

## **Local Government Pension Scheme in Scotland – Statutory Guidance Assessment of Member Contribution Rate**

### **Important - Please Note**

**When allocating a contribution rate to members, pensionable pay in this guidance means the Full Time Equivalent (FTE) pensionable pay. When deducting contributions from members, those contributions will be deducted from the actual pay received.**

### **1. Introduction**

This circular constitutes the guidance referred to in Regulation 4(2)(b) of the Local Government Pension Scheme (Benefits, Membership and Contributions)(Scotland) Regulations 2008.

The circular gives guidance to employers on how to assess the correct contribution rate for members. The guidance applies to active members of the Local Government Pension Scheme from 1<sup>st</sup> April, 2009.

Contributions are no longer levied on a flat rate basis (e.g. 6% of pensionable pay), but are determined according to the level of a member's full time equivalent pensionable pay.

A key feature of the new pension arrangements is that contribution rates are applied in tiers ranging from 5.5% to 12% depending on the member's rate of pensionable pay on 31<sup>st</sup> March (see Table 1 of Annex C). Members will pay 5.5% on the first £18K of pay, 7.25% on the pay from £18k to £22K and so on.

Using these tiers, it is possible to calculate an average contribution rate for any given pensionable pay. Details of the average contribution rates to be used are shown in Table 2 of Annex C.

It has been agreed that Employing Authorities will discharge their statutory obligation to set a member contribution rate if they derive the said contribution rate from the entries contained in Table 2 of Annex C.

The contribution rate provided by Table 2 of Annex C should be determined according to the member's full time equivalent (FTE) rate of pensionable pay on 31<sup>st</sup> March. The rate will then apply to the forthcoming pay year.

In assessing the contribution rate for part time or term time employees, the pensionable pay to be used in Table 2 of Annex C must be the member's Full Time Equivalent (FTE).

Employing authorities will have to set the contribution rate annually from 1<sup>st</sup> April for each member. For example, members will have their contribution rate in 2009/10 based on the rate of pensionable pay at 31<sup>st</sup> March 2009. Members joining for the first time in 2009/10, or part way through any year thereafter, will have their contribution rate for the remainder of that year based on their FTE rate of pensionable pay on joining the scheme.

The remainder of this circular explains how the contribution rate allocation must be administered in detail, including non straightforward cases. It is an employer responsibility under the Regulations to make the decision on the allocation of an appropriate rate. If a dispute arises however, the administering authority for the fund may be contacted for advice in arriving at a decision.

## **2. Tiered Employee Contribution Rates**

### **Contribution Rates Table**

The table for the initial allocation of contribution rates for 2009/10 is included at Table 1 of Annex C.

## **3. Updates to the Contribution Rates Table**

The table will be updated in line with Pensions Increase legislation on an annual basis by the Scottish Public Pensions Agency (SPPA). Under the Benefit Regulations the update will be applicable from the first pay period in that financial year.

The annual update to Table 1 of Annex C will in turn affect the bandings on Table 2 of Annex C. This table will also be maintained by SPPA.

Members who are active on 31<sup>st</sup> March 2009 will have their contribution rate for 2009/10 based on the 2008/09 table. New starters who join the LGPS on or after 1<sup>st</sup> April 2009 must be allocated a contribution rate based on their full time equivalent rate of pensionable pay at date of joining (see page 2 paragraph (d)).

Employers will be notified when the updated table is available by the SPPA.

## **4. Operation of Tiered Contributions for Payroll Purposes**

The tiered contribution rates in Table 1 of Annex C have been used in Table 2 of Annex C to determine the member's average contribution rate for a range of salary bands. Table 2 is in effect a "lookup table" which breaks down the contribution rates from Table 1 into steps of 0.1% and allocates pay ranges to these steps to simplify the process of allocating contribution rates to members for payroll purposes. This stepped table will be updated on an annual basis and included with the updated tiers in Table 1 in guidance produced by

SPPA. Where pay values exceed those included in the table, the appropriate administering authority must be contacted for guidance.

**Note:** If your payroll uses hourly rates rather than annual amounts, you may need to convert the pay values in Table 2 to suit. In applying an average contribution rate for a member with “ad hoc” allowances, please refer to paragraph 5(c) below for guidance.

