Assumed Pensionable Pay (This is the detailed guide from the LGPS website)

This replaces the concept of notional or 'as was' pay in cases of reduced contractual pay or nil pay as a result of sickness or injury; or during relevant child related leave (i.e. ordinary maternity, paternity or adoption leave and any paid additional maternity, paternity or adoption leave); or whilst on reserve forces service leave (if the employee, although eligible to be in the Armed Forces Pension Scheme during that period, has elected to remain a member of the LGPS). In these circumstances (and only in these circumstances) the amount added to the CPP should be the APP and not any PP received, unless the PP received for any given day in that period is greater than the APP (e.g. pay from KIT day(s) or Stringer day(s)), in which case PP is added to CPP for that day and APP is added for the other days. Note that the APP figure calculated prior to the KIT or Stringer day(s) is not recalculated following the KIT or Stringer day(s) i.e. the same APP figure continues to apply during the remainder of the relevant child related leave.

Calculation

APP is calculated as an annual rate then applied to the relevant period as a proportion of that rate. The annual rate of APP is calculated as follows for any employee whose pay periodicity is other than monthly (e.g. weekly, fortnightly, lunar, quarterly, half yearly).

Pay periodicity other than monthly - calculate the average of the pensionable pay for the 12 complete weeks prior to the relevant event after removing any pensionable lump sum payments, but including any APP previously credited in and relating to those pay periods. Gross up to an annual figure. If 12 complete weeks' pay does not exist use whatever number of complete periods are available.

The relevant event is the date on which the employee drops to reduced **contractual** pay or nil pay due to sickness or injury, or commences child related leave (i.e. ordinary maternity, paternity or adoption leave), or the date the member commenced reserve forces service leave.

Note that APP does NOT accrue during any period of unpaid additional maternity, paternity or adoption leave available at the end of relevant child related leave; this is to be treated as unpaid leave of absence.

Monthly paid - For a monthly paid employee three complete pay periods should be used instead of 12 weeks but the calculation is the same.

Note: the calculation of APP can include pensionable pay prior to 1st April 2014 (i.e. where the 12 weeks / 3 months goes back beyond 1st April 2014). This caters, for example, for members who would be on APP from day one of the 2014 Scheme (because on 1st April 2014 they are already on reduced contractual pay or no pay due to sickness or injury). If pensionable pay prior to 1st April 2014 is included it is the pensionable pay as defined under the 2008 Scheme that is included (not what the pre 1st April 2014 pensionable pay would have been if it had been determined under the definition of pensionable pay in the 2014 Scheme).It should also be noted that the LGPS Regulations 2013 do not specify how the grossing up to an annual equivalent pay figure should be performed. For monthly paid employees the calculation is straight forward (see Examples 7A and 7B). However, for employees paid other than monthly, there is no standard procedure. However, whatever multiplier is used should form the basis for the divisor (see the section on "Proportioning" below).

Example 7A

A monthly paid employee has received the following pensionable pay in the three complete months prior to the relevant event.

Month 1 £1,400, Month 2 £2,500 (including a £1,000 regular bonus and £100 overtime) Month 3 £1,400.

The calculation of APP is as follows:

Annual rate of APP = (£1,400 + £1,500 + £1,400)/3 *12) = £17,200

Note that the £1,000 bonus is removed prior to the averaging and grossing up calculation.

Lump sums

APP may be increased at the time of calculation where the employer, at their sole discretion, decides to add back into the APP any regular lump sum payment paid in the last 12 months before the relevant event. The employer must determine, at the point APP commences, whether there is a ‘reasonable expectation’ that a regular lump sum payment received in the previous 12 months would be paid again during the period where APP applies and, if so, whether that lump sum already paid should be added back into the APP annual rate figure.

Example 7B

In example 7A, the member received a regular annual bonus of £1,000 in the period before going on to APP. In calculating the flat rate average APP the lump sum was removed. In deciding whether or not the lump sum should be added back into the APP annual rate the employer should reasonably assess if in their view the employee will still be on APP the next time the lump sum is due to be paid. Therefore, if in the employer's reasonable assessment the period of APP will extend to 11 months or more and the £1,000 bonus would have been paid again within the period of APP then the amount could be added back into the annual APP rate i.e.

Annual rate of APP = (£1,400 + £1,500 + £1,400)/3 *12) = £17,200 + £1,000 (future bonus) = £18,200

It is recognised that the £1,000 has already been included in the CPP prior to going on to APP and so, if added back into APP, this will result in an element of double counting. Employers will wish to take this into consideration when making their decision. The number of cases is likely to be small.

