

Employer Guide to Final Pay Calculations

Warwickshire Pension Fund



Final Pay is used to calculate member's pension

benefits accrued before 1 April 2014,

BUT

If they joined your employment after 1 April 2014, it will

still be needed, as the member may have previous

Final Salary pension membership transferred in.

Different names for Final Pay

Final Salary

2008 definition

Pre 2014 FTE pay

Full Time
Equivalent Pay

Definition of Final Pay in the 2008 LGPS regulations

- 1) An employee's pensionable pay is the total of –
 - a) All the salary, wages, fees and other payments paid to them for their use in respect of their employment; and
 - b) any other payment or benefit specified in their contract of employment as being a pensionable emolument.

- 2) But an employee's pensionable pay does **not** include –
 - a) payments for non-contractual overtime;
 - b) any travelling, subsistence or other allowance paid in respect of expenses incurred in relation to the employment;
 - c) any payment in consideration of loss of holidays;
 - d) any payment in lieu of notice to terminate their contract of employment; or (SI 2009/3150)
 - e) any payment as an inducement not to terminate their employment before the payment is made;
 - f) any award of compensation (excluding any sum representing arrears of pay) for the purpose of achieving equal pay in relation to other employees.

So what is Final Pay?

- ✓ Pensionable pay **due** in the final 365 days of pensionable employment
- ✓ Whole time equivalent used for part time workers
- ✓ Must include pensionable extras, such as contractual overtime
- ✓ Reduction in pay for any sickness absence is ignored
- ✓ Paid maternity leave counts as full membership

Be careful to

- ? Check previous 2 years to see if higher final pay (this is effectively 'best of last three years'). Do not include pensions increases.
- ? Include only what is **due** for the 365 days in question. It might not be what was paid in that period.
- ? Look for any unpaid periods
- ? Check the dates of honorarium and bonus payments to ensure it is due in the last 365 days
- ? Ensure member does not lose out if had period of sickness

When reporting members' pay to the Fund, either on a Retirement notification or leaver on your monthly i-Connect submission, two pay figures must be supplied:

- **Final Pensionable Pay:** full-time equivalent pay for the last 365 days worked
- **Main Section Pay (or 50/50 Section Pay, if applicable):** member's actual pensionable pay

Part time members – an example

A member works half time 18.50 hours per week. The full time hours for their post is 37. Their actual contractual pay in the final year was £12,500 and therefore the full time equivalent pay is £25,000. The final pay is therefore £25,000. Then add any pensionable "extras" to the Final Pay figure.

Term time members – an example

A member that works fewer than 52.14 weeks per year, you **must** pro rata the full time equivalent pay to only those weeks that the member is contracted to work: **£25,000.00 (full time equivalent for 52.14 weeks) x 45 weeks (contracted weeks) / 52.14 weeks = £21,576.52 Final Pensionable Pay.** Then add any pensionable "extras" to the Final Pay figure.

Example of a wholetime member

Member left 15 July 2025 so the relevant pay period is 16 July 2024 to 15 July 2025
Pay rates in the period (FT equivalent)

- 16 July 2024 to 31 March 2025 £25,000
- 1 April 2025 to 15 July 2025 £26,500

$$\begin{aligned} 16 / 31 \text{ (days in July 25)} + 8 / 12 \text{ (months X £25,000 FTE pay rate)} &= & £17,741.94 \\ 15 / 31 \text{ (days in July 25)} + 3 / 12 \text{ (months X £26,500 FTE pay rate)} &= & £7,693.55 \\ &= & £25,435.49 \text{ (Final Pay)} \end{aligned}$$

Then add any pensionable "extras" to the Final Pay figure.

Pay protection (Benefit Regulation 10)

Pay protection applies if a member's pensionable pay is reduced or restricted due to:

- Moving to a **lower grade or role with less responsibility**
- **Equal pay** adjustments

- **Job evaluation** resulting in a lower grade
- **Loss or reduction of pensionable emoluments** due to a contract change
- **Pay restrictions** that could reduce retirement pension value

Protection does **not** apply if the reduction:

- Occurred **more than 10 years** before leaving
- Followed a **temporary higher-paid role**
- Resulted from a **reduction in hours or grade for flexible retirement**

Final pay calculation with protection

- Calculate final pay for the **last three years** up to leaving
- Also calculate pay for **each 1 April–31 March year** within the **13 years** before leaving
- Final pay can be the **best average of any three consecutive years**
- Earlier years may be better once **cost of living increases** are applied

All calculations must be shared with the **administering authority**.

Employers must keep **up to 13 years of pay records**, including previous employments.

Example: Pay Protection (Regulation 10)

Background

- Leaving date: **31 March 2026**
- Same employer throughout
- Downgraded after a **job evaluation** (eligible for protection)

Pay history

- **2019–2023**: £40,000 (higher grade)
- **2023–2026**: £30,000 (lower grade)

The reduction occurred within **10 years of leaving**, so **pay protection applies**.

Final pay calculation

- Pay is calculated for each **1 April–31 March** year within the **13 years** before leaving.
- The member can choose the **best 3 consecutive years**.

Best options

- Last 3 years (2023–2026): average **£30,000**
- Protected years (2020–2023): average **£40,000**

Result

- Final pay for pension purposes is **£40,000**, as protected pay gives the better outcome after CPI increases.

Employers are not required by the Regulations to apply **Regulation 10** automatically; the calculation must be requested by the member. However, many members may be unaware that this option is available. Employers are therefore encouraged to identify cases where Regulation 10 may apply and notify the administering authority when an employee leaves.