LONDON BOROUGH OF SOUTHWARK PENSION FUND

How the LGPS CARE scheme works

How Career Average Related Earnings (CARE) are calculated from 1 April 2014 (including how to calculate Assumed Pensionable Pay (APP))

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We will be covering:

- A couple of questions regarding CARE to test your existing knowledge

- Assumed Pensionable Pay (APP)

- LGPS changed to CARE on 1 April 2014

- What's included in CARE pay?

- What's excluded in CARE pay?

- Calculating CARE pay

- How CARE pension benefits are accrued

- Don't forget...

- Useful websites

Southwark Pension Services
160 Tooley Street
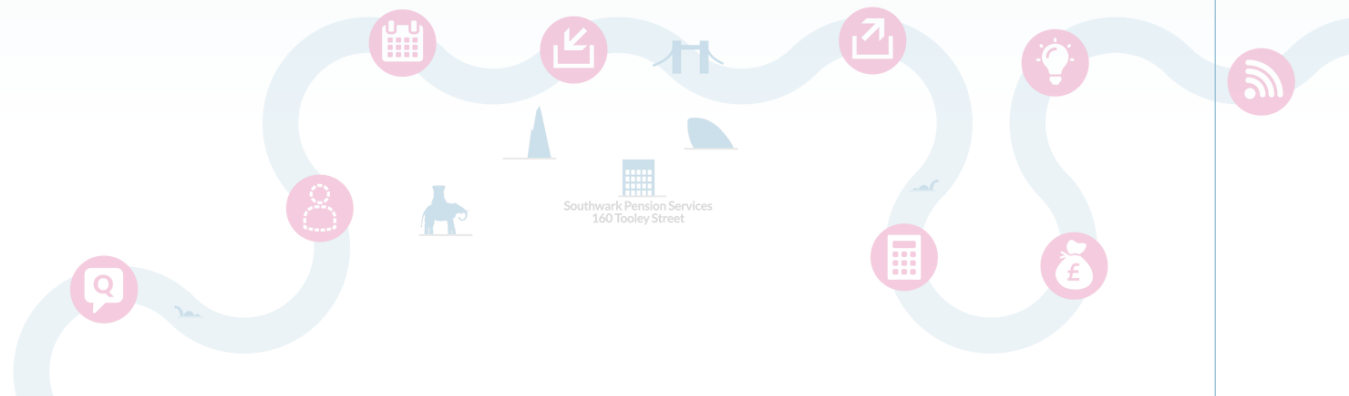
Q1 From what date do we need to calculate CARE pay?

Q2 What happens if someone was off sick or on child-related leave and their pay was reduced as a result of the same?

ANSWERS

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CARE came into affect from 1 April 2014.

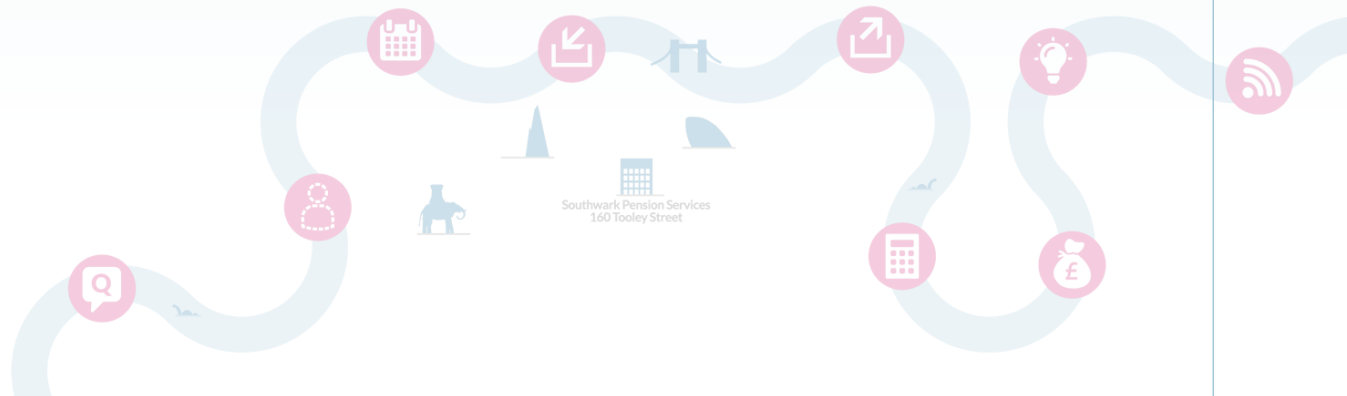If a member is off work due to sickness or maternity/child-related leave or injury and their contractual pay is reduced, or they don't receive any pay. A notional pay figure is used to calculate their pension to make sure it's not affected.

