

# Notes about Final Pay

**Membership before 31/03/2014**





## FINAL PAY

The two main components of a benefit calculation for a Local Government Pension Scheme member are membership and final pay and it is vital, therefore, that an accurate service history is maintained and that an accurate final pay figure is provided when a scheme member leaves.

### Final Pay period

Normally a member's final pay is the total pensionable pay and emoluments received:

- a) in respect of the last 365 days of service, or
- b) the pay for either of the two preceding years if that is higher, (in which case the higher earlier year must be used).

But, where a member's pensionable pay in a continuous period of employment is reduced because he chooses to be employed by the same employer at a lower grade or with less responsibility, and this reduction took place within a period of ten years ending with his last day as an active member and does not immediately follow a period in which he occupied a post on a temporary basis, final pay is:

- c) calculated by dividing by three the member's annual pensionable pay in any three consecutive years of his choice ending with 31st March within the period of ten years ending with his last day as an active member.

*In order to decide which period gives the highest pay figure pensions increase has to be applied to the calculations (unlike the normal choice of the best of the last 3 years where the decision has to be made without taking any pensions increases into account). In these cases you will have to provide a final pay figure in respect of the last 10 years ended 31 March. Once the Pensions Section have these figures they can do the required averaging and application of pensions increases.*

**Please note** the pay freeze in the public sector since April 2009 is not to be treated as a restriction in pay in its own right.

Prior to 1 April 2008 an Employing Authority could issue a Certificate of Protection of Pension Benefits if a member's pensionable pay was reduced through no fault of their own, and these members have a protection under the new Scheme that entitles them to have their final pay calculated under the old rules if they leave within 10 years of the reduction. They are entitled to have their final pay based on an earlier pay period looking back 13 years prior to their date of leaving. The pensionable pay used in the calculation of any benefit due will be the highest of:

- d) any single year of the last 5 years ,or
- e) the average of any 3 consecutive years of the last 13 years.

These years end on the anniversary of their date of leaving – not the 31 March.

*Again, in order to decide which period gives the highest pay figure pensions increase has to be applied to the calculations (unlike the normal choice of the best of the last 3 years where the decision has to be made without taking any pensions increases into account). In these cases you will have to provide a final pay figure in respect of the last 13 years. Once the Pensions Section have these figures they can do the required averaging and application of pensions increases.*

## **Final Pay elements**

All elements of pensionable pay must be reflected in the final pay figure; salary/wage, fixed rate allowances such as first aid allowance and any variable payments such as additional payments for Bank Holidays worked, bonuses etc. Any emoluments received must also be included. Emoluments are things which are not pay but which have a monetary value. An example of this could be where an employee receives free meals when on duty. Non-contractual overtime is excluded from Final Pay.

Final pay must be calculated on the rates of pay applicable to work done within the period rather than the amount of pay received within the period. E.g. pay award arrears or honorarium payments relating to a time outside the relevant 365 days should not be included.

## **Calculation of Final Pay**

Certain types of employee/situations need to be dealt with in a particular way;

### **Part-time employees**

The final pay provided for part-time employees should be 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.

### **Absence due to sickness**

When calculating the final pay for someone whose pay has been reduced due to sickness, during the relevant period, however, you need to use the pay elements they would have been receiving had they not been off sick (including any allowances, variable payments and emoluments). In respect of some variable payments this may mean that you have to make a reasonable estimate of the amounts they would have been paid, perhaps by reference to a period of employment prior to their sickness absence.

### **Breaks in Service/Employment of less than one year**

Sometimes you will have to calculate a final pay for a person who has a gap in their pensionable membership some time within the final 3 years or for a person who has not been in your employment for a full year.

- **Break in pensionable membership**

Where there has been a break in pensionable membership but not a break in employment (e.g. maternity leave or strike action, where contributions haven't been paid) you need to calculate the pensionable pay by reference to the last 365 days of employment (or the two preceding years) but then acknowledge that the pay received was for a period of less than a full 365 days by multiplying the figure by 365 and dividing by the number of days for which payments were made.

