

LGPS requirements employer essentials



What is APP and when is it used?

APP stands for 'assumed pensionable pay' it is notional value, based on earlier actual pay, assessed by employers to protect the member's pension when contractual pay is reduced or nil in specific occasions. It can also be used to provide a value for pay to assess benefit enhancements and the costs for members to restore lost pension following authorised unpaid leave.

You do not automatically use APP for:

- Periods of unauthorised absence. Unauthorised = no pay. (There is no requirement to support member's cost to restoring pension lost through this action.)
- Periods of unpaid additional maternity, paternity or adoption leave or shared parental leave following "relevant" child related leave and unpaid parental bereavement leave - These are treated as approved unpaid leave of absence, member can restore lost pension following unpaid period **and** when request made during correct timeline employers **must** assist with costs
- Trade dispute
- Additional pay during reserve force leave because this would be non-pensionable pay

Or

- In any circumstance where the actual pensionable pay received happens to be higher than the APP, for example a KIT day.

You must use APP

- when a member has certified sickness and their contractual sick pay is reduced or extinguished, to ensure their pension is not reduced due to circumstances out of their control.
- to assess **employer's**, not the employee's, contributions during the period of reduced or no pay during sickness.
- at early retirement due to permanent ill health – tiers one or two, to assess pension benefit enhancement
- following a death in service, APP is used to calculate Death Grant and survivor pensions

- when a member receives reduced pay while on paid child related leave, use APP for employer contributions to ensure pensions are protected (unless the pay they receive during child related leave is greater than the APP assessment, e.g. for a KIT day – then use the pay the member receives for all pension contributions.)
- during emergency volunteering leave for employer contributions (employee contributions are taken from the actual pay they receive) (Spring 2020 Covid-19 guidance)
- reserve forces leave – when member requests continued LGPS membership assess APP, advise MOD of contribution rates contact Pension Services / Investment to liaise/organise payment over.

How do you calculate it?

APP is an assumed value at an annual rate, a notional figure, based on previously paid contractual pay.

The assumptions you make for this 'notional' pay are based on the average pay the member will have had for 3 months or 12 weeks ending in the pay period immediately before the one with reduced pay – but for death and ill health retirement enhancements the 'three months/twelve weeks' ends in the same pay period as the reason you have to provide the figure.

During the twelve week/three month averaging period ignore – that is don't reduce the pay figure you use in the averaging, if the pay had dropped due to industrial action or approved unpaid leave during those weeks.

Assess the annual figure from the 12 weeks/3-month examples.

HOWEVER – there are a couple of other provisions you will need to bear in mind to reach the notional, assumed value.

1. If the member's usual annual pay would also include a lump sum payment, bonus, retention payment for example, then this may also be included

Or

2. If the 12 week / 3 month averaging process produces a lower than expected value, you may instead provide an alternative value that better reflects their average pay. For this compare with the pensionable pay received over the previous 12 months.
3. If there isn't a 12-week period before the relevant event date, work out the annual figure by using the number of complete weeks you have.

1 and 2 above require you to flex the discretion muscle - ensure your policy and processes can deal with these options.

Pensionable pay = fees? (reg21 (5C) applies. Contact Pension Services – employer team for details – this is rare.

Adjustments – You revalue an APP at the start of the second whole scheme year, most likely use will be during long term sickness. The revaluation is by the same rate Pension Services will revalue the pension accounts. Get in touch with us for the detail.

Be prepared to keep details on how you have assessed the value of APP. After all you have to tell the member what you used, and Pension Services and the Investment team need to know to reconcile employer and member contributions and pay. Remember everything **MUST** reconcile at the end of the year. (Contributions to pay (real and assumed), pay to contribution rate) Whilst every month matters, especially so for end of year.

Where is the regulation back up for these instructions?

As you will know nothing can happen in LGPS, unless there is a regulatory authority for it. Concerning pensionable pay and contributions your references will be regulations 9-21 of the 2013 LGPS regulations. www.lgpsregs.org (drop down for time- line regulations)

Is there more support?

Yes - examples and practical help www.lgpsregs.org in the sample guides section – employers - Payroll Guide to LGPS
<http://www.lgpslibrary.org/assets/gas/ew/Pv4.0c.pdf>

That's the technical information, but how does it work? What do we have to do?

The key point to remember is 'no pay – no pension' that's the Career Average background to LGPS.

However, the Regulations require pension protections in some instances, and for that you must use the APP. It is for this reason, during periods of reduced pay, a pension record needs the addition of the APP. It is the combined value of the pensionable pay – real and assumed, that is the basis for a member's pension and why the monthly reports and end of year reconciling is essential to ensure the pension is correct.

It is your legal duty to assess and report APP. Accuracy is essential

- for the member's pension
- to correctly assess employer liability, and
- to ensure correct data and records.

