

Local Government Pension Scheme in Scotland – Guidance for the Assessment of Member Contribution Rates

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.

This guidance is also applicable to Councillor members.

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 1st April, 2009.

Contributions 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 31st March (see Table 1 of Annex C). Members will pay 5.5% on the first £20,335 of pay, 7.25% on the pay from £20,335 to £24,853, and so on.

Table 1 of Annex C will be updated annually by SPPA.

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 31st March (i.e. the pensionable pay prior to the new tax year). The rate will then apply to the forthcoming tax year.

In assessing the contribution rate for part time or voluntary 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 for each member. Members joining for the first time or part way through any year 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 should 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. Ultimately if a person remains dissatisfied with their contribution rate, they can lodge an appeal under the Scheme's appeal arrangements.

2. Tiered Employee Contribution Rates

Contribution Rates Table

The table for the allocation of contribution rates 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 each new tax 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.

Active members will have their contribution rate for the forthcoming tax year based on the rates in Table 1. New starters who join the LGPS part way through any tax year must be allocated a contribution rate based on their full time equivalent rate of pensionable pay at date of joining (see section 5 sub-paragraph (d) on page 3).

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 FTE rate of pensionable pay as at 31st March of that year (i.e. prior to the new tax year) and at each 31 March thereafter but see paragraph (d) for members who opt in or new employees who start during any 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. Refer to annex A, scenario B for treatment if member part time.
- (d) For new scheme members or employees who opt into the pension scheme after each 31st March, 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) The new contribution rates are to apply from either:
 - 1. Week1/Month1 of each new tax year, or
 - 2. the first full pay period in each new tax year

as determined by the employing authority with the agreement of the administering authority.

- (f) 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.
- (g) 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.
- (h) 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.
- (i) For members with multiple contracts, (FTE) pensionable pay under each contract is considered separately and each contract is allocated a contribution rate individually.
- (j) Members without breaks in employment who remain with the same employing authority will retain the same contribution rate for the whole of the tax year, even if that member receives a promotion or reduction in pay during that year. Any such increase or reduction in pay will be taken into account in setting the contribution rate for the next tax year. The exception to this may be where regulation 4(4)(a) of The Local Government (Benefits, Membership and Contributions) (Scotland) Regulations 2008 apply i.e. where there has been a permanent material change in the member's terms and conditions. Notification of the change and the effective date must be provided to the member and to the appropriate administering authority within one month of the effective date of the change.
- (k) Members moving to an 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).
- (l) 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 31st March (prior to the new tax year) 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.
- (m) 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%.
- (n) 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. ***Employers must satisfy themselves that scheme members are aware of their rights of appeal.***
- (o) Where a backdated pay award is received by a member, pension contributions are to be deducted from the backdated payment at the rate applicable on the date when the payment is made to the member; regardless of the period to which the

backdated award relates. The average contribution rate for such members is not recalculated retrospectively

- (p) Where a member is a variable-time employee whose pay consists entirely of fees, the average contribution rate will be determined by reference to Table 2 of Annex C, on each occasion a fee is paid according to the amount of fee paid.
- (q) A whole time “term-time worker” is not to be treated as part-time for the purposes of determining an average contribution rate. However, where the member’s contract is term-time at the member’s request (a “voluntary term-time worker”); the FTE rate of pensionable pay used to determine the average contribution rate is to be proportionately increased accordingly. A term-time worker is a person whose contract of employment provides for a regular pattern of periods of work and periods of no work so as to result in a recognisable cycle of work consisting of one year (but is not limited to persons working in educational establishments).
- (r) Where an employer fails to deduct pension contributions from a member resulting in that member being placed in arrears of contributions, those arrears are to be calculated and deducted according to the average contribution rates that employee would have paid on his or her pensionable pay throughout the period during which those arrears accumulated.
- (s) Annex A to this notice gives more details for those who will be allocated to the contribution rates each year, 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 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. Allocation for Existing Members

The allocation of members to contribution rates is based on pensionable pay at each 31st March.

General Principle:

Members who are employed at the start of each new tax year and who were in pensionable employment at the end of the previous tax year must have their contribution rate set according to the FTE rate of pensionable pay they received on 31st March 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. Contribution rate is set according to the rate of pensionable pay applicable on 31st March for the next tax year while with that same employing authority.
- B. Member is part time on 31 March. Contribution rate must be set according to the rate of pensionable pay applicable on 31st March had the member worked full time. Any pensionable allowances, such as Distant Islands Allowance or bonus for part-time members must be included at the (FTE) full time equivalent rate but any ad hoc pensionable allowances such as stand-by, sleep-in payments should be included at the actual rate and not the FTE.
- C. Member has worked a combination of full time and part time continuously throughout the tax year. Contribution rate must be set according to the rate of pensionable pay that the member received on 31st March. That is, if the member were part time on 31st March, the rate would be determined according to the uprated full time equivalent pay.

2. Allocation for New Members during the Year

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

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 and the employer must set the contribution rate for that member for the remainder of the tax year.

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

3. Members Moving Employments during a Tax Year

Member moves employment to a different employing authority within the same fund during the tax year.

General Principle:

Members 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 the tax year 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 the tax year 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 each tax year. 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 that employment.
- 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.
- 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 that employment.

Notes:

Throughout this guidance where reference is made to determining the contribution rate at 31 March this should be read as "31 March (prior to the new tax year)".