Where the payroll system does not include the facility to reference a look up table, an excel spreadsheet is available which employers may use to calculate the average contribution rate for individual members. The excel spreadsheet, which will be maintained and updated in guidance issued by SPPA, is available on application to your appropriate administering authority. Employers using this spreadsheet must therefore ensure they apply annually to the appropriate administering authority for the updated spreadsheet.

## **5. Allocation to Tiered Contribution Rates**

### General Principles

- (a) Contribution rates for members are determined for the forthcoming tax year on the basis of the member’s rate of pensionable pay as at 31st March of that year and at each 31 March thereafter (but see paragraph (d) for members who opt in or new employees who start after 31<sup>st</sup> March in any year). For example, when the new scheme is implemented on 1<sup>st</sup> April 2009 the member’s FTE rate of pensionable pay on 31/3/2009 will be used to determine the contribution rate applicable from 1<sup>st</sup> April 2009 for the 2009/2010 tax year. Once a contribution rate has been determined it is applied to the whole amount of actual pensionable pay received.
- (b) FTE Pensionable pay used to determine a contribution rate must include basic pay and any other pensionable allowances. In the case of a member on reduced pay (for reasons such as maternity leave or sick leave) the FTE Pensionable pay must be determined according to the level of pensionable pay that the member was receiving before moving to reduced or no pay.
- (c) For members with variable payments / allowances, employers should include an estimate of the annual rate of such variable payments / allowances in their calculation of the rate of FTE pensionable pay. Once set, the contribution rate for the remainder of that year will not be adjusted to reflect the actual value of those variable payments.
- (d) For new scheme members or employees who opt into the pension scheme after 31<sup>st</sup> March in any year, the allocation of their contribution rate will be based on the full time equivalent pensionable pay plus the estimated annual value of any other pensionable allowances at the date scheme membership commences.
- (e) Existing manual workers will not retain the protected 5% contribution rate after 31<sup>st</sup> March 2009.
- (f) The new contribution rates are to be applied from the first pay period in each new tax year.
- (g) When determining pensionable pay for the purpose of allocating a contribution rate to a member, the amount must be rounded down to the nearest pound.

- (h) Pensionable allowances for part-time workers must be included at the full-time equivalent rate where applicable, for example, bonus payments, distant islands allowances. Ad hoc pensionable allowances such as standby, sleep-in payments should be included at the actual rate and not the FTE.
- (i) Any periods of no pay through sickness absence, maternity leave etc must be adjusted by uprating to a full year, full time equivalent pensionable pay.
- (j) For members with multiple contracts, (FTE) pensionable pay under each contract is considered separately and each contract is allocated a contribution rate individually.
- (k) Members without breaks in employment who remain with the same employing authority will retain the same contribution rate for the whole of the scheme year, even if that member receives a promotion or reduction in pay during that forthcoming year. Any such increase or reduction in pay will be taken into account in setting the contribution rate for the next tax year.
- (l) Members moving to employment with a different employing authority, even within the same fund must have their contribution rate assessed by their new employer as if they were a new start member with that employer (see paragraph (d) above).
- (m) Members on or returning from, Maternity Leave (no pay, SMP etc), parental leave, paternity leave, sick leave (half pay, no pay, SSP) or career breaks etc in the same tax year must pay contributions at their original rate. Those who go to half pay during the year must continue to pay the rate of contributions at the rate they were placed in but on the reduced amount of pensionable pay they actually receive. When determining a contribution rate for those staff already on half pay or no pay at 31<sup>st</sup> March their contribution rate must be based on their FTE rate of pay that would have been received including the estimated annual value of any other pensionable allowances.
- (n) Members who wish to repay contributions on return from authorised absence in order to pay for “breaks in service” must repay those contributions at the contribution rates they would have been allocated to throughout that period. Contributions to pay for strike periods however remain at 16%.
- (o) Employers must notify scheme members of their contribution rate as soon as reasonably practicable after it has been determined. A similar notification must also be issued to the appropriate administering authority. In notifying members of their contribution rate, it will not be necessary to accompany this with the usual Local Government Pension Scheme rights of appeal. Such appeal rights will however be widely communicated through Scheme booklets, websites and newsletters.
- (p) Annex A to this notice gives more details for those who will be allocated to the contribution rates from 1 April 2009, Annex B is a table setting out some examples of how to calculate full year/full time pensionable pay. Annex C sets out the contribution tiers for 2009/10 in table 1 while table 2 provides details of “average” contribution rates to be applied where members fall within certain pay ranges.