This notional pay is called the Assumed Pensionable Pay. The employer is required to calculate the assumed pay for the period of absence.

To do this, the employer will normally calculate the average of the Pensionable Pay the member received for the three months (or 12 weeks if they're paid weekly) before the pay period in which the pay was reduced.
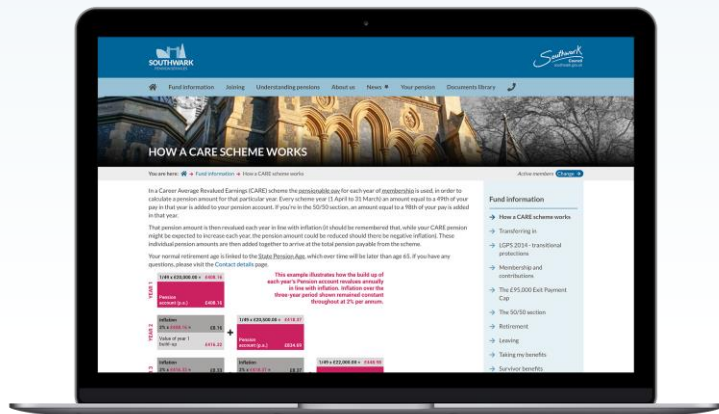
Example of APP:

→ A member's Pensionable Pay is reduced to half pay for the period 1 July to 31 December due to sickness absence. Their employer calculates the APP by calculating the average of the three complete months' Pensionable Pay received **before** the pay period in which the pay is reduced.

April + May + June = £3,700 ÷ 3 £1,233.33 per month

£1,200 £1,200 £1,300

→ In this case the member's pay increased from 1 June to £1,300 per month (£15,600 per year) due to an annual pay award.

£1,233.33 × 6 (months) = £7,399.98

→ Please note that member pays their basic pension contributions on the reduced pay they *actually* receive and not based on the APP.

LGPS changed to CARE on 1 April 2014

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➔ The LGPS in England and Wales moved to a CARE scheme from 1 April 2014. Just like the final salary scheme, it's still deemed to be a Defined Benefit scheme but with fundamental differences as to how it's calculated.

➔ The final salary 60ths scheme (60th from 1 April 2008, prior to this, it was an 80th accrual rate for pension) meant that each year the pension accrual was the pensionable salary for that year divided by 60.

➔ The LGPS 2014 regulations brought in the CARE scheme with an accrual rate of 1/49th with a revaluation rate equal to the Consumer Price Index (CPI). The Government Actuaries Department (GAD) believed broadly speaking, that the final salary scheme was equivalent to a 49ths CARE scheme with CPI indexation.

