**How a reduction in pensionable pay effects your final salary pension benefits**

If your Local Government Pension Scheme (LGPS) membership has a ‘final salary link’, in most cases because you were a member of the LGPS before 1 April 2014, and the reduction or restriction is for reasons other than a change in hours worked or the end of a temporary increase, then final pay may be used over a period other than that used in the standard ‘Best of the last three years’.

The end of a temporary increase includes when an honorarium, salary protection payment or acting-up allowance finishes, as these and similar payments are temporary and them ending does not allow a period outside of the ‘Best of the last three years’ to be used to work out final pay.

There are no similar protections that apply in relation to the CARE pension built up in respect of membership of the LGPS from 1 April 2014 onwards.

**What is final pay?**

Before 1 April 2014, the LGPS was a final salary pension scheme. This means that pension benefits were usually based on a member’s pensionable pay over the last 365 days before leaving pensionable employment. If the member worked part time, their final year’s pensionable pay was increased to that of an equivalent full time member.

If you have membership that has a ‘final salary link’ and left the LGPS after 31 March 2014, your pension benefits will still be worked out on ‘final pay’, using the pre 1 April 2014 definition of pensionable pay.

There are times where your pensionable pay may be reduced and a period other than your final year of scheme membership may be used to work out the final pay used to calculate your pension benefits if your membership has a ‘final salary link’. For example:

* **Best of the last three years’ pay**

The final year of scheme membership is the period usually used when working out final pay. However, if your full time equivalent pensionable pay for one of the two years before your final year is greater, the year that would give the greatest final pay can be used. This will be the case regardless of the reason for a reduction in your full time equivalent pensionable pay.

If your scheme membership ends three or more years after the reduction, this protection will not apply to you. The effect of the protection starts to weaken two years after the reduction.

**Example of how we apply the best of the last three years’ pay assessment**

Isaac leaves the scheme on 5 July 2015. In his last year of membership he did not work any contractual overtime and so his pensionable pay is lower in his final year than in the year before. The scheme regulations allow us to look back to one of the two years before the final year to work out the final pay:

6 July 2014 – 5 July 2015 - £21,680

**6 July 2013 – 5 July 2014 - £22,998**

6 July 2012 – 5 July 2013 - £20,750

We would use the figure of £22,998 to work out Isaac’s pension benefits for membership with a ‘final salary link’. When cost of living increases were applied to these benefits they would be treated as having a start date of 6 July 2014, rather than 6 July 2015 and this would be the same if the pensionable pay for the final year were used.

* **Best three year average in the last thirteen years**

If on or after 1 April 2008, in your last ten years of continuous employment with your employer, your pensionable pay is reduced or restricted for one of the following reasons:

* because you choose to be employed by the same employer at a **lower grade** or with less responsibility (other than for flexible retirement);
* for **achieving equal pay** in relation to other employees of your employer;
* as a result of a **job evaluation** exercise;
* because of a **change in your contract** resulting in the stopping or restriction of, or reduction in, payments or benefits specified in your contract of employment as being pensionable pay;
* because the rate at which your pay may be increased is restricted in such a way that it is likely that the rate of your retirement pension may be adversely affected;

you may choose to have your pension benefits that are based on membership with a ‘final salary link’ worked out on an average of your pensionable pay in any three consecutive years (ending on a 31 March) in the last thirteen years. **This protection only applies if you let us know in writing that this is what you choose at least one month before your LGPS membership ends.**

**Example of how we apply the best three year average in the last thirteen years**

Gill’s post is re-graded by her employer as a result of a job evaluation exercise and the new grade is lower than the original one with effect from 1 September 2014. Her employer protects the level of her salary for a period by temporarily paying a sum equal to the difference between the old and new grade salary for a period of six months. Her ten year protection starts on 1 September 2014, rather than when the temporary payments end on 1 March 2015, and runs until 31 August 2024.

If her LGPS membership were to end on 31 August 2024, and she wrote to us before 1 August 2024, we would work out the final pay upon which to base her benefits for membership with a ‘final salary link’ by taking the best average three consecutive years’ pensionable pay (ending 31 March) within her last thirteen years of employment.

Gill’s pay over thirteen years (ending 31 March) before retirement:

**1 April 2023 – 31 March 2024 - £20,375**

**1 April 2022 – 31 March 2023 - £20,150**

**1 April 2021 – 31 March 2022 - £20,000**

1 April 2020 – 31 March 2021 - £19,690

1 April 2019 – 31 March 2020 - £19,370

1 April 2018 – 31 March 2019 - £19,011

1 April 2017 – 31 March 2018 - £18,900

1 April 2016 – 31 March 2017 - £18,640

1 April 2015 – 31 March 2016 - £19,016

1 April 2014 – 31 March 2015 - £22,860

1 April 2013 – 31 March 2014 - £21,000

1 April 2012 – 31 March 2013 - £20,550

The first three years of the thirteen are the three consecutive years that Gill got the highest pensionable pay; so we would take the average of those:

(£20,550 + £21,000 + £22,860)/3 = **£21,470**

We’d use the figure of £21,470 to work out Gill’s pension benefits for membership with a ‘final salary link’. When cost of living increases were applied to these benefits they would be treated as having a start date of 1 April 2015, rather than 1 September 2024 and this would be the same if the pensionable pay for the final year were used.

* **Certificate of protection**

If, before 1 April 2008, you had a reduction or restriction in pensionable pay that qualified you for protection, your employer would have given you a certificate of protection under the old protection rules that applied at the time. If this applies to you, and you leave the pension scheme within ten years of the reduction, then your final pay will be calculated as the best year’s pay in the last five years, or the average of the best consecutive three years’ pay in the last thirteen years, after allowing for cost of living increases. The years must end on the anniversary of your last day of membership.

If you’d like more information about this topic please get in touch:

Email: pensions@northamptonshire.gov.uk

[Cambridgeshire Pension Fund website](https://pensions.cambridgeshire.gov.uk/)

[Northamptonshire Pension Fund website](https://pensions.northamptonshire.gov.uk/)

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