

## LGPS Pay - Final Pay and CARE - Quick Guide

The following guide aims to explain the key differences between Final Pay and CARE pay. This can be tricky! So please do contact us if you have any questions.

Words highlighted in bold will have a link to take you to further detail or an example. Please note that additional notes are also provided to help you understand the requirements for Final Pay and CARE when submitting your [End of Year Return](#) or when pay information is required for the [Annual Allowance](#) checks.

Please note that when understanding pay in the CARE scheme, it is very important that you understand Assumed Pensionable Pay (APP). This is described only briefly here, please see the additional guidance notes available.

FINAL PAY	CARE PAY
<a href="#">LGPS Regulations 2007 (Reg 4, 8,9,10,11)</a>	<a href="#">LGPS Regulations 2013 (Reg 20)</a>
Our website has an <a href="#">electronic calculator</a> to assist you with this calculation.	
Based on <a href="#">Full Time Equivalent</a> Pay	Actual pensionable pay received only
Based on last 365 days of membership, but we also look at the previous two years. This effectively means looking at the best of the last three years. This might benefit a member who had a temporary promotion, or large honorarium payment for example. Don't forget to include any pensionable extras.	CARE pay will always be simply what the pensionable pay was in the relevant period.
Must be based on 365 days. If the final pay period is less than 365 days, which could be because of unpaid leave or because of the length of membership for example, you must equate up your calculation to a 365 equivalent. Please see <a href="#">example</a> below.	Actual pensionable pay received/paid within the relevant period.  CARE pay is recorded for the period 1 April to 31 March. Years where the member left or joined during this period will be the exception.
<b>Pay Reductions</b> In some circumstances only, protections may apply to the Final Pay where the member has taken, or been subject to, a reduction in pay that might reduce or restrict the Final Pay calculation. These reductions fall under Regulation 10 of the LGPS regulations 2007. Please ensure you are familiar with the <a href="#">guidance and calculation form</a> provided.	There are no protections under the LGPS regulations 2013 to cover circumstances where a member has, voluntarily or otherwise, suffered a reduction in pay.

FINAL PAY	CARE PAY
<p><u>What Pay is Included?</u></p> <p>All salary, wages, fees and any other payment specified in the employment contract. BUT, the exclusions are important here, they are listed in full under <a href="#">regulation 4</a>. Please note that non-contractual overtime is NOT pensionable under these regulations This is different to the CARE scheme provisions.</p> <p>Please also make sure you are familiar with the exclusions that apply.</p>	<p><u>What Pay is Included?</u></p> <p>All salary, wages. fees and any benefit specified in the members contract are pensionable.</p> <p>In the CARE scheme, all pay is pensionable, but some payments you may make are not. Please see list below and check the <a href="#">regulations</a> if you are not sure.</p>
<p><u>Sickness Absence</u></p> <p>For the Final Pay calculation, you must ignore any reduction in pay due to sickness. The Final Pay figure will be the pay the member would have received had they not been on sick leave.</p> <p>Please remember to factor in any adjustments to pensionable extras that may have been lost or reduced to the sickness absence.</p>	<p><u>Sickness Absence</u></p> <p>During any period of reduced or nil pay due to sickness absence, the employer must add an amount of Assumed Pensionable Pay to ensure the member does not suffer any loss to their pension for this period.</p> <p>Please see separate guidance on APP.</p>
<p><u>Contractual Parental Leave (I.E. Maternity / Adoption)</u></p> <p>During any period of contractual maternity, paternity or adoption leave, the member should not suffer in any reduction to their Final Pay figure. Please use the pay that the member would have been receiving had they not been on contractual parental leave. This applies regardless of whether the member is entitled to the full length of contractual parental benefit.</p>	<p><u>Contractual Parental Leave (I.E. Maternity / Adoption)</u></p> <p>During periods of reduced pay due to contractual maternity, paternity or adoption leave, an amount of Assumed Pensionable Pay (APP) must be added by the employer into the cumulative pay amounts to ensure the member does not suffer any loss to their pension for this period.</p> <p>Please see separate guidance on APP</p>
<p><u>Periods of Unpaid Contractual Parental Leave</u></p> <p>If a member had a period of unpaid parental leave this would count as a break and mean less pension accrual for the member. On returning to work, the member would have been given the option by their employer to pay back the missing contributions for this period. The contributions paid would have been those due for the period, based on pay applicable on the last day of contractual leave. You will see some members would have a break recorded for unpaid leave on their record.</p>	<p><u>Periods of Unpaid Contractual Parental Leave</u></p> <p>If a member has a period of unpaid parental leave, this will result in a reduction to the pension accrued and paid into the members pension account for that year.</p> <p>The member has the option to buy back the lost pension via <a href="#">Additional pension Contributions</a>. The employer must advise the member of the affect to their pension.</p> <p>The member can assess the cost to them of buying back lost pension by visiting the <a href="#">LGPS members website</a></p>