➔ Earlier we covered the elements that fall within pensionable pay in both the 2008 final salary scheme and the 2014 CARE scheme.
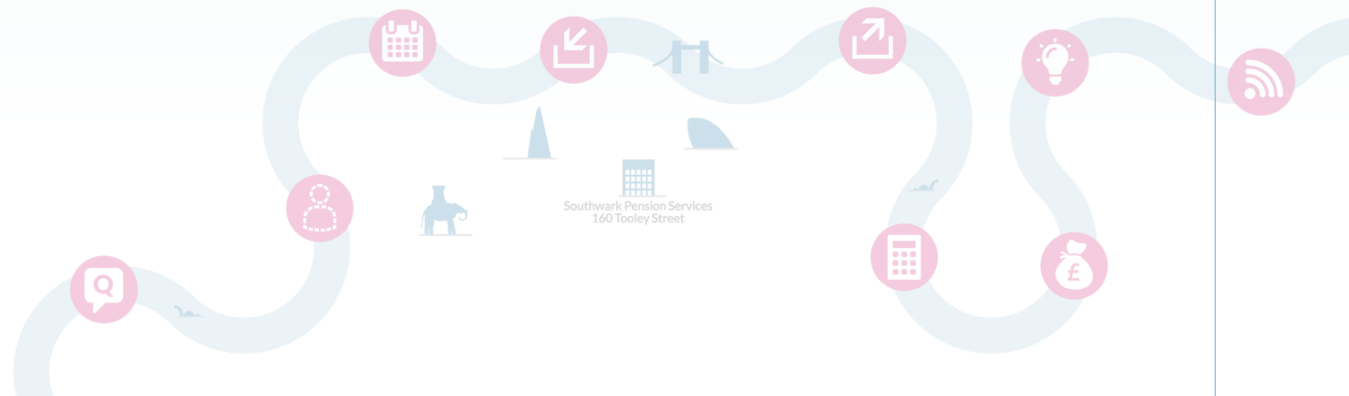
Consideration must be taken as there are differences in the elements that are deemed pensionable.

WHAT'S IS INCLUDED IN CARE PAY?

Pay that *is* pensionable includes:

→ Basic pay

→ Contractual overtime

→ Non-contractual overtime in CARE scheme (remains non-pensionable under the final salary regulations)

→ London weighting allowance

→ Bonus

→ Honorariums

→ Shift allowance

→ Additional response

→ Sleeping in allowance

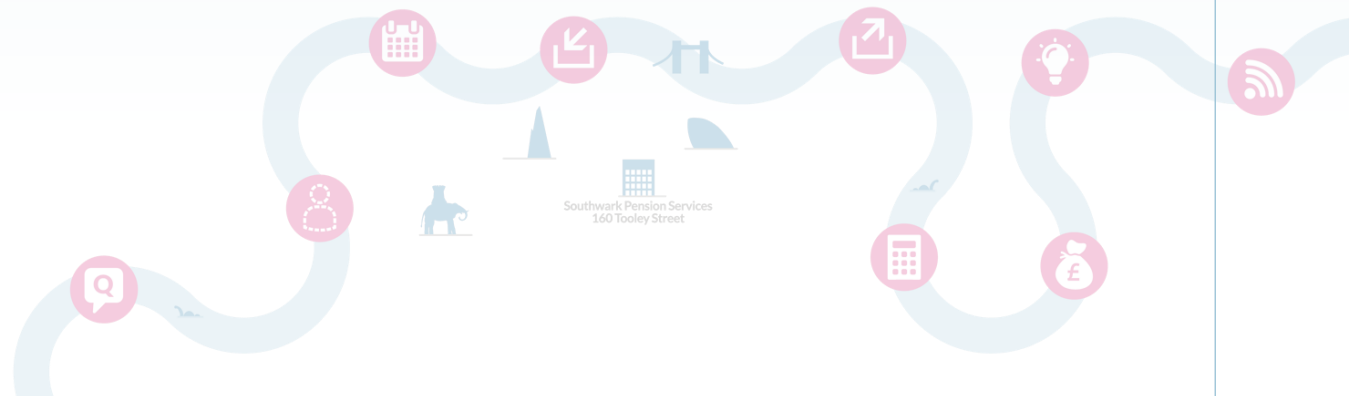→ Statutory sick pay (SSP)/statutory maternity pay (SMP)

