

Reductions in Pensionable Pay – Effects on Calculation of Pension Benefits factsheet

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This factsheet is intended for members of the Local Government Pension Scheme (LGPS) whose pensionable pay, as defined under the pre 1 April 2014 LGPS, is reduced or restricted.

Where you have membership that has a 'final salary link', in most cases due to having been a member of the LGPS before 1 April 2014, and the reduction or restriction is for reasons other than a change in hours worked or the end of a temporary increase, then 'Final Pay' may be assessed over a period other than that used in the standard 'Best of the last three years'.

The end of a temporary increase includes when an honorarium, salary protection payment or acting-up allowance ceases since these and similar payments are considered temporary in nature and their ending does not in itself allow a period outside of the 'Best of the last three years' to be used to assess Final Pay.

There are no similar protections that apply in relation to the CARE pension built up in respect of membership of the LGPS from 1 April 2014 onwards.

What is Final Pay?

Prior to 1 April 2014, the LGPS was a final salary pension scheme. This means that pension benefits were usually based on a member's pensionable pay over the last 365 days prior to leaving pensionable employment. If the member worked part time, their final year's pensionable pay was increased to that of an equivalent full time member.

If you have membership that has a 'final salary link' and leave the LGPS after 31 March 2014, the benefits in respect of such membership will still be based on 'Final Pay', using the pre 1 April 2014 definition of pensionable pay.

There are circumstances where you may suffer a reduction in your pensionable pay and a period other than your final year of scheme membership may be used to determine the Final Pay used to calculate your pension benefits in relation to membership that has a 'final salary link'. The alternative periods, and when they may apply, are explained below.

Best of the last three years' pay

As already mentioned, the final year of scheme membership is the period usually used when determining Final Pay. However, when the full time equivalent pensionable pay in respect of one of the two immediately preceding years ending with the anniversary of your last day of scheme membership is greater, the year that would produce the greatest Final Pay can be used. This will be the case regardless of the reason for a reduction in your full time equivalent pensionable pay.

If your scheme membership ends three or more years after the reduction, this protection will not apply to you and, in practice, the effect of the protection starts to diminish two years after the reduction.

Example of how we apply the best of the last three years' pay assessment

Isaac leaves the scheme on 5 July 2015. In his last year of membership he did not work any contractual overtime and so his pensionable pay is lower in respect of his final year than in respect of the immediately preceding one. The scheme regulations allow us to look back to one of the two immediately preceding years to determine Final Pay:

6 July 2014 – 5 July 2015 - £21,680
6 July 2013 – 5 July 2014 - £22,998
6 July 2012 – 5 July 2013 - £20,750

We would therefore use the figure of £22,998 to calculate Isaac's pension benefits in respect of membership with a 'final salary link'. When cost of living increases were applied to these benefits they would be treated as having a commencement date of 6 July 2014, rather than 6 July 2015 as would be the case if the pensionable pay in respect of the final year were used.

Best three year average in the last thirteen years

If on or after 1 April 2008, in your last ten years of continuous employment with your employer, your pensionable pay is reduced or restricted for one of the following reasons:

- because you choose to be employed by the same employer at a lower grade or with less responsibility (other than for the purposes of flexible retirement);
- for the purpose of achieving equal pay in relation to other employees of your employer;
- as a result of a job evaluation exercise;
- because of a change in your contract resulting in the cessation or restriction of, or reduction in, payments or benefits specified in your contract of employment as being pensionable pay; or
- because the rate at which your pay may be increased is restricted in such a way that it is likely that the rate of your retirement pension may be adversely affected,

you may opt to have your pension benefits that are based on membership with a 'final salary link' calculated on an average of your pensionable pay in any three consecutive years (ending on a 31 March) in the last thirteen years. It is important to note that **this protection only applies if you opt for it to apply, and an option must be made in writing to LGSS Pensions at least one month before your LGPS membership ends.**

Example of how we apply the best three year average in the last thirteen years

Gill's post is re-graded by her employer as a result of a job evaluation exercise and the new grade is lower than the original one with effect from 1 September 2014. Her employer protects the level of her salary for a period by temporarily paying a sum equal to the difference between the old and new grade salary for a period of six months. Her ten year protection starts on 1 September 2014, rather than when the temporary payments end on 1 March 2015, and runs until 31 August 2024.

If her LGPS membership were to end on 31 August 2024, and she elected in writing before 1 August 2024, we would calculate the Final Pay upon which to base her benefits in respect of membership with a 'final salary link' by taking the best average three consecutive years' pensionable pay (ending 31 March) within her last thirteen years of employment.

Gill's pay over thirteen years (ending 31 March) prior to retirement:

1 April 2023 – 31 March 2024 - £20,375
1 April 2022 – 31 March 2023 - £20,150
1 April 2021 – 31 March 2022 - £20,000
1 April 2020 – 31 March 2021 - £19,690
1 April 2019 – 31 March 2020 - £19,370
1 April 2018 – 31 March 2019 - £19,011
1 April 2017 – 31 March 2018 - £18,900
1 April 2016 – 31 March 2017 - £18,640
1 April 2015 – 31 March 2016 - £19,016
1 April 2014 – 31 March 2015 - £22,860
1 April 2013 – 31 March 2014 - £21,000
1 April 2012 – 31 March 2013 - £20,550

The first three years of the thirteen are the three consecutive years that Gill received the highest pensionable pay; therefore we would take the average of those –

$$\frac{\pounds 20,550 + \pounds 21,000 + \pounds 22,860}{3} = \pounds 21,470$$

We would therefore use the figure of £21,470 to calculate Gill's pension benefits in respect of membership with a 'final salary link'. When cost of living increases were applied to these benefits they would be treated as having a commencement date of 1 April 2015, rather than 1 September 2024 as would be the case if the pensionable pay in respect of the final year were used.

Certificate of Protection

If, prior to 1 April 2008, you suffered a reduction or restriction in pensionable pay that qualified you for protection, your employer would have issued you with a Certificate of Protection under the old protection rules that applied at the time. If this applies to you, and you leave the Pension Scheme within ten years of the reduction, then your Final Pay will be calculated as the best year's pay in the last five years, or the average of the best consecutive three years' pay in the last thirteen years, after allowing for cost of living increases. The years considered here must end on the anniversary of your last day of membership.

Contact us....

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