APP and Separate Employments

The calculation of APP uses the 3 complete months or 12 complete weeks pensionable pay the member receives relating to **that employment** before the period of reduced contractual pay or nil pay due to sickness or injury, or relevant child related leave commenced or the date the member commenced reserve forces leave.

If during the period of 3 months or 12 weeks pensionable pay used to calculate the APP the member ceases one employment and is reemployed on a new contract of employment the calculation of the value of the APP is based on the pensionable pay received in the new employment only using the number of complete weeks or complete months available in that employment to calculate the APP.

Proportioning

When determining the proportion of the annual APP rate to be added to the CPP the same method used for determining part periods for other reasons should be maintained. Therefore, if it is necessary to calculate one day's APP use whatever method is normally used to calculate one day's pay from an annual rate. However, it is important that the method reflects the methodology used to calculate the annualised APP figure. Thus, for example:

- if 12 weeks' pay have been grossed up to an annual rate using the formula 52/12 then the divisor for working out a week's pay would then be annual pay/52 (and for a fortnightly paid employee the divisor would be 26 and for a lunar paid employee it would be 13), or
- if 12 weeks' pay have been grossed up to an annual rate using the formula 52.143/12 then the divisor for working out a week's pay would then be annual pay/52.143 (and for a fortnightly paid employee the divisor would be 26.0715 and for a lunar paid employee it would be 13.03575), or
- if 12 weeks' pay have been grossed up to an annual rate using the formula 53/12 then the divisor for working out a week's pay would then be annual pay/53 (and for a fortnightly paid employee the divisor would be 26.5 and for a lunar paid employee it would be 13.25). Note, however, that using a formula of 53/12 is **not** recommended as it produces an incorrect outcome when calculating an annualised Assumed Pensionable Pay figure for use in calculating the ill health pension enhancement for an employee retiring with a Tier 1 or Tier 2 ill health pension, or in calculating the lump sum death grant for a member who dies in service in a year with 53 weeks (compared to the figure that would have been calculated if the person had retired or died in a year with 52 weeks).

Whichever methodology is adopted the weekly pay figure should always come out as the same figure. Thus, if a weekly paid employee is on leave for 3 weeks, the amount of APP is 3 x the calculated weekly APP figure. If a weekly paid employee is absent for 40 weeks, then the amount of APP is 40 x the calculated APP figure (and it is immaterial whether there was a week 53 on payroll falling within that 40 week period – the total APP is still 40 x the calculated APP figure). Thus, if the 40 weeks span a year end in a 52 week year then, for example, 20 of the weeks might fall before the year end and 20 in the following year; but if the year was a 53 week year, 21 would fall before the year end and 19 in the following year.

Example 8

A monthly paid employee goes on sick leave and drops to reduced pay on 15th June and stays on that until 4th September when they return to normal working. The employee is in the main section throughout. CPP1 is therefore accrued as follows:

June – 14 days of Pensionable Pay plus 16 days at the APP rate

July – APP

August – APP

September – 3 days APP plus 27 days of pensionable pay

Note that in cases of employees on relevant child related leave (i.e. ordinary maternity, paternity or adoption leave and any paid additional maternity, paternity or adoption leave) who return for KIT days or Stringer days the pensionable pay (and not APP) for those days should be added to the CPP if the pensionable pay received for that day is higher than the APP daily rate. The APP applying after the KIT day or Stringer day will be the same as that applying before the KIT day (i.e. there is no need to recalculate APP simply because the employee has undertaken a KIT day or Stringer day during the period of relevant child related leave). Please see example 18 to see how this works for both the CPP and CEC cumulatives.

Adjusting the APP figure

The APP, as calculated above, is adjusted where the APP figure continues for a period that crosses two 31st March dates. Where an employee is, for example, on long term sick leave, APP is adjusted at midnight on the second 31st March following the date APP commenced. The adjustment is the percentage adjustment specified in the Treasury Revaluation order for that (second) Scheme year ending on that 31st March. If the APP continues for a further year it will be revalued at midnight on the third 31st March following the date APP commenced. The adjustment is the percentage adjustment specified in the Treasury Revaluation Order for that (third) Scheme year ending on that 31st March (and so on thereafter).