Pay that *isn't* pensionable includes:

→ Travelling or subsistence allowance

→ Pay in-lieu of notice

→ Car allowance

→ Any payment in consideration of lost holidays
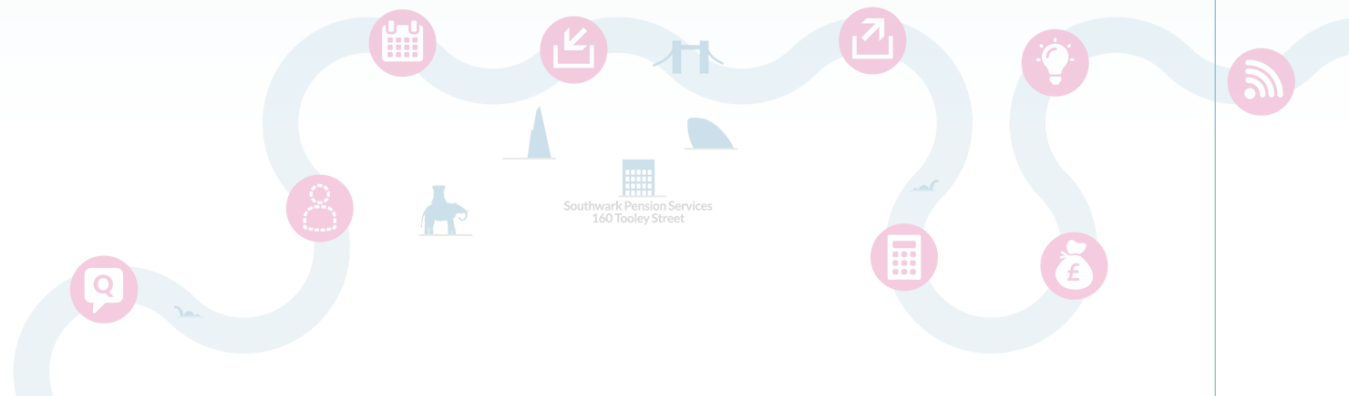
→ School achievement awards

→ CARE pay calculations are required for each year from 1 April 2014 to 31 March 2015 and then each year from 1 April thereafter.

→ Simply take the pensionable elements paid to the member from each month's pay records and record on a spreadsheet.

→ If the member has been on reduced pay due to sickness, maternity/child-related leave, you'll need to calculate the Assumed Pensionable Pay as shown earlier so that the member isn't penalised.

→ For example, a starting salary in the 2014 scheme was £20,000. We know that the accrual rate is 1/49th and here, there were no pensionable extras to consider.

Year	Build up in Scheme (pay/build up rate = pension)	Plus	x1.04*	Total pension
1	£20,000/49 = £408.16	-	-	-
2	£20,800/49 = £429.49	Year 1	£408.16	£848.98
3	£21,632/49 = £441.47	Years 1 and 2	£848.98	£1,324.41
4	£22,497/49 = £459.12	Years 1, 2 and 3	£1,324.41	£1,836.51
5	£23,397/49 = £477.49	Years 1, 2, 3 and 4	£1,836.51	£2,387.46

*Based on an assumed cost of living adjustment of 1.04 for the purpose of this example only.

DON'T FORGET...

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→ Pensionable Pay under the CARE scheme includes _both_ contractual and non-contractual overtime.