- **Employment of less than one year**

Again, where there has been less than a full 365 days pensionable employment the final pay figure needs to be uplifted by multiplying the figure by 365 and dividing by the number of days for which payments were made.

## Example calculations

### Calculations of Final Pay for whole time employees

- A** Employee A leaves 31/12/2015. They have always been a whole time/whole year employee receiving salary only. The salary rates in payment for the 3 years prior to leaving are as follows:

DATE	ACT ANNUAL SALARY	DATE	FTE ANNUAL SALARY
01/04/15	£26276.00	01/04/15	£26276.00
01/04/14	£25472.00	01/04/14	£25472.00
01/04/13	£24646.00	01/04/13	£24646.00
01/04/12	£23708.00	01/04/12	£23708.00

The calculation of the final pay for the period 01/01/2015 to 31/12/2015 would be as follows;

<u>Dates</u>	<u>Annual salary</u>		<u>Days/365</u>		
01/01/15 to 31/03/15	£25472.00	X	90/365	=	£ 6280.77
01/04/15 to 31/12/15	£26276.00	X	275/365	=	<u>£19796.99</u>
			Total	=	<u>£26077.76</u>

By simple inspection of the history of annual salary rates it can be seen that neither of the two preceding years would give a higher answer.

- B** The same employee had fixed allowances and variable pay in addition to the basic annual salary.

DATE	ACT ANNUAL SALARY	DATE	FTE ANNUAL SALARY	ANNUAL QUAL ALLOWANCE
01/04/15	£26276.00	01/04/15	£26276.00	£150.00
01/04/14	£25472.00	01/04/14	£25472.00	£141.00
01/04/13	£24646.00	01/04/13	£24646.00	£141.00
01/04/12	£23708.00	01/04/12	£23708.00	£138.00

\*Total variable payments made in respect of the period 01/01/2015 to 31/12/2015 £327.54

The calculation would be as follows:

<u>Dates</u>	<u>Annual salary</u>		<u>Days/365</u>		
01/01/15 to 31/03/15	£25472.00	X	90/365	=	£ 6280.77
01/04/15 to 31/12/15	£26276.00	X	275/365	=	<u>£19796.99</u>
			Total	=	<u>£26077.76</u>

#### Qual allowance

01/01/15 to 31/03/15	£141.00	X	90/365	=	£ 34.77
01/04/15 to 31/12/15	£150.00	X	275/365	=	£ 113.01
Variable allowances 01/01/15 to 31/12/15					<u>£ 327.54</u>
			Total		<u>£26553.08</u>

## Calculations of Final Pay for part-time employees

- A** Employee B leaves 31/12/2015. Their hours of work and rate of salary for the 3 years prior to the date of leaving are as follows

DATE	ACT ANNUAL SALARY	DATE	FTE ANNUAL SALARY	DATE	HOURS
01/04/15	£10099.00	01/04/15	£20198.00	01/10/14	18.50
01/10/14	£ 9810.50	01/10/14	£19621.00	03/07/14	19.00
03/07/14	£10075.65	03/07/14	£19621.00	01/12/13	27.50
01/04/14	£14583.18	01/04/14	£19621.00	09/06/08	18.50
01/12/13	£14215.27	01/12/13	£19126.00	01/09/87	37.00
01/04/13	£ 9563.00	01/04/13	£19126.00		
01/04/12	£ 9226.50	01/04/12	£18453.00		

When calculating the final pay for part-timers the figure you are aiming to arrive at for benefit calculation purposes is the whole-time equivalent for the relevant period. If the whole-time equivalent salary rates are easily accessed the calculation can be done exactly as for a whole time employee by reference to the whole time annual rate of salary. The calculation for the period 01/01/15 to 31/12/15 would be as follows;

<u>Dates</u>	<u>Annual salary</u>		<u>Days/365</u>		
01/01/15 to 31/03/15	£19621.00	X	90/365	=	£ 4838.05
01/04/15 to 31/12/15	£20198.00	X	275/365	=	<u>£15217.67</u>
			Total		<u>£20055.72</u>