Example 9

A monthly paid employee goes on sick leave on reduced pay from 15th June. The annual APP figure is calculated as shown in example 7B and is £18,200. At the following 31st March the member is still on sick leave (and, by that time, is on no pay). The annual APP figure of £18,200 is not increased at that 31st March and continues to be used from 1st April. If the employee is still on sick leave (with no pay) at the subsequent 31st March the figure of £18,200 will be adjusted by the annual percentage figure specified in the HM Treasury Revaluation Order. If this is 2%, then the annual APP figure from the second 1st April following the point when the person went onto sick leave on reduced / no pay will be increased to £18,564. The member returns to work on the following 4th September. The employee is in the main section throughout. CPP1 is therefore accrued as follows:

June – 14 days of Pensionable Pay plus 16 days at the APP rate (annual rate of £18,200)

July to March – APP at the annual rate of £18,200

April to March - APP at the annual rate of £18,200

April to August – APP at the annual rate of £18,564

September – 3 days APP (at the annual rate of £18,564) plus 27 days of pensionable pay

The 50/50 rule

If the member was in the 50/50 section prior to dropping to nil contractual pay because of sickness or injury they should be placed in the main section from the beginning of the next pay period (provided they are still on no pay at that time) and the APP added to CPP1 rather than CPP2 as from the beginning of that pay period.

Example 10

A monthly paid employee drops to reduced contractual pay due to sickness on 15th June then on 15th September they drop to nil pay. They return to normal working on 1st December. At the date of the relevant event they were in the 50/50 section of the Scheme. The CPP accrued throughout is as follows:

June – 14 days of pensionable pay plus 16 days of APP is added to CPP2

July – APP is added to CPP2

Aug – APP is added to CPP2

Sept – APP is added to CPP2

Oct – APP is added to CPP1 (next pay period following the drop to nil pay)

Nov – APP added to CPP1

Dec – PP added to CPP1

Note that the employee remains in the main section unless and until they make another election to return to the 50/50 section.

Exceptions to 50/50 rule for short periods of sickness

The exception to the 50/50 rule above is for short periods of reduction where the employer has a policy of nil pay for the first X days of sickness. In these cases APP is applied in the pay period of reduction even if this is later than the date of the relevant event. Adjustments do not have to made in arrears. The employee does not have to be placed back in the main section if they have elected for the 50/50 section unless the period of unpaid leave due to sickness or injury crosses two pay periods – for example, if an employer has a policy of nil pay for the first 3 days of sickness then, if the first 2 days were the last 2 days of one pay period and the third day was the first day of the following pay period, the regulations require the member be put into the main (100/100) section from the beginning of that next pay period.

Example 11

A monthly paid employee is off sick for two days in the middle of June and the employer has a policy of nil pay for the first 3 days of sickness. The adjustment to pay is not done until July when two day’s pay are taken from that month’s payment. The CPP accrued is as follows:

June – PP is added to CPP2

July – PP (which has been reduced by two days) plus 2 days of APP are added to CPP2

Note that the APP figure is calculated by reference to the pensionable pay the member received in respect of that employment in the 3 complete months' preceding the date on which entitlement to pay at a reduced or zero contractual rate commenced. Thus, even though the deduction from pay for the two days sickness did not occur until July, APP is calculated on the pensionable pay paid in the period March, April and May not April, May and June. It is immaterial whether the notification of the two days sickness is notified to payroll in time for the deduction to be made in the June payroll or the July payroll. In either case, the calculation of the APP figure to be added to CPP2 is the same i.e. based on the pensionable pay the member received in respect of that employment in March, April and May.

Cessation of APP accrual

APP ceases to accrue when a member ceases to be absent on reduced contractual pay or nil pay as a result of sickness or injury; or on ceasing relevant child related leave (i.e. ordinary maternity, paternity or adoption leave and any paid additional maternity, paternity or adoption leave); or on ceasing reserve forces service leave.

APP where a member retires with a Tier 1 or Tier 2 ill health pension or dies in service

APP will need to be calculated (by the employer - not held on payroll) when an employer terminates an active member's employment on the grounds of permanent ill-health with a Tier 1 or Tier 2 ill health pension or an active member dies in service, or where a Tier 3 ill health pension is awarded which is subsequently uplifted to a Tier 2 ill health pension. The APP figure is calculated in the normal way but using the average of the pensionable pay for the 12 (weekly) or 3 (monthly) complete pay periods prior to the date of termination / death (including any APP credited in and relating to those pay periods), to which any regular lump sums paid in the 12 months prior to the date or retirement / death which the employer determines there is a 'reasonable expectation' would again have been paid to the member are added back into the annual rate of APP. This APP figure is needed to calculate the amount of the enhancement to the benefits due under the LGPS. Where the Independent Registered Medical Practitioner certifies that the member was working reduced contractual hours during the relevant 12 (weekly) or 3 (monthly) pay periods as a consequence of ill health, the APP figure is to be calculated on the pay the member would have received during the relevant pay periods if they had not been working reduced contractual hours.

The LGPS Assumed Pensionable Pay guide can be found on LGPS website under Section 4.2 Assumed Pensionable Pay:

http://www.lgpslibrary.org/assets/gas/ew/Pv3.9c.pdf