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 Rate of pensionable pay @ 31 March = £20,000. | £20,000 No adjustment is required. | 5.5% based on table 2 below |
| Full Time –but with a period of no pay through sickness | Employed full time Salary point @ 31 March £24,000 Period of no pay 165 days during the year to tax year end Rate of pensionable pay @ 31 March £0.00. | £24,000 ignoring period of no pay through sickness. Note: 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 st March of that year. | 5.8% based on table 2 below |
| Part Time – Full Year | Employed part time 20 hours per week Full time for post is 37.00 hours per week Rate of part-time pensionable pay @ 31 March = £20,000. | $£20,000 \times 37/20 = £37,000$ That is: Pensionable Pay x Full Time Hours / Actual Hours | 6.8% based on table 2 below |

| Scenario | | FTE Pensionable Pay | Contribution Rate |
|-----------------------|---|---|-----------------------------|
| Full Time - Part Year | <p>Employed full time</p> <p>Continuous employment from 1 July</p> <p>Rate of pensionable pay @ 1 July = £ 13,333</p> | <p>Pensionable pay used for determining contribution rate = £13,333 applicable from 1 July until 31 March</p> <p>Employer will set a new rate at 31 March 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 1 September</p> <p>Rate of part time pensionable pay = £17,143 p.a</p> | <p>$£17,143 \times 40/20 \times = £34,286$ applicable from 1 September until 31 March.</p> <p>That is:</p> <p>Pensionable Pay x Full Time Hours / Actual Hours</p> | 6.6% based on table 2 below |
| Concurrent Posts | <p>Employment 1 - Employed part time 20 hours per week 1 April to 31 March.</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 December to 31 March</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>6.3%</p> <p>5.5%</p> |

Note: where 31 March is shown above this is to mean prior to the new tax year

Annex C

Contribution Rates Tables

The table for the allocation of rates for 2014/15 is:

Table 1

| Table 1 - Tiered Contribution Pay Rates) | |
|---|-----------------|
| Full Time Equivalent (FTE) Pensionable Pay (2014/2015) | Rate (%) |
| On earnings up to and including £20,335 | 5.5% |
| On earnings above £20,335 and up to £24,853 | 7.25% |
| On earnings above £24,853 and up to £34,096 | 8.5% |
| On earnings above £34,096 and up to £45,393 | 9.5% |
| On earnings above £45,393 | 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 this guidance. 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 – Look up Table for 2014/2015

| Contribution rate | FTE Pay Min | FTE Pay Max | Contribution rate | FTE Pay Min | FTE Pay Max |
|--------------------------|--------------------|--------------------|--------------------------|--------------------|--------------------|
| 5.5 | up to | 20,933 | 8.4 | 58,694 | 60,346 |
| 5.6 | 20,934 | 22,241 | 8.5 | 60,347 | 62,095 |
| 5.7 | 22,242 | 23,724 | 8.6 | 62,096 | 63,949 |
| 5.8 | 23,725 | 25,151 | 8.7 | 63,950 | 65,917 |
| 5.9 | 25,152 | 26,138 | 8.8 | 65,918 | 68,009 |
| 6.0 | 26,139 | 27,205 | 8.9 | 68,010 | 70,239 |
| 6.1 | 27,206 | 28,362 | 9.0 | 70,240 | 72,620 |
| 6.2 | 28,363 | 29,623 | 9.1 | 72,621 | 75,168 |
| 6.3 | 29,624 | 31,001 | 9.2 | 75,169 | 77,902 |
| 6.4 | 31,002 | 32,513 | 9.3 | 77,903 | 80,841 |
| 6.5 | 32,514 | 34,152 | 9.4 | 80,842 | 84,012 |
| 6.6 | 34,153 | 35350 | 9.5 | 84,013 | 87,441 |
| 6.7 | 35,351 | 36,635 | 9.6 | 87,442 | 91,162 |
| 6.8 | 36,636 | 38,018 | 9.7 | 91,163 | 95,213 |
| 6.9 | 38,019 | 39,509 | 9.8 | 95,214 | 99,642 |
| 7.0 | 39,510 | 41,121 | 9.9 | 99,643 | 104,502 |
| 7.1 | 41,122 | 42,871 | 10.0 | 104,503 | 109,862 |
| 7.2 | 42,872 | 44,777 | 10.1 | 109,863 | 115,800 |
| 7.3 | 44,778 | 46,071 | 10.2 | 115,801 | 122,417 |
| 7.4 | 46,072 | 47,083 | 10.3 | 122,418 | 129,836 |
| 7.5 | 47,084 | 48,141 | 10.4 | 129,837 | 138,213 |
| 7.6 | 48,142 | 49,248 | 10.5 | 138,214 | 147,745 |
| 7.7 | 49,249 | 50,407 | 10.6 | 147,746 | 158,689 |
| 7.8 | 50,408 | 51,621 | 10.7 | 158,690 | 171,384 |

| Contribution rate | FTE Pay Min | FTE Pay Max | Contribution rate | FTE Pay Min | FTE Pay Max |
|--------------------------|--------------------|--------------------|--------------------------|--------------------|--------------------|
| 7.9 | 51,622 | 52,896 | 10.8 | 171,385 | 186,287 |
| 8.0 | 52,897 | 54,235 | 10.9 | 186,288 | 204,029 |
| 8.1 | 54,236 | 55,644 | 11.0 | 204,030 | 225,506 |
| 8.2 | 55,645 | 57,128 | 11.1 | 225,507 | 252,036 |
| 8.3 | 57,129 | 58,693 | 11.2 | 252,037 | |

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