The calculation can also be done from the actual salary figure as follows;

<u>Dates</u>	<u>Actual salary</u>		<u>Days/365</u>		
01/01/15 to 31/03/15	£ 9810.50	X	90/365	=	£ 2419.03
01/04/15 to 31/12/15	£10099.00	X	275/365	=	<u>£ 7608.84</u>
					<u>£10027.87</u> x 37/18.5 = £20055.72

If this employee also receives allowances they should be included in the calculations (at a whole-time equivalent rate where applicable)

## Calculations for breaks in pensionable membership

Where there has been a break in pensionable membership within the relevant period you have to scale up that period to produce an equivalent years pay. For example if the date of leaving is 31/12/2015 and the person had 2 days missing for strike action that they chose not to pay contributions for, the pay details used would look as follows:

01/01/2015 to 20/11/2015	£16830.00
21/11/2015 to 22/11/2015	nil (strike)
23/11/2015 to 31/12/2015	£17161.00

You would calculate the final pay as follows;

01/01/2015 to 20/11/2015	£16830.00 x 324/365 = £14939.51
23/11/2015 to 31/12/2015	£17161.00 x 39/365 = <u>£ 1833.64</u>
	£16773.15 x 365/363 = £16865.56

Again if the employee were part-time, the whole-time equivalent figures would be needed

### Reduction in pay within the last 10 years

An employee leaves 31/12/2015. Their hours of work and rate of salary for the 10 years prior to the date of leaving are as follows

DATE	ACT ANNUAL SALARY	DATE	FTE ANNUAL SALARY	DATE	HOURS
01/04/15	£ 9226.50	01/04/15	£18453.00	01/10/13	18.50
01/04/14	£ 8580.50	01/04/14	£17161.00	03/07/13	19.00
01/10/13	£ 8901.00	01/10/13	£17802.00	01/12/12	27.50
03/07/13	£ 9141.57	03/07/13	£17802.00	09/06/01	18.50
01/04/13	£13231.22	01/04/13	£17802.00	01/09/87	37.00
01/12/12	£12754.80	01/12/12	£17161.00		
01/04/12	£ 8580.50	01/04/12	£17161.00		
09/06/11	£ 8415.00	09/06/11	£16830.00		
<b>01/04/11</b>	<b>£16830.00</b>	<b>01/04/11</b>	<b>£16830.00</b>		
01/04/10	£23473.00	01/04/10	£23473.00		
01/04/09	£22122.00	01/04/09	£22122.00		
01/04/08	£20895.00	01/04/08	£20895.00		
01/04/07	£19656.00	01/04/07	£19656.00		
01/04/06	£18507.00	01/04/06	£18507.00		
01/04/05	£18001.00	01/04/05	£18001.00		

Within the period 01/01/2005 to 31/12/2015 (the last 10 years) this employee has suffered a reduction in pay – on 01/04/2011, You would need, therefore, to supply final pay figures for the 9 years ended 31 March within that period. As the FTE annual salary has only actually only changed on 1 April each year for this employee the final pay figures you should supply would be as follows;

01/04/14 to 31/03/15	£17161.00
01/04/13 to 31/03/14	£17802.00
01/04/12 to 31/03/13	£17161.00
01/04/11 to 31/03/12	£16830.00
01/04/10 to 31/03/11	£23473.00
01/04/09 to 31/03/10	£22122.00
01/04/08 to 31/03/09	£20895.00
01/04/07 to 31/03/08	£19656.00
01/04/06 to 31/03/07	£18507.00
01/04/05 to 31/03/06	£18001.00


If the employee had received any pensionable allowances they would also need to be included (at the FTE where appropriate)


### Term Time employees

**Please note** that although the full-time, term-time pay is now used for assessing which contribution band an employee falls into; final pay must always be calculated on the pay the employee would have received if they had been full-time, full-year.

If a copy of this information is needed in large print, Braille,  
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