Quick summary of basic requirements and most frequent uses

| Reason for reduced/no pay | Period to use for assessing APP for monthly paid* | How to assess | Member contribution | Employer contribution | Essential employer actions | Other considerations and next actions |
|--|---|--|--|--|--|--|
| Ill health Reduced contractual sick pay / no pay | Take the pensionable pay for 3 complete pay periods before the one in which the reduction in pay happened *12 weeks if weekly paid. E.g. member moves to half pay 15 th July, pay period is calendar monthly, use the pensionable pay from all June, May and April, ignoring any drops in pay for approved unpaid leave | 1. Identify correct pay periods 2. Take out any lump sum payments 3. Gross up to annual figure from those three months 4. Add back the lump sum if employer discretion applies. 5. Where appropriate and if employer discretion applies - adjust for previous year comparison = Assumed Pensionable Pay | Member pays contributions at their standard rate against any sick pay they receive For periods of no pay the member pays no standard contributions (Member does not pay contributions against the APP) | Employer pays their contribution rate against the APP when it applies and actual pay Please note some months can involve APP and pensionable pay - you must apportion values | Inform member Correct MARS/iConnect/monthly contribution reporting with correct assessment of pensionable and assumed pensionable pay and properly apportioned on reports | Do your systems collect and collate information, or will manual intervention be necessary? Is the member paying additional contributions? Is the member paying to the 50/50 section? Long term sickness will need revaluation adjustments |
| Child related paid leave (i.e. ordinary maternity, paternity or adoption leave, paternity) | AS ABOVE Except when pay is higher than APP then use actual pay!! | 1-5 as above Unless actual pay is more than the notional APP e.g. KIT days | Member pays their contributions at their standard rate against pay received. | As above except for the days / period actual pay is greater than APP, then employer also pays against the higher value | As above | Do your systems collect and collate the information, or will manual intervention be necessary? Is the member paying additional contributions? |





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| <p>leave or paid shared parental leave and any paid additional maternity, or adoption leave) And from 6 April 2020 includes Parental Bereavement leave</p> | | | <p>Change arrangements when starts no pay period. The member has an option to pay – there are time limits to exercise the option after return to work.</p> <p>(NB The rule that contributions are due for first 30 days of unpaid leave is no longer valid. It has not been in operation since 2014)</p> | | | <p>Is the member paying to the 50/50 section?</p> <p>Please note the 30-day arrangement for leave of absence with no pay no longer exists. There is a different process for members to restore lost pension after a period of no pay.</p> |
| <p>Tier 1 or 2 Ill health retirement Or after tier 3 reviewed to tier 2</p> <p>APP is used to calculate pension enhancement and Death grant and family pensions following Death in service.</p> | | <ol style="list-style-type: none"> 1. Identify correct pay periods – this time complete pay periods before the last day/ date of death. Include any APP credited during this period 2. Take out any lump sum payments 3. Gross up to annual figure from those three months 4. Add back the lump sum reasonably expected to have been payable if employer discretion applies. <p>= Annual Assumed Pensionable Pay</p> | <p>Not applicable</p> | <p>Not applicable</p> | <p>Employer to assess when required and include with leaver details and/or certification</p> | <p>*Please note for ill health and death in service If the medical advisor agrees the member’s pay had been less due to reduction of hours because of the sickness or injury which is responsible for the early retirement/death, then use the rate of pay the member would have expected to have received during those pay periods as if they had not been working reduced hours.</p> |

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| | | Subject to IRMP certification* | | | | |
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Some other points / issues

- Not monthly paid? The www.LGPSregs.org guidance <http://www.lgpslibrary.org/assets/gas/ew/Pv4.0c.pdf> shows practical examples of differing pay routines to assess and proportion APP
- 50/50 contribution member – if the contractual pay during sickness goes to Nil/no pay and is still at no pay at the start of the next pay period - you must move the member into the main scheme, and the APP is recorded under the main scheme employer contribution section. Employer contributions are at full rate regardless of member election but will mean that member receives pension at 1/49 of APP.
- Member paying APC Additional Pension Contributions - these are contractual and should be paid, however if the pay reduction is due to sickness/injury the additional contribution is deemed to have been paid.
- Reserve Forces leave? Assess APP and advise member include details of contribution rate. MOD pays, please check with Pension Services / Investment team for details. The information exchange will be different.
- Some employers don't provide pay for the first X days of sickness so what happens then? In these cases, Annual APP/Actual APP is relevant for the first X days of sickness. Adjustments do not have to be made in arrears (i.e. they are done in the pay period the actual salary is deducted). The regulations protect the member's pension as this is due to sickness, employer must assess and report APP and pay their contributions against that
- Absence due to trade dispute is unpaid however employer does not usually pay towards restoring cost of lost pension.

Example - simplified!!

| | Event during 2019/2020 | Employer must pay to pension fund | Employee must pay to pension fund | 2019/20 Reporting and pension |
|---|--|---|---|--|
|  |  | <p>The Oxfordshire</p>  | <p>Pension Fund</p> |  |
| <p>The member's pension account Pension builds up based on their pensionable pay, each year (1/49 x pay) to end of scheme year 31 March.</p> | <p>During the year member is away on sick leave</p> <p>'Half pay' July and August</p> <p>'No pay' September</p> <p>Returns to regular duties and full pay the rest of the year</p> | <ul style="list-style-type: none"> • April to June employer contributions at their regular rate on member's pensionable pay • July and August employer contributions at usual rate on the calculated assumed pensionable pay • September employer contributions at usual rate on the calculated assumed pensionable pay • October to March employer contributions at their regular rate on member's pensionable pay | <ul style="list-style-type: none"> • April to June employee contributions at their regular rate on pensionable pay • July and August employee contributions at usual rate on the contractual sick pay • September NO contributions due from the member • October to March Employee contributions at their regular rate on pensionable pay | <p>The member's pension account for this year uses</p> <p>9 months x pensionable pay AND 3 months assumed pensionable pay</p> <p>= together /49 = pension value protected into the member account</p> |