## Annex A

### 1. Initial 1<sup>st</sup> April 2009 Allocation for Existing Members

The initial allocation of members to contribution rates is based on pensionable pay at 31/03/2009.

#### **General Principle:**

Members who are employed on 1st April 2009 and who were in pensionable employment on 31 March 2009 must have their contribution rate set according to the FTE rate of pensionable pay they received on 31<sup>st</sup> March 2009 including the estimated annual value of any other pensionable allowances where applicable.

Pensionable pay for part-time members must be uprated to the (FTE) full time equivalent. Any periods of no pay (maternity / paternity leave etc) must be adjusted by uprating to a full year's pay.

#### **Scenarios:**

- A. Member is full time on 31 March 2009. Contribution rate is set according to the rate of pensionable pay applicable on 31<sup>st</sup> March 2009 for the whole of the financial year 2009/2010 while with that same employing authority.
- B. Member is part time on 31 March 2009. Contribution rate must be set according to the rate of pensionable pay applicable on 31<sup>st</sup> March 2009 had the member worked full time. Any pensionable allowances etc for part-time members must be included at the (FTE) full time equivalent rate where applicable.
- C. Member has worked a combination of full time and part time continuously throughout the scheme year 1 April 2008 to 31 March 2009. Contribution rate must be set according to the rate of pensionable pay that the member received on 31<sup>st</sup> March 2009. That is, if the member were part time on 31<sup>st</sup> March, the rate would be determined according to the uprated full time equivalent pay.

### 2. Part Year Pensionable Pay

A new member starts pensionable employment (or a member who opts into the scheme) with an employer after 31<sup>st</sup> March 2009 will only have part year service during 2009/2010.

#### **General Principle:**

Members must have their contribution rate based on the (FTE) full time equivalent rate of pensionable pay for that employment as at the date joined scheme membership.

**Scenarios:**

- A. New member is employed on 1st June 2009 and the employer must set the contribution rate for that member for the remainder of the year 2009/2010.

The member's contribution rate must be based on the full time equivalent rate of pensionable pay as at 1<sup>st</sup> June 2009 including the estimated annual value of any other pensionable allowances where applicable.

**3. Members Moving Employments during 2009/10**

Member moves employment to a different employing authority within the same fund during 2009/10.

**General Principle:**

Members in 2009/10 who were scheme members with a previous employing authority and were allocated a contribution rate in that employment must have a new contribution rate determined by their new employer on the same basis as if they were a new start member.

**Scenario:**

- A. Member moves employment during 2009/10 either to a new employing authority within the same fund or to a different fund. The contribution rate assigned with respect to the first employment in 2009/10 must be ignored by the new employer and a new rate set in the new employment on the same basis as any other new start member.

**4. Concurrent Employment Scenarios**

Member has concurrent employments with the same or a different employer.

**General Principle:**

Each employment contract must be assessed separately and assigned a contribution rate individually.

An employee will retain a contribution rate applicable to each separate post for the whole of 2009/10. In circumstances where a member has more than one employment either with the same employer or with different employers, each of those posts is to be treated in isolation when determining a contribution rate to be allocated to the member. In such

cases the contribution rate for each of the member's employments must be calculated in accordance with sections 1 and 2 of this circular.

**Scenarios:**

- A. Member has concurrent part time Employments 1 and 2, which terminate at the same time and starts new Employment 3 without a break. In this scenario the contribution rate for Employment 3 would be based on the FTE rate of pensionable pay at the start date of Employment 3.
- B. Member has concurrent part time Employments 1 and 2. Employment 1 terminates and Employment 3 starts without a break. In this scenario the employee has multiple employments at the point Employment 3 starts; therefore, the contribution rate for Employment 2 remains unchanged and the contribution rate for Employment 3 would be based on the FTE rate of pensionable pay at the date of starting this employment, if after 31 March.
- C. Member starts new Employment 2 whilst already employed in Employment 1. In this scenario the employee has multiple employments at the point Employment 2 starts; therefore, the contribution rate for Employment 2 would be based on the FTE rate of pensionable pay at the date of starting employment 2 if after 31<sup>st</sup> March.
- D. Member starts new Employment 2 whilst already employed in Employment 1 and then terminates Employment 1 and starts Employment 3. In this scenario the employee has multiple employments at the point Employment 2 starts and at the point Employment 3 starts; therefore, the contribution rate for Employment 2 and 3 would be based on the FTE rate of pensionable pay at the date of starting this employment if after 31<sup>st</sup> March.

