

**Bath & North East
Somerset Council**



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Employers Guide to the LGPS

Calculation of Final Pay

9 – CALCULATION OF FINAL PAY

9.1 Final Pay

An employee's final pay will **normally** be the pensionable earnings of the final year of service ending with the day on which employment ceases. **See Example 1.** The Regulations provide that the best of the previous two years' pay can be substituted for the final year if the final year is not the best. **See Example 2.**

9.2 Certificate of Protection of Pension Benefits – 1997 Regulations

If the employee has been issued with a Certificate of Protection of Pension Benefits prior to 1 April 2008 the final pay will be chosen by the employee and can be any one of the last five years ending with the day on which employment ceases or an average of any three consecutive years of the last thirteen ending on the day on which employment ceases.

In these cases the Pensions Section requires thirteen separate final pays. EG employee leaves on 7 April 2009. The final pay periods are 8 April 2008 to 7 April 2009, 8 April 2007 to 7 April 2008, 8 April 2006 to 7 April 2007 and so on up to a maximum of thirteen years.

9.3 Reductions to Pay – 2007 Benefits Regulation 10

If the employee's pensionable pay is reduced on or after 1 April 2008 (CLG has advised that this includes cases where a member's salary is frozen) because he/she has chosen to continue in local government employment at a lower grade or with less responsibility than his previous post he/she may choose to have his final pay calculated as the average of his annual pensionable pay in any three consecutive years ending 31st March within the period of 10 years ending with the last day he was an active member.

An employee who has been allowed to take flexible retirement may **NOT** use the incidence of flexible retirement to choose a final pay as in the previous paragraph.

In these cases the Pensions Section requires ten separate final pays. E.g. employee leaves on 7 June 2009. The final pay periods are 1 April 2008 to 31 March 2009, 1 April 2007 to 31 March 2008, 1 April 2006 to 31 March 2007 and so on up to a maximum of ten years.

9.4 Part-time and Term-time Employees

The final year's pay for part-time and term-time staff should be calculated by reference to the pensionable earnings of an equivalent full-time post. Please also state the actual part-time / term-time pensionable earnings in these cases. **See Example 4.**

9.5 Period of No Pay – No Contributions Paid

If the employee had had a period of leave without pay, maternity / adoption leave or had been on strike and had not paid any additional contributions to prevent the period being treated as non-pensionable service, the final pay period would be the last 365 days that could be treated as pensionable. **See Example 5.**

9.6 Maternity / Paternity / Adoption Leave

If the period of final pay contains a period of maternity / paternity / adoption leave and the employee has paid contributions during the maternity leave any reduction in remuneration is ignored and the final year's pay must be calculated as if the employee had been in receipt of full pay.

9.7 Enhancements / Emoluments

If the employee is paid enhancements / emoluments (such as for night or weekend duty) the total payments for the enhancements due in the final pay period must be added to the whole-time equivalent pay calculated for the final pay period.

9.8 Honorariums

If an employee is paid an honorarium in the final year and contributions have been deducted from it the honorarium must be apportioned if necessary. **See Examples 1 & 2.**

9.9 Item of Pay Paid in Arrears

If an employee is paid an item of pay in arrears, for example, additional payment for weekend work or a standby allowance, care has to be taken so that only the payments relative to the period of the final year's pay are included. **See Example 3.**

9.10 Payment in Lieu

Any payment in lieu of holidays or notice must not be included in the calculation of final pay as pension contributions are not due on these payments.

9.11 Sickness Absence

If the employee has been sick during the final year the reduction in pay or no pay period is ignored and the final year's pay must be calculated as if the employee had not been sick even if there has been a period of no pay due to sick pay running out. This must include allowance for bonus payments that would have been earned had the employee not been sick.

Example 1

Employee leaves/retires/dies on 6 October 2008 therefore the final year's pay is the pensionable pay in the period 7 October 2007 to 6 October 2008. Annual Salary from 1 April 2007 was £12,345.00 and £12,750.00 from 1 April 2008. The final years pay is calculated as follows:

7.10.2007 to 31.3.2008 at £12,345.00 pa (£1,028.75 per month) =

$$5 \text{ months} + 25/31^{\text{st}} \times 1,028.75 = \mathbf{5,973.39}$$

7.10.2007 to 31.3.2008 at £12,345.00 pa (£1,028.75 per month) =

$$5 \text{ months} + 25/31^{\text{st}} \times 1,028.75 = \mathbf{5,973.39}$$

1.4.2008 to 6.10.2008 at £12,750.00 pa (£1,062.50 per month) =

$$6 \text{ months} + 6/31^{\text{st}} \times 1062.50 = \mathbf{\underline{6,580.65}}$$

$$\mathbf{\text{Final Year's Pay} = \underline{\underline{£12,554.04}}}$$

Example 2 (with Honorarium)

Employee leaves / retires / dies as in Example 1. However this time the employee received an honorarium of £1,200 on which contributions were paid in December 2007 for additional work during the period 1 December 2006 to 30 November 2007.

