238.86 * 365 / (120 + 31 + 153) = £15,895.34

Which Arthur is correct?

- Arguably, technically, number 1
 - Because his final pay is calculated in the manner his actual pay was paid to him
- However, because of scaling by 365/n, does
 Number 2 give a more accurate result?
- What if his pay had been the same throughout?

Arthur Highsleeve (3)

Final pay:

 \pounds 13,750.00 * 365 / (120 + 31 + 153) = \pounds 16,509.05

Arthur Highsleeve (4)

Final pay:

$$\pounds$$
13,742.47 * 365 / (120 + 31 + 153) = \pounds 16,500.00

MATERNITY LEAVE

- Does not return from maternity leave
- Did not pay APCs to cover unpaid AML
- "Break" in active membership therefore

 From 30 January 2015
- Left on 30 April 2015
- NB: This may not accord with actual practice of some authorities

– Would process as 29 January 2015 leaver instead

• Calculation of Final Pay (using 365ths method) thus:

Annette Curtain

01/05/2014 - 30/09/2014	£14100 * 153/365	= £ 5,910.41
01/10/2014 — 31/12/2014	£15500 * 92/365	=£ 3,906.85
01/01/2015 — 29/01/2015	£16500 * 29/365	= <u>£ 1,310.96</u>

Total = £11,128.22

Final pay = £11,128.22 * 365/274 = £14,824.09

STRIKE BREAK

- Strike Break of 2 days in final year
- Does not pay APCs
 But we'll also look at the result if he does
- "Break" in active membership
 - From 16 July 2015
 - To 17 July 2015
- Leaves on 30 September 2015
- Calculation of Final Pay (using 12ths method) thus:

Ivor Gripe (1 - does not pay)

01/10/2014 - 31/03/2015 £20,000 * 6/12 = £10,000.00

01/04/2015 - 30/09/2015 £22,000 * 6/12 = £11,000.00

Less pay lost on strike $2/260 * \pounds 22,000 = \pounds 169.23$

Total = $\pounds 20,830.77$

Final Pay:

 $\pounds 20,830.77 * 365/363 = \pounds 20,945.54$

Ivor Gripe (2 – pays APCs)

01/10/2014 - 31/03/2015 £20,000 * 6/12 = £10,000.00

01/04/2015 - 30/09/2015 £22,000 * 6/12 =£11,000.00

Final Pay: = £21,000.00

Points to note:

- Grossing up pay by 365 over (365 X) when pay being lost is X over 260 will always cause this anomaly
- Loses membership and reduces final pay – Surely an unintentional consequence?

GAP IN EMPLOYMENT

- Member leaves, has a break, returns to same employer, then leaves again
 - Date of joining Employer A = 01/01/2010
 - Date of leaving Employer A
 - Date of re-joining Employer A = 01/01/2015
 - Date of leaving Employer A again = 30/04/2015
- If benefits were "not aggregated" on recommencement, no need to work out final pay
- If they were aggregated, calculation of final pay thus:

= 30/09/2014

May Ann Hayes

 $01/05/2014 - 30/09/2014 \quad \pounds 16500 * 5/12 = \pounds \ 6875.00$ $01/01/2015 - 30/04/2015 \quad \pounds 16500 * 4/12 = \pounds \ 5500.00$ $= \pounds 12375.00$

Final Pay:

= £12375 * 365/273 = **£16545.33**

That's madness!

Surely the right answer can only be £16500?

May Ann Hayes (version 2)

01/05/2014 01/01/2015	— 30/09/ — 30/04/	/2014 /2015	£16500 * 15 £16500 * 12	53/365 20/365	$= \pounds 6916 \\ = \pounds 5424 \\ = \pounds 12341$.44 <u>.66</u> .10
Final Pay:	=	£12341	.10 * 365/27	3	= £16500	.01

That's better! - but would you even have spotted the madness of using the 12ths method in this case? For e.g. if the salary rates were different in the two jobs and/or there were variable elements? And what to do if the two periods were with different employers?

CONCURRENT EMPLOYMENTS

- Member holds two concurrent jobs with the same employer and ceases one (Job Y) aggregates it with the remaining job (Job Z) and then leaves that job
- Date started Job Y 01/09/2012
- Date started Job Z 01/01/2013
- Date of leaving Job Y 31/12/2014
- Date of leaving Job Z 30/04/2015
- Only pay that can be used is in relation to Job Z so Job Y is ignored

Otherwise – look at Simple Simon

- Holds 2 jobs for 2 years
- Leaves £20000 job, stays in £10000 job
- Aggregation gives him 4 years
 Because his pay has halved that is fair
- Leaves £10000 job 1 year on
- If you incorporate Job Y's higher pay in the final pay calculation he would get a double benefit

"Con" Current

Job Y $01/05/2014 - 31/12/2014 \pm 17000$ 01/05/2014 - 31/03/2015 £14100 Job Z 01/04/2015 - 30/04/2015 £14700 $01/05/2014 - 31/03/2015 \pm 14100 * 11/12$ = £12,925.00 01/04/2015 - 30/04/2015 £14700 * 1/12 =£ 1,225.00 **Final Pay** = £14,150.00 Or 01/05/2014 - 31/03/2015 £14100 * 335/365 = £12,941.10 01/04/2015 - 30/04/2015£14700 * 30/365 =£ 1,208.22 **Final Pay** = £14,149.32

Exercise 4 – Earl E Bird

- Has a Deferred Benefit in respect of membership from 1 August 2006 to 31 July 2011
- Started 28 November 2015
 Accepted "auto-aggregation"
- Left 28 February 2016
- Rate of pay throughout £24000 p.a.

Earl E Bird – the answer

Pay 28/11/2015 - 28/02/2016

 $\pounds 24000/12 * 3/30 = \pounds 200.00$ $\pounds 24000/12 * 2 = \pounds 4000.00$ $\pounds 24000/12 * 28/29 = \pounds 1931.03$ $= \pounds 6131.03$

Final Pay:

 $\pounds 6131.03 * 365/93 = \pounds 24062.64$

Earl E Bird – another answer

Pay 28/11/2015 - 28/02/2016

 $\pounds 24000/12 * 3/22 = \pounds 272.73$ $\pounds 24000/12 * 2 = \pounds 4000.00$ $\pounds 24000/12 * 20/21 = \pounds 1904.76$ $= \pounds 6177.49$

Final Pay:

$\pounds 6177.49 * 365/93 = \pounds 24244.99$

Earl E Bird – some more answers

Pay 28/11/2015 – 28/02/2016 (as the 29th Feb isn't *real*)

 $\pounds 24000/12 * 3/30 = \pounds 200.00$ $\pounds 24000/12 * 3 = \pounds 6000.00$ $= \pounds 6200.00$

Final Pay: $\pounds 6200.00 \times 365/93 = \pounds 24333.33$

Or: something else (e.g. why not use 366 as it's a leap year?)

Or: £24000 (because that's the salary throughout!)


And Finally.....



That's it – You've finished!



Have a Safe Journey Home





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