FINAL PAY	CARE PAY
<p><u>Assumed Pensionable Pay (APP)</u></p> <p>Does not apply to the calculation of final pay.</p>	<p><u>Assumed Pensionable Pay (APP)</u></p> <p>APP was introduced as part of the LGPS 2013 CARE scheme. It has three purposes; to bridge the gap in pensionable pay where a member has experienced reduced pay for either contractual parental leave or any period of unpaid leave, and  an annual APP figure is used to calculate Death Grants where members die in service, and  an annual figure is used to calculate the pension enhancement applicable in cases of Tier 1 and 2 Ill Health Retirements</p> <p>The calculation of APP is quite specific, though employers have the right to use some discretion where the standard calculation does not fit well. Payroll systems generally accommodate this well, enabling employers to provide the output of data and pension returns we need. Some smaller payroll systems do not.</p> <p>It is important that employers understand APP, and regularly check that their payroll system calculates this correctly.</p> <p>Please see the HR and Payroll guides provided, these are an essential guide on all aspects of the LGPS and can be found on the</p>

## **DEFINITIONS AND EXAMPLES**

### **FINAL PAY**

Final Pay, also known as Final Salary, is the figure used to determine the benefits due under the pre 2014 Final Salary Schemes.

### **FULL TIME EQUIVALENT**

This means that the Final Pay must be what the member would have received had they worked full time. Where additional payments apply, work out the full time pay first, then add on the extra payments. You will need to judge whether these additional payments are to be added in as they are, or if they should be enhanced to a full time equivalent. This will depend on the type of payment and the members contract. If you are in any doubt, please contact us.

### **EXAMPLE OF EQUATING A FINAL PAY CALCULATION WHERE LESS THAN 365 DAYS**

During the last 365 days of membership, (or one of the previous two 365 day periods as we look at the 'best of the last three years'), a member had a period of 40 days unpaid leave. The final pay for this period was £21,055, but it only covered 325 days of membership. The Final Pay is therefore  $£21,055 \div 325 \times 365 = £23,646.38$ .

## ANNUAL ALLOWANCE

The Annual Allowance is a pensions tax, which affects members whose pension growth exceeds £40,000 in a period of a financial year. Dorset Pension Fund measure the pensions growth for each member annually and will notify members who have exceeded the allowance. The tax charges can be high. Members most commonly affected are high earners, or members who have had a higher than normal pay rise, for example a promotion.

Pay figures provided to us by employers for the year end process, particularly the Final Pay figure, directly impact on this important calculation.

Further information on the Annual Allowance can be found on our website;

[www.yourpension.org.uk/Dorset/In-the-Scheme/Publications](http://www.yourpension.org.uk/Dorset/In-the-Scheme/Publications)

We may be in touch to ask for further detail on Final Pay and CARE figures where a scheme member may have exceeded the annual allowance. Final pay figures will be needed for a tax year, so from 6 April to 5 April. We will also ask you to provide confirmed CARE pay for the periods 1 April to 31 March, and also for the 5 days from 1 – 5<sup>th</sup> April. We very much appreciate your quick responses to any Annual Allowance enquiries.

## END OF YEAR RETURNS

The Final Pay and CARE pay provided by you during the year end processes directly impacts on scheme members. It is very important that you read and follow the guidance supplied to assist you with completion of this annual return. Training events are also held each year.

The CARE pay and Assumed Pensionable pay must be recorded accurately as these determine the amount of pension accrued each year. Ensure your return is correct, always clear errors shown on the Your Fund system and please do not hesitate to contact our employer support team for assistance.

The Final Pay figure you supply at year end is used to produce the Annual Benefit Illustration we send to members each year, and to assess the members Annual Allowance and if a tax charge is due. If this figure is incorrect, it may lead to misunderstandings, complaints and incorrect tax charges.

Please do not hesitate to contact the pensions team for further help and support.

This document is based on the LGPS Regulations as they stand in October 2019. The information contained within the answers given cannot overrule any future changes to the LGPS, and Dorset County Pension Fund will accept no responsibility for any direct or consequential loss, financial or otherwise, incurred by readers relying on the information contained herein.

Please contact us: Dorset County Pension Fund, County Hall, Dorchester, Dorset. DT1 1XJ

Telephone: 01305 224845

Website: [www.yourpension.org.uk/Dorset](http://www.yourpension.org.uk/Dorset)

Email: [pensionshelpline@dorsetcouncil.gov.uk](mailto:pensionshelpline@dorsetcouncil.gov.uk)

Published October 2019