



## Final Pay

The Local Government Pension Scheme (LGPS) changed from a final salary to a Career Average Revalued Earnings (CARE) pension scheme on 1st April 2014. Pension benefits built up in the final salary scheme remain as final salary benefits. This means you still need to provide final pay information for members with final salary membership.

In the final salary scheme the pension is worked out using the member's pay at leaving. In the CARE scheme the pension is worked out every year based on the member's pensionable pay in that year.

Your employees may have final salary membership in the LGPS even if their employment with you started after 1st April 2014. This could be because they have transferred in a pension from another public service pension scheme or they paid into the LGPS in a previous employment.

### When you need to calculate Final Pay

The list below sets out when you need to calculate pay for members who have final salary membership in the LGPS:

1. When a member leaves the LGPS
2. When a member requests a quotation of benefits
3. Every year so your administering authority can provide annual benefit statements

4. When a member exceeds the annual allowance tax limit on pension savings (your administering authority will request this)
5. When a member protected by the McCloud remedy reaches their normal pension age in the 2008 scheme (usually age 65)
6. Whenever East Sussex Pension Fund contact you to ask for a final pay figure

The final pay figure is the **full time equivalent pay** in the final year ending on the day of leaving. Therefore, in the first instance any part-time hours can be ignored and the pay has to be calculated in the same way as an equivalent full-time employee.

Basic Final Pay Calculation = months/days X FTE salary ÷ 12

### **Final Pay – what is included?**

Pensionable pay, as defined in the final salary scheme, should be used to work out final pay. This is defined as all the salary, wages and fees, and other payments, paid in relation to the employment. It also includes any other payment specified in the contract of employment as being a pensionable emolument.

It is important to note that although non-contractual overtime is pensionable in the CARE scheme, it was not pensionable in the final salary scheme and you should not include it when you work out final pay.

#### **Sickness**

Any period of sickness should be ignored. Final pay is based on the pay the member would have received if they had not been on sick leave. If sickness is unpaid, you would need to calculate an Assumed Pensionable Pay figure so the member doesn't get penalised for being off sick.

#### **Pay period less than a year**

If a member leaves with less than one years' service and you are advised that they have a final salary benefit, the calculation should be based on the days worked in your employment. You may be asked for a different period if the employee has taken up employment with another local government employer and leaves them within twelve months of leaving your employment.

#### **Unpaid leave**

Any period of unpaid leave should not be included in the calculation unless the member has paid additional pension contributions to buy it back. The start and end dates for the calculation remain the same and the resulting figure is divided by the total days that were paid and multiplied by 365.

Note: If a member buys back a period of unpaid leave by paying additional pension contributions, the period paid for is included in the final pay period as if the member had not been absent.

More information on Pensionable Pay and Assumed Pensionable Pay can be found in the following factsheets:

[Employer Toolkit - Pensionable Pay \(eastsussexpensionfund.org\)](http://eastsussexpensionfund.org)

[Employer Toolkit - Assumed Pensionable Pay \(eastsussexpensionfund.org\)](http://eastsussexpensionfund.org)

## Protected Final Pay - “best of the last 3 years”

In certain cases where one of the previous two 365 day final pay periods yields a higher final pay figure, one of those figures can be used as the chosen final pay, hence the phrase ‘the best of the last three years’.

**Example:** A member leaves their employment on 31 March 2019.

Final pay period	From	To	Final Pay
1	1 April 2018	31 Mar 2019	£24,000
2	1 April 2017	31 Mar 2018	£25,500
3	1 April 2016	31 Mar 2017	£24,000

Out of the last three years, year two has the highest final pay figure. Therefore £25,500 will be used as the member’s Final Pay at date of leaving. An inflationary increase is then applied to the previous year’s final pay to reflect cost of living rises.

## Final pay – an example

Julie, a full-time worker for East Sussex County Council leaves the LGPS on 14 January 2023.

The pay period for final pay purposes is 15 January 2022 to 14 January 2023.

Julie pensionable pay (as defined in the final salary scheme) was as follows:

1 April 2021 to 31 March 2022: £27,500  
 1 April 2022 to 30 Sept 2022: £28,350  
 1 October 2022 to 14 January 2023: £30,500

Her Final Pay calculation will be based on:

Part 1

15 January 2022 to 31 March 2022: 2 months and 17 days at £27,500  
 1 April 2022 to 30 September 2022: 6 months at £28,350  
 1 October 2022 to 14 January 2023: 3 months and 14 days at £30,500

## Part 2

$$£27,500 \div 12 = £2,291.66 \times (2 + (17 \div 31)) = £5,840.04$$

$$£28,350 \div 12 = £2,362.50 \times 6 = £14,175.00$$

$$£30,500 \div 12 = £2,541.66 \times (3 + 14 \div 31)) = £8772.83$$

## Part 3

$£5,840.04 + £14,175.00 + £8,772.83 = \mathbf{£28,787.87}$ . Julie's final pay is therefore **£28,787.87**. If the final pay in one of the two previous years is higher than the final year, the earlier year's pay should be used to work out the member's pension.

## Calculating Pension Based on Final Pay

If a member has LGPS membership prior to 1 April 2014 their pre 1 April 2014 pension is calculated as follows:

### **LGPS membership built up to 31 March 2008 based on 1/80th of Final Pay**

**Annual Pension** - Total pre 1 April 2008 Membership / 80 x Final Pay

**Lump sum** - Total pre 1 April 2008 Membership x 3/80 x Final Pay

### **LGPS membership built up from 1 April 2008 to 31 March 2014 based on 1/60th of Final Pay**

**Annual Pension** - Total post 1 April 2008 Membership / 60 x Final Salary

**Lump sum** - NIL but option to exchange pension for tax-free cash on retirement (subject to HMRC limits)

The Final Pay figure used in the calculation of the member's pre 1 April 2014 pension benefit is based on their future Final Pay figure at date of leaving the LGPS.

## Notification of Final Pay

Final pay needs to be provided to the Fund when a member leaves the Scheme. Final pay figures should be submitted by employers either via:

1. A leaver form (if not onboarded onto i-Connect), or
2. Via i-Connect in the FTE field (the Final pay must be inserted into the full-time equivalent field).

## Further support

[LGPS employer training – Final Pay PDF](#) – this has many other examples of how to calculate Final Pay and a whole lot more

[Final Pay – online course](#) - LGPS

Email: [employer.engagement@eastsussex.gov.uk](mailto:employer.engagement@eastsussex.gov.uk)

This factsheet is one of a series put together by East Sussex Pension Fund to help support employers with processing key tasks.



### Employer Toolkit...

Pointing you in the right direction

You can view the full employer toolkit at:

<https://www.eastsussexpensionfund.org/about-the-scheme/employers/employer-toolkit/>