**Notes:**

Concurrent employment requires each employment to have a separate employment contract. Multiple duties under a single employment contract do not constitute separate employments even if the different duties attract different rates of pay. There is no difference between concurrent employment contracts with single employer or multiple employers.

## Annex B

## Calculation of Full Year, Full Time Pensionable Pay

The table below gives some examples of how to calculate full year / full time pensionable pay.

| Scenario  |   | FTE Pensionable Pay  | Contribution Rate           |
|---|---|--|-----------------------------|
| Full Time –   | Employed full time<br>Rate of pensionable pay @ 31/03/2009 = £20,000.   | £20,000<br><br>No adjustment is required.  | 5.7% based on table 2 above |
| Full Time –but with a period of no pay through sickness | Employed full time<br>Salary point @ 31/03/2009 £24,000<br><br>Period of no pay 165 days during the year to 31/3/2009<br><br>Rate of pensionable pay @ 31/03/2009 £0.00.<br>. | £24,000 ignoring period of no pay through sickness.<br><br>Note:<br>When the member returns to work the contribution rate will be determined according to the rate of pensionable pay the member would have received at 31 <sup>st</sup> March of that year. | 6% based on table 2 above   |
| Part Time – Full Year                                   | Employed part time 20 hours per week<br><br>Full time for post is 37.00 hours per week<br><br>Rate of part-time pensionable pay @ 31/03/2009 = £20,000.                       | £20,000 x 37/20 = £37,000<br><br>That is:<br>Pensionable Pay x Full Time Hours / Actual Hours  | 7.1% based on table 2 above |



| Scenario              |   | FTE Pensionable Pay   | Contribution Rate           |
|-----------------------|---|---|-----------------------------|
| Full Time - Part Year | <p>Employed full time</p> <p>Continuous employment from 01.07.2009</p> <p>Rate of pensionable pay @ 01.07.2009 = £ 13,333</p>   | <p>Pensionable pay used for determining contribution rate = £13,333 applicable from 01.07.2009 until 31.03.2010.</p> <p>Employer will set a new rate on 31/3/2010 based on the rate of pensionable pay at that date</p> | 5.5%                        |
| Part Time – Part Year | <p>Employed part time 20 hours per week</p> <p>Full time for post is 40 hours per week</p> <p>Continuous employment from 01.09.2009</p> <p>Rate of part time pensionable pay = £17,143 p.a</p>  | <p>£17,143 x 40/20 x = £34,286 applicable from 01.09.2009 until 31.03.2010.</p> <p>That is:</p> <p>Pensionable Pay x Full Time Hours / Actual Hours</p>   | 6.9% based on table 2 above |
| Concurrent Posts      | <p>Employment 1 - Employed part time 20 hours per week 1.4.08 to 31/03/2009.</p> <p>Full time for post is 40 hours per week FTE rate of pensionable pay for employment 1 = £30,000</p> <p>Also</p> <p>Employment 2 - Employed part time from 1.12.08 to 31/03/2009</p> <p>FTE rate of pensionable pay for employment 2 = £20,000.</p> | <p>Contribution rate applicable to employment 1 based on £30,000.</p> <p>Contribution rate applicable to employment 2 based on £20,000</p>  | <p>6.5%</p> <p>5.7%</p>     |

## Annex C

**Contribution Rates Tables**

The table for the initial allocation for 2009/10 is:

Table 1

| Table 1 - Tiered Contribution Rates (2008/2009 pay rates) |          |
|---|----------|
| Full Time Equivalent (FTE) Pensionable pay                | Rate (%) |
| On earnings up to and including £18,000                   | 5.5%     |
| On earnings above £18,000 and up to £22,000               | 7.25%    |
| On earnings above £22,000 and up to £30,000               | 8.5%     |
| On earnings above £30,000 and up to £40,000               | 9.5%     |
| On earnings above £40,000                                 | 12%      |

Tiered contribution rates from table 1 are used to determine the member's average contribution rate for the whole of the tax year in accordance with table 2 below. This table is in effect a "lookup table" which breaks down the contribution rates from Table 1 into steps of 0.1% and allocates pay ranges to these steps to simplify the process of allocating contribution rates to members for payroll purposes. This stepped table will be updated on an annual basis and included with the updated tiers in Table 1 in guidance produced by SPPA. Where pay values exceed those included in the table, the appropriate administering authority must be contacted for guidance.