The final year's pay in Example 1 would need to be increased but the full amount of the honorarium would **not** be included in the final pay calculation, as the payment is for only part of the period included in the calculation. Eg. 7 October 2007 to 30 November 2007, therefore, the final pay figure of £12,554.04 would need to be increased by:

$$1 \text{ month} + 25/31^{\text{st}} \times \text{£}100 \text{ (1/12}^{\text{th}} \text{ of £1,200)} = \text{£}180.65$$

Total of the final pay for the period 7 October 2007 to 6 October 2008 =

$$\text{£}12,554.04 + \text{£}180.65 = \text{£}12,734.69$$

However, because the majority of the period in respect of the honorarium falls outside of the period used to calculate the final pay it is possible that the preceding year might be the best. The year in question would be 7 October 2006 to 6 October 2007. Salary from 1 April 2006 is £11,985.00 and £12,345.00 from 1 April 2007. Final year's pay calculated as follows:

7.10.2006 to 31.3.2007 at £11,985.00 pa (998.75 per month) =

$$5 \text{ months} + 25/31^{\text{st}} \times 998.75 = \text{£}5,799.19$$

1.4.2007 to 6.10.2007 at £12,345.00 pa (1,028.75 per month) =

$$6 \text{ months} + 6/31^{\text{st}} \times 1,028.75 = \text{£}6,371.61$$

Final Year's Pay = £12,170.80

This figure is less than £12,734.69 but the honorarium has to be included for the period 1 December 2006 to 6 October 2007 calculated as follows:

$$10 \text{ months} + 6/31^{\text{st}} \times \text{£}100 = \text{£}1019.35$$

Total of the final pay for the period 7 October 2006 to 6 October 2007 =

$$\text{£}12,170.80 + \text{£}1019.35 = \text{£}13,190.15$$

Therefore the best final years pay is £13,190.15

Example 3 – Item of Pay Paid in Arrears

If the employee in Example 1 was paid an additional payment of £50 per month in arrear for being called out when required and during the final year was called out in September, October, November, January, February and April the final year's pay would be increased by **£250** only. The payment made in respect of September would have been paid in October but would be ignored because it relates to a period (ie September) outside of the final year.

Example 4 – Part-Time / Term-Time Employee

A part-time member ceases employment on 30 September 2008. The contractual hours of employment and salary rates during the last year of service are set out below.

Period	Hours	Part-time Salary		Full-time Salary Annual
		Annual	Monthly	
1.10.2007 to 20.10.2007	*25/37	5,175.00	431.25	7,659
21.10.2007 to 31.1.2008	*30/37	6,448.38	537.37	7,953
1.2.2008 to 31.3.2008	30/37	6,594.32	549.53	8,133
1.4.2008 to 30.9.2008	*25/37	5,704.05	475.34	8,442

Note: * It is important that the Pensions Section is informed of each revision in the contract of employment.

Pensionable Remuneration (Full -Time Equivalent) 1.10.2007 to 30.9.2008

		£
1.10.2007 to 20.10.2007	$20/31 \times 1/12 \times £7,659 =$	411.77
21.10.2007 to 31.1.2008	$4 \frac{11}{31} \times 1/12 \times £7,953 =$	2,886.17
1.2.2008 to 31.3.2008	$2 \times 1/12 \times £8,133 =$	1,355.50
1.4.2008 to 30.9.2008	$6 \times 1/12 \times £8,442 =$	<u>4,221.00</u>
	TOTAL	<u>8,874.44</u>

Pensionable Remuneration (Actual Part-time Pay) 1.10.2007 to 30.9.2008

This figure is only needed when a part-time/term-time employee dies in employment. It is used to calculate the Death Grant

		£
1.10.2007 to 20.10.2007	$20/31 \times £431.25 =$	278.23
21.10.2007 to 31.1.2008	$4 \frac{11}{31} \times £537.37 =$	2,340.16
1.2.2008 to 31.3.2008	$2 \times £549.53 =$	1,099.06
1.4.2008 to 30.9.2008	$6 \times £475.34 =$	<u>2,852.04</u>
	TOTAL	<u>6,569.49</u>

Example 5 – Approved period of no pay in the final pay period and the employee has elected not to pay contributions (does not include maternity/adoption leave periods)

An employee leaves on the 6 October 2008. The final pay period is 7 October 2007 to 6 October 2008. However, the employee was granted leave without pay from 1 April 2008 to 31 May 2008. Contributions were paid for the month of April 2008 as the pension regulations require that contributions must be paid for the first 30 days of an approved period of no pay. The employee elected not to pay contributions for the month of May 2008.

Annual Salary from 1 April 2007 was £12,345.00 and £12,750.00 from 1 April 2008. The total pay figure for the period 7 October 2007 to 6 October 2008 is calculated as follows:

7.10.2007 to 31.3.2008 at £12,345.00 pa (£1,028.75 per month) =

$$5 \text{ months} + 25/31^{\text{st}} \times 1,028.75 = \mathbf{5,973.39}$$

1. 4.2008 to 30.4.2008 at £12,750.00 pa (£1,062.50 per month) (no pay received but contributions paid for the first 30 days of the absence) =

$$1 \text{ month} \times 1,062.75 = \mathbf{1,062.75}$$

1.5.2007 to 31.5.2008 (no pay received and no contributions paid) = **0.00**

1.6.2008 to 6.10.2008 at £12,750.00 pa (£1,062.50 per month) =

$$4 \text{ months} + 6/31^{\text{st}} \times 1062.50 = \mathbf{4,455.65}$$

$$\text{Total Year's Pay} = \mathbf{\underline{\underline{£11,491.54}}}$$

However, the total pay figure of £11,491.54 is only in respect of 334 days as the period from 1.5.2008 to 31.5.2008 (31 days) does not count as no contributions were paid for this period.

Therefore, the final pay figure for the period 7 October 2007 to 6 October 2008 is calculated as follows:

Total Year's Pay x 365 divided by number of days used in the calculation period =
£11491.54 x 365 divided by 334 = **£12,558.12**