



Calculating Final Pay with unpaid leave

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Introduction

Calculating final pay when there has been unpaid leave in the final pay period is a complex area of Local Government Pension Scheme (LGPS) pay calculations, due to the number of variables that need to be taken into account.

This document is intended to be a clear and definitive guide for Derbyshire Pension Fund employees to follow.

This document is based on the extract in Appendix 1 from the Local Government Authority (LGA) Payroll guide available at: <http://lgpsregs.org/resources/guidesetc.php>

The section 'The calculation' describes the 5 steps to the calculation, as well as the recommended method to reach the answer for the final pay.

The calculation

The following is intended as a detailed step by step guide to the calculation, but the heading for each step is also reproduced in the spreadsheet described in the next section “Spreadsheet provided by Derbyshire Pension Fund”.

By applying this method, the unpaid days get credited with the average daily rate from the paid period, therefore if someone has a pay change during the year, it will affect the average daily rate and therefore the total final pay for the year.

Step 1 - Is the unpaid leave period already covered by APP or an APC/SCAPC?

Where the employee has had an unpaid period of absence that is not covered by Assumed Pension Pay, they can elect to buy back that lost pension through an LGPS Additional Pension Contract (APC) or in some cases; a Shared Cost APC (SCAPC).

Note however that unauthorised unpaid absences will always constitute a break, as there is no facility to pay an APC specifically to cover the pension that would have accrued during such a period of absence.

The following unpaid absence reasons can use APC's/SCAPC's to purchase 'lost' pension:

- trade dispute,
- period of authorised leave of absence,
- period of unpaid additional maternity, paternity or adoption leave or
- unpaid shared parental leave

IMPORTANT: A period of unauthorised leave of absence cannot use APC's/SCAPC's to purchase 'lost' pension.

- Where an employee has used an APC or SCAPC to buy back their 'lost' pension, there is no change to the standard calculation of final pay, i.e. ignore the break entirely.
- Where they have not used an APC/SCAPC or where the absence was an unauthorised unpaid absence (i.e. cannot use an APC/SCAPC), the final pay needs to be calculated slightly differently (see step 2).

Step 2 – Calculate the final pay as normal, ignoring the unpaid leave.

If the employee has not used an APC/SCAPC to buy back the lost pension, the starting point for calculating the pay is to start with the standard final pay calculation, as per the best of 3 calculator tab on the L1.

For example, if an employee leaves on 31 March and had been on Full Time Equivalent (FTE) of:

- £35,500 from 1 April in the previous year to 30 September (183 days inclusive)
- £36,500 since 1 October in the previous year up to their leaving date (182 days inclusive)

Then their final pay would be:

$$\text{£35,500} \times 183 \text{ (days)} / 365 \text{ (days)} = \text{£17,798.63}$$

$$\mathbf{£36,500 \times 182 \text{ (days)} / 365 \text{ (days)} = \mathbf{£18,200.00}}$$

Total of £17,798.63 + £18,200.00 = £35,998.63 as the unpaid leave is initially ignored.

Please note that if using this as the starting point, then the pay the employee would have earned during the unpaid absence period should be used and NOT a negative figure.

Step 3 – Calculate the final pay for just the unpaid absence period.

Once you have calculated the final pay as normal, you need to calculate the final pay for just the unpaid absence period.

For example, if the same employee had unpaid absence from 1 December to 15 December (15 days inclusive) and was on an FTE of £36,500, then the final pay for the absence would be:

$$\mathbf{£36,500 \times 15 \text{ (days)} / 365 \text{ days} = \mathbf{£1,500.00}}$$

Please note that unpaid absences are based on 7 day weeks, not 5 day working weeks.

Step 4 – Deduct the unpaid absence pay from their final pay.

Next take the figure from step 2 and deduct the figure from step 3, but please note that this is NOT the final stage.

Following the same example:

$$\mathbf{£35,998.63 - £1,500.00 = \mathbf{£34,498.63}}$$

Step 5 – Gross back up to 365 days.

Gross the figure from step 4 back up to 365 days.

With the same example, the figure from step 4 was earned over 350 days (365 - the 15 unpaid days), so you gross the 350 days FTE back up to 365:

$$\mathbf{£34,498.63 \times 365 \text{ (days)} / 350 \text{ (days)} = \mathbf{£35,977.14}}$$

This is the final figure to report on the L1.

Spreadsheet provided by Derbyshire Pension Fund

The calculation from the last section has been reproduced on a stand-alone spreadsheet to simplify the process and provide consistency of calculation, therefore where appropriate please use the figures produced by this spreadsheet on the L1 and provide it along with the L1 to Derbyshire Pension Fund.