**Note:** If your payroll is held as an hourly rate you may need to convert the pay values in this table to suit. In applying an average contribution rate for a member with "ad hoc" pensionable allowances, please refer to paragraph 5(c) of the main part of this circular for guidance.

Table 2

| Contribution rate | FTE Pay Min | FTE Pay Max | Contribution rate | FTE Pay Min | FTE Pay Max |
|-------------------|-------------|-------------|-------------------|-------------|-------------|
| 5.5               | up to       | 18,529      | 8.3               | 50,400      | 51,780      |
| 5.6               | 18,530      | 19,687      | 8.4               | 51,781      | 53,239      |

| Contribution rate | FTE Pay Min | FTE Pay Max | Contribution rate | FTE Pay Min | FTE Pay Max |
|-------------------|-------------|-------------|-------------------|-------------|-------------|
| 5.7               | 19,688      | 20,999      | 8.5               | 53,240      | 54,782      |
| 5.8               | 21,000      | 22,264      | 8.6               | 54,783      | 56,417      |
| 5.9               | 22,265      | 23,137      | 8.7               | 56,418      | 58,153      |
| 6.0               | 23,138      | 24,081      | 8.8               | 58,154      | 59,999      |
| 6.1               | 24,082      | 25,106      | 8.9               | 60,000      | 61,967      |
| 6.2               | 25,107      | 26,222      | 9.0               | 61,968      | 64,067      |
| 6.3               | 26,223      | 27,441      | 9.1               | 64,068      | 66,315      |
| 6.4               | 27,442      | 28,780      | 9.2               | 66,316      | 68,727      |
| 6.5               | 28,781      | 30,169      | 9.3               | 68,728      | 71,320      |
| 6.6               | 30,170      | 31,228      | 9.4               | 71,321      | 74,117      |
| 6.7               | 31,229      | 32,363      | 9.5               | 74,118      | 77,142      |
| 6.8               | 32,364      | 33,584      | 9.6               | 77,143      | 80,425      |
| 6.9               | 33,585      | 34,901      | 9.7               | 80,426      | 83,999      |
| 7.0               | 34,902      | 36,326      | 9.8               | 84,000      | 87,906      |
| 7.1               | 36,327      | 37,872      | 9.9               | 87,907      | 92,195      |
| 7.2               | 37,873      | 39,555      | 10.0              | 92,196      | 96,923      |
| 7.3               | 39,556      | 40,645      | 10.1              | 96,924      | 102,162     |
| 7.4               | 40,646      | 41,538      | 10.2              | 102,163     | 107,999     |
| 7.5               | 41,539      | 42,471      | 10.3              | 108,000     | 114,545     |
| 7.6               | 42,472      | 43,448      | 10.4              | 114,546     | 121,935     |
| 7.7               | 43,449      | 44,470      | 10.5              | 121,936     | 130,344     |
| 7.8               | 44,471      | 45,542      | 10.6              | 130,345     | 139,999     |
| 7.9               | 45,543      | 46,666      | 10.7              | 140,000     | 151,199     |
| 8.0               | 46,667      | 47,848      | 10.8              | 151,200     | 157,000     |
| 8.1               | 47,849      | 49,090      |                   |             |             |
| 8.2               | 49,091      | 50,399      |                   |             |             |

Where the payroll system does not include the facility to reference a look up table, an excel spreadsheet is available which employers may use to calculate the average contribution rate for members. The excel spreadsheet, which can be updated annually in accordance with the revised tables issued by SPPA, is available on application to your appropriate administering authority. Employers using this spreadsheet must therefore ensure they apply annually to the appropriate administering authority for the updated spreadsheet.

**Members with 5% Protected Rate**

***Please note when allocating contribution rate to members that the protected contribution rate for members in the current 'manual worker' category of 5% will no longer apply after 31 March 2009. From 1 April 2009 full time equivalent pensionable pay alone will determine the contribution rate applicable to the member.***