



A GUIDE TO ASSUMED PENSIONABLE PAY (APP)

What is APP?

Assumed Pensionable Pay (APP) provides a notional pensionable pay to ensure the members pension is not affected by any reduction in pensionable pay, due to a period of sickness or injury on reduced contractual pay or no pay or relevant child related leave or reserve forces service leave.

Why is APP so important?

Since the 1 April 2014, members pension has been linked to their earnings and for every year they are a member of the Scheme they add pension to their individual account. The pension added each year is based on 1/49th of their earnings for that year (1/98 if they have opted to be a member of the 50/50 section of the scheme) The pension account is then increased each year by the Consumer Price Index (CPI) up to their retirement date. This is known as a **Career Average Revalued Earnings (CARE) Pension**.

Example calculation of a CARE Pensions for year 2018/19

Member A

A member who earns £20,000 from 1/4/2018 to 31/03/2019 will build up 1/49th of that pay towards their pension account for that year i.e. $£20,000 \times 1/49^{\text{th}} = £408.16$ per annum pension.

Member B

If we take an identical scheme member who has been on reduced pay of £15,000 due to sickness or relevant child related pay during the same period 1/04/2018 to 31/03/2019 i.e. $£15,000 \times 1/49^{\text{th}} = £306.12$ per annum pension

- Member A pension = £408.16 p.a. vs Member B pension = £306.12 p.a. a difference of £102.04 per annum
- In this example the members has 'lost pension' of £102.04 per annum, plus future increases in line with Consumer Price Index (CPI).



- This will result in a lower members / spouse's pension than they are entitled to under the LGPS regulations

Consequence – In this example as the member is on reduced pay due to sickness or relevant child related pay, the employer must include a notional APP of £5,000 thereby increasing the pensionable pay to the amount the member would have received had they not been on reduced pay.

Under the LGPS regulations the Employer is required to ensure a notional APP is included in the members pensionable pay which is notified to the Fund

APP Explained

When does APP Apply?

- A member moves to reduced or no contractual pay because of sickness or injury;
- During a relevant paid child related leave (ordinary maternity, paternity or adoption leave, paid shared parental leave and any paid additional maternity or adoption leave); or
- Whilst a member is on reserve forces service leave.

The cumulative pensionable pay should be the assumed pensionable pay and not the actual pensionable pay.

When does APP not apply?

- During any part of relevant child related leave, if the pensionable pay received is greater than the assumed pensionable pay for that payment;
- During any period of unpaid additional maternity, paternity, adoption leave or shared parental leave available at the end of relevant child leave (this is treated as unpaid leave of absence, in these instances the member may buy back the 'lost pension via additional pension contribution); or
- if the member has a period of authorised unpaid leave of absence due to industrial action.



How do I calculate APP?

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

The relevant period starts on the date:

- the employee drops to reduced or no contractual pay due to sickness or injury or
- when 'relevant' child related, or reserve forces services leave commences.

Method

- a) calculate average pensionable pay for the 3 complete months/12 complete weeks* prior to the date of reduced /no pay**
- b) gross up to an annual figure.
- c) Annual figure is then apportioned to the applicable period and replaces any pay period.

*If 3 or 12 pay periods do not exist, use whatever number of complete periods are available.

**Remove any 'lump sums' but include any APP already credited in those 3 months (regular lump sum payments can be included at Employer's discretion)

For example:

Month 1 = £1,400

Month 2 = £2,500 (including £1,000 bonus and £1,00 overtime)

Month 3 = £1,400

Annual Rate of APP = $(£1,400 + £1,500 + £1,400 / 3 \times 12) = £17,200.00$.

If APP figure above is lower than the actual pensionable pay normally received, the Employer may substitute a higher level of pensionable pay received by the member in the previous 12 months.



APP Figure used for enhancement in Tier 1 and Tier 2 III-Health and Death in Service calculations.

APP figure is calculated in the normal way but using the 12 (weekly) or 3 (monthly) complete pay periods prior to the date of retirement or death (including any APP credited in and relating to those pay periods).

Any regular lump sum paid in the 12 months prior can be added back into the annual pay if the Employer determines there is a 'reasonable expectation' it would have been paid to the member***

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 III-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.


*** Changes in legislation in May 2018, allows Employers the discretion to use a different pensionable pay figure that reflects the normal pay of the member over a longer period. In doing so, an Employer must have regard to the pensionable pay received by the member in the last 12 months.

Disclaimer: Please note that this is only a summary of Assumed Pensionable Pay. For more information, please see the Local Government Association (LGA) HR and Payroll Guide to the 2014 LGPS (link below)

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

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