The 'Final Pay unpaid leave' spreadsheet provided by Derbyshire Pension Fund, calculates all of steps 2 to 5 in one go:

Final Pay Ignoring Breaks - Step 2

If there has been regular or no pay increases, no reductions in Full Time Equivalent Salary and no major fluctuations in Pensionable Allowances, then you only need complete the Final Year section.

Final year			
Date From	01/04/2018	Date To	31/03/2019
Payment Changes			
Effective Date of Change	Full Time Equivalent Pensionable Salary	Payment Days (amend if applicable)	Pay for Period
01/04/2018	£35,500.00	365	£35,500.00
01/10/2018	£36,500.00	365	£36,500.00
		365	£0.00
		365	£0.00
		365	£0.00
Pensionable Allowances		<i>Enter actual allowances for period (if applicable)</i>	
Total Pensionable Pay		£35,998.63	

Insert all changes in pay from the start of the period. Use a new line for each pay change.

Final Pay for Breaks only - step 3

	Date from	Date to	Full Time Equivalent Pensionable Salary	Payment Days (amend if applicable)	Number of days	Pay for Period
Break 1	01/12/2018	15/12/2018	£36,500.00	365	15	£1,500.00
Break 2				365	0	£0.00
Break 3				365	0	£0.00
Break 4				365	0	£0.00
				Total	15	£1,500.00

Deduct unpaid absence from Final pay - step 4

Final Pay	Unpaid absence	Subtotal
£35,998.63	£1,500.00	£34,498.63

Gross back up to 365 days - step 5

2c Subtotal	Days paid	FINAL FIGURE for L1
£34,498.63	350	£35,977.14

Appendix 1 – LGA guidance

As detailed in the introduction, this guide is based on the following extract from the LGPS Payroll guide provided by the LGA and available at <http://lgpsregs.org/resources/guidesetc.php>

“6.1 Final pay

Employers will still be responsible for calculating and providing to the LGPS administering authority:

a) Final pay (2008 Scheme definition) at each 31 March, on ceasing membership of the Scheme (opting out, or termination of pensionable employment, or attaining age 75) and on flexible retirement, for use in calculating pre 2014 benefits, and

b) Final pay at Normal Pension Age (NPA) (2008 Scheme definition – normally age 65) or at the date of cessation of active membership, if earlier, to enable the LGPS administering authority to calculate the underpin on the post 31 March 2014 benefits for those members to whom the underpin calculation applies

The underpin has to be calculated for a member who:

- *was an active member on 31 March 2012, **or***
- *was an active member of another public service pension scheme on 31 March 2012 and transferred their pension benefits from that public service pension scheme into the LGPS (where the transfer bought final salary benefits, i.e. membership in the 2008 Scheme) **and***
- *was within ten years of their NPA on 1 April 2012,*
- *has not (after 31 March 2012) had a continuous break of more than five years in membership of a public service pension scheme,*
- *has not already drawn any benefits from the 2014 Scheme in relation to the employment (eg on flexible retirement), **and***
- *has either ceased to be an active member before NPA (2008 Scheme definition) or is still an active member at NPA (2008 Scheme definition).*

The final pay figure (2008 Scheme definition) for the underpin is the pay due for, normally, the 12 months preceding the date of cessation or NPA, whichever is the earlier. (NB: the underpin is calculated at NPA for those who continue working beyond NPA).

It should be noted that for the purposes of (a) and (b) above, if the employee elects to cover the whole of the amount of any pension ‘lost’ during a period of absence due to a trade dispute, authorised unpaid leave of absence or unpaid additional maternity, paternity or adoption leave or unpaid shared parental leave by the payment of contributions under an Additional Pension Contribution (APC) contract or Shared Cost APC contract, in calculating the final pay for the employee, the employee must be treated as having received the pay they would otherwise have received but for the absence.

If, however, the employee does not make such an election, or has a period of unauthorised unpaid leave of absence, the final pay (if the absence falls in the final pay period – usually the last 12 months) will be the pay received during that final pay period divided by the number of paid days in that period multiplied by 365.

It should also be noted that, where a Scheme member is subject to a reduction or restriction in pay, regulations 8 and 10 of the LGPS (Benefits, Membership and Contributions) Regulations 2007 continue to apply for the purposes of the final pay calculation for (a) and (b) above regardless of whether the reduction or restriction in pay occurs before, on or after 1 April 2014.”