

Reductions in pensionable pay factsheet

This factsheet is intended for Local Government Pension Scheme (LGPS) members whose pensionable pay is reduced or restricted under any of the following circumstances:

- Being employed by the same employer at a lower grade or responsibility.
- For the purpose of achieving equal pay in relation to other employees at the same employer.
- A job evaluation exercise.
- A contractual change affecting pensionable emoluments.
- A restriction to future pay increases that may adversely affect final pay.

These reductions and restrictions in **final pay** relate to changes from 01 April 2008.

Since 01 April 2014, LGPS pension benefits have been calculated on a Career Average Revalued Earnings (CARE) basis. However, those benefits accrued up to 31 March 2014 are still calculated using the final pay at leaving.

What is final pay?

LGPS members with active (contributing) membership prior to 31 March 2014 have pension benefits, up to that date, based on length of pensionable service and **final pay**.

Final pay is normally the pay received in the last year of employment as an active member, or either of the previous 2 years if they are higher; this is known as **best of the last 3**. For part time workers, it is the full time equivalent pay that is used.

Final pay protection

In the event of a reduction in pensionable pay, due to one of the above reasons, the LGPS allows for benefits to be calculated using the annual average of the best three consecutive years, within a period of 13 years up to the last day of active membership.

For this method to be used, the reduction in pensionable pay must have occurred within 10 years of the date of leaving the LGPS and the employer must have approved an application to protect the final pay.

To apply, you need to complete the **Reductions in Pensionable Pay form** available on our website and submit this to your employer (not to Derbyshire Pension Fund).

The application should be completed no later than one month prior to the date of leaving active membership of the LGPS.

It is important to note, that even if the reduction in pensionable pay took place after 31 March 2014 you can still apply to protect your final pay.

Leaving to work for another LGPS employer

If you leave your employer, but then start another LGPS contributing job and opt to join the pension records together, your final pay protection would no longer be valid.

If you decide to keep your records separate, your protection would still apply in the calculation of the pension benefits from the employment you have left.

Illustrative examples

The below examples show the different methods of assessing the final pay to be used in the calculation of benefits for membership up to 31 March 2014.

Note, that where a final pay figure to be used in the calculation of benefits is not from the last three years of membership, as in examples 2 and 3, the final salary benefits are increased in line with inflation up to the date of leaving.

Further to this, in example 3 when comparing consecutive three year periods from the member's last 13 years' pay, pensions increase is applied to the average pay for each period, from the end of that period to the date of leaving.

Example 1:

Emma leaves the LGPS on 30 November 2020 and her last year's final pay is the highest, so the final pay used is that for the period 01 December 2019 to 30 November 2020.

Example 2:

Joe leaves the LGPS on 30 November 2020. His pensionable pay was lower in his last year so LGPS rules allow for either of the previous 2 years to be used. This is the **best of the last 3** method.

Joe's last three years' pensionable pay figures are:

01 December 2019 to 30 November 2020 = £15,950
01 December 2018 to 30 November 2019 = £15,880
01 December 2017 to 30 November 2018 = £16,130

In Joe's case the final pay used in the calculation of his benefits is **£16,130**.

Example 3:

Trevor is remaining in the LGPS following a reduction to his pensionable pay and applied for **final pay protection**, which has been approved by his employer.

In this example Trevor's pensionable pay reduced from 01 April 2020. The 10 year protection starts on 01 April 2020 and ends on 31 March 2030.

The calculation is made by taking the highest three consecutive years' pensionable pay (ending 31 March) within the last 13 years of LGPS membership, and dividing this by three.

01 April 2029 to 31 March 2030 = £17,540
01 April 2028 to 31 March 2029 = £17,230
01 April 2027 to 31 March 2028 = £16,990
01 April 2026 to 31 March 2027 = £16,680
01 April 2025 to 31 March 2026 = £16,220

01 April 2024 to 31 March 2025 = £15,990
01 April 2023 to 31 March 2024 = £15,640
01 April 2022 to 31 March 2023 = £15,230
01 April 2021 to 31 March 2022 = £14,750
01 April 2020 to 31 March 2021 = £14,440
01 April 2019 to 31 March 2020 = £19,870
01 April 2018 to 31 March 2019 = £19,320
01 April 2017 to 31 March 2018 = £18,860

The three years up to the pay reduction (in **bold**) are used to give a final pay figure calculated as:

$$\frac{18,860 + 19,320 + 19,870}{3} = \mathbf{£19,350}$$

Opting out

In **Example 3**, Trevor's final pay is fully protected if he retires or leaves the LGPS on or before 31 March 2030. If Trevor continues to work after this date, he may decide to opt out of the LGPS in March 2030 to protect his final pay. However, opting out of the LGPS has other important implications that he would need to consider.

Opting out of the LGPS would mean the loss of the provision of active member's ill health retirement benefits. Deferred member's ill health benefits, have different eligibility criteria and do not include enhancement. If Trevor was to be made redundant in the same job at 55 or older following opting out, he would not be entitled to the immediate release of his benefits at an unreduced rate.

Important information

There is further information on our website, derbyshirepensionfund.org.uk, on topics such as opting out and joining records together. However, Derbyshire Pension Fund is unable to provide you with advice on your individual circumstances. If you are unsure about making a decision regarding your pension benefits, you should seek independent financial advice.