→ However **under the previous final salary pension scheme (pre 1 April 2014) non-contractual overtime is still deemed to be a non-pensionable element of pay.**

→ Therefore when calculating a final pay figure under these regulations, you must only include **contractual overtime** in this calculation.
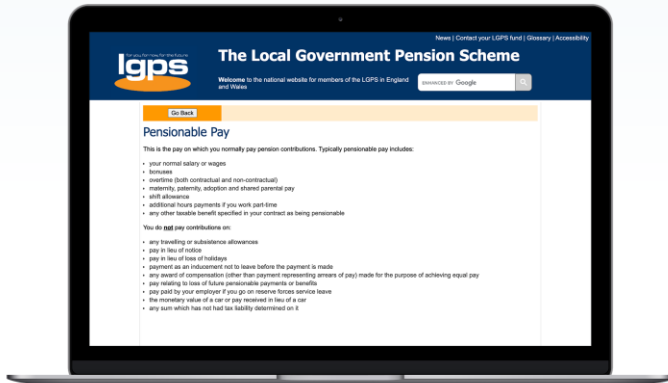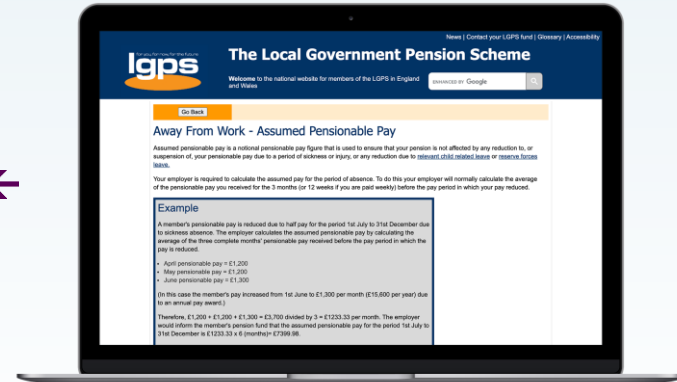
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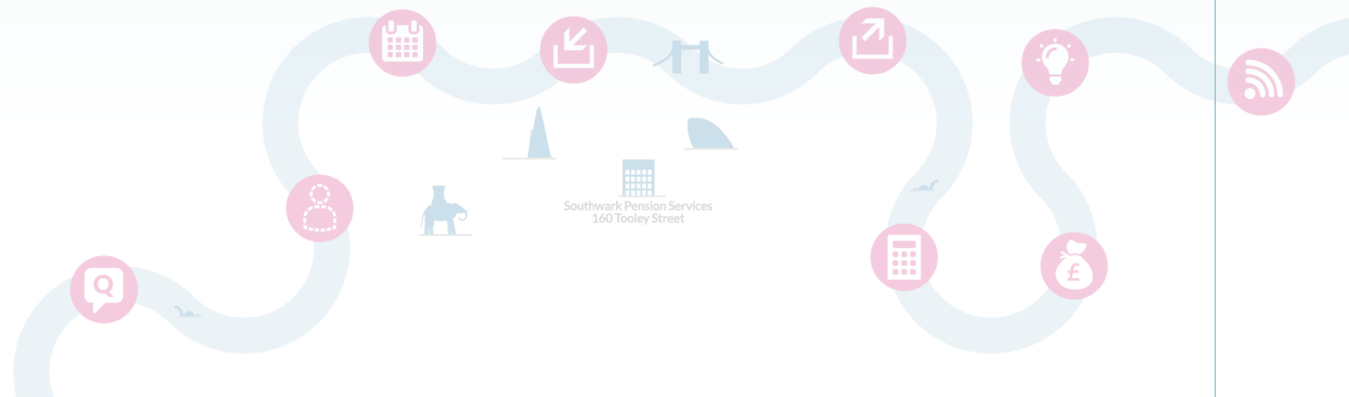
→ www.lgpsmember.org/arm/
already-member-how.php

www.lgpsmember.org/more/APP.php ←

→ www.lgpsmember.org/more/penpay.php

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For a helping hand, please contact us via:

@ lbspensions@southwark.gov.uk

☎ 0207 525 4924

💻 Don't forget to visit your new website at:
www.southwarkpensions.co.uk

💻 For the national Local Government Pension Scheme website, it's:
www.lgpsmember.org