LGPS Employer Training: Calculating APP

When Assumed Pensionable Pay (APP) applies, the employer will need to calculate an annual figure and apply it over the period.

Step 1: Calculate an average

Look at the member's pensionable pay in the last three full months before the pay period APP first applies.

If the member is not monthly paid, look at the member's pensionable pay in the last full 12 weeks before the pay period APP first applies.

Calculate an average of the pensionable pay in the period after removing any lump sums.

If the member is paid any arrears not relating to the period, ignore these.

Ignore any reduction in pay due to strike or authorised leave.

Use any previous APP figure as pay if it falls in the period.

Step 2: Convert to an annual figure

Convert the average you have calculated into an annual figure.

Multiply by 12 if monthly paid or by the relevant number of weeks if not monthly paid.

Step 3: Add regular lump sums

Consider any lump sum payments made in the last 12 months before the pay period in which APP first applies.

Decide whether those lump sum payments are regular. A lump sum is classed as regular if you would expect it to be paid on a regular basis.

Regular lump sums should be added to the yearly figure.

Any lump sums that are not regular should be ignored.

Step 4: Reporting

Report the APP figure (proportioned for the period) instead of the pensionable pay figure for the period that APP applies.

Points to note

- APP is set at the start point and will not normally change.
- If APP is materially lower than the pay the employee normally receives, the employer can substitute it with a higher figure. The employer must take into account the employee's pensionable pay in the previous 12 months.
- A separate APP calculation is needed for each employment.
- The APP figure is adjusted if the employee is away from work for a period that crosses two 31 March dates. See the HR guide for details. Check with your administering authority if they have a local version of this guide.

Example

Neville is on sick leave.

His contractual pay reduces to half pay from 15 September 2021.

He returns to work on 1 November 2021.

Calculate the average pensionable pay over the last three months

June 2021: £1,400

July 2021: £1,500 including £100 overtime

August 2021: £1,400

£1,400 + £1,500 + £1,400 = £4,300 ÷ 3 × 12 = **£17,200**

Add any regular lump sum

The employer looks at Neville's pensionable pay from 1 September 2020 to 31 August 2021.

Neville received a regular £1,000 bonus in January 2021.

Neville's monthly APP is therefore:

£17,200 + £1,000 = £18,200 ÷ 12 = **£1,516.67**

Apply the APP during the period of reduced sick pay

1 to 14 September: £1,400.00 × 14 ÷ 30 = £653.33

15 to 30 September: £1,516.67 × 16 ÷ 30 = £808.89

September cumulative pay = £1,462.22

October cumulative pay = £1,516.67

Important: Neville pays contributions on his pensionable pay.

The employer pays contributions on APP.

The employer reports the cumulative pensionable pay figure to the LGPS administering authority.

Exercise

Marsha goes on maternity leave on 16 August.

Her pay in the previous three months was:

May: £2,000

June: £2,000

July: £2,500 including £400 pay award arrears - £100 a month from March to June

What is Marsha's annual APP figure?

Answer: £25,200

Only the arrears applicable for the period should be added:

May: £2,000

June: £2,000

July: £2,100

Arrears: £200 for the period

£6,300 ÷ 3 × 12 = £25,200.

Well done! You have completed this bite-size training

You can get more information on APP and other employer responsibilities from www.lgpsregs.org.