

# **LGPS Employer Training – Assumed Pensionable Pay**

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## What is Assumed Pensionable Pay?

Assumed Pensionable Pay (APP) is a notional pay figure that employers must calculate when an employee's pensionable pay is reduced because they are absent from work.

This notional pay figure is used to make sure an employee's pension builds up as if they were at work receiving their normal pay.

### When does APP apply?

#### Sickness or injury leave

APP applies when a member is absent due to sickness or injury and their contractual pay is reduced or they are receiving no pay.

APP does not apply for any part of the leave period when the pensionable pay the member receives is more than the APP. This might happen if the member takes paid annual leave during a period of sickness absence.

#### Ordinary maternity or adoption leave

APP applies when a member is on ordinary maternity leave (OML) or ordinary adoption leave (OAL) – the first 26 weeks of leave.

If the member receives pensionable pay which is higher than APP, for example on a Keeping in touch day, then APP does not apply. The actual pensionable pay should be used instead.

**Important:** During OML or OAL, APP applies even if the member is receiving no pay.

#### Paid additional maternity or adoption leave

APP applies when a member is on paid additional maternity or adoption leave – generally from week 27 to week 39.

If the member receives pensionable pay which is higher than APP, for example on a Keeping in touch day, then APP does not apply. The actual pensionable pay should be used instead.

If the member is receiving no pay while on additional maternity or adoption leave, then APP does not apply. This should be treated as authorised unpaid leave.

### **Paid shared parental leave**

APP applies when a member is on paid shared parental leave.

If the member receives pensionable pay which is higher than APP, for example on a Keeping in touch day, then APP does not apply. The actual pensionable pay should be used instead.

APP does not apply during unpaid shared parental leave. This should be treated as authorised unpaid leave.

### **Paternity leave**

APP applies during periods of paternity leave whether the leave is paid or unpaid.

If the member receives pensionable pay which is higher than APP, then APP does not apply. The actual pensionable pay should be used instead.

### **Reserve forces service leave**

A member who takes reserve forces service leave can choose to stay in the LGPS.

If they decide to stay in the LGPS, then APP applies for the whole period of reserve forces service leave.

The APP figure must be reported to the administering authority as usual. It must also be reported to the Ministry of Defence who will collect the employer and employee contributions that are due.

### **Parental bereavement leave**

APP applies when a member is on parental bereavement and they are receiving some pay.

APP does not apply during unpaid parental bereavement leave. This should be treated as authorised unpaid leave.

## **When APP does not apply**

### **Unpaid additional or adoption leave**

APP does not apply during unpaid additional maternity or adoption leave. Typically, this will be from week 40 onwards, however unpaid additional maternity or adoption leave could start from week 27.

The member can choose to buy back pension 'lost' in this period by paying Additional Pension Contributions.

### **Unpaid shared parental leave**

APP does not apply during unpaid shared parental leave.

The member can choose to buy back pension 'lost' in this period by paying Additional Pension Contributions.

### **Unpaid carers leave**

APP does not apply during unpaid carers leave.

The member can choose to buy back pension 'lost' in this period by paying Additional Pension Contributions

### **Absence due to industrial action**

APP does not apply during an absence due to industrial action.

The member can choose to buy back pension 'lost' due to strike absence by paying Additional Pension Contributions. The employer does not have to pay towards this.

### **Other periods of unpaid absence**

APP does not apply during any other period of authorised or unauthorised unpaid absence.

The member can choose to buy back pension 'lost' in a period of authorised unpaid absence by paying Additional Pension Contributions.

Pension 'lost' during unauthorised unpaid absence cannot be bought back.

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## Knowledge check: Should APP apply or not?

Does APP apply during these types of leave?

- a. Paid Adoption leave from week 27 to 39
- b. Maternity from week 1 to 26
- c. Sickness on full pay
- d. Unauthorised leave
- e. Strike
- f. Unpaid leave
- g. Unpaid maternity from week 40 to 52
- h. Reserve forces service leave
- i. Sickness on reduced pay
- j. Paid parental bereavement leave

### Answers

APP applies: a. b. h. i. j.

APP does not apply: c. d. e. f. g.

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You can get more information on APP and other employer responsibilities from [www.lgpsregs.org](http://www.lgpsregs.org).

## 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.

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## Calculating APP – an 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

$£1,400 + £1,500 + £1,400 = £4,300 \div 3 \times 12 = \mathbf{£17,200}$

### 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:

$£17,200 + £1,000 = £18,200 \div 12 = \mathbf{£1,516.67}$

### Apply the APP during the period of reduced sick pay

1 to 14 September:  $£1,400.00 \times 14 \div 30 = £653.33$

15 to 30 September:  $£1,516.67 \times 16 \div 30 = £808.89$

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.

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### **Exercise – calculating APP**

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: £2,100

June: £2,100

July: £2,100

Arrears: £200 for the period

$£6,300 \div 3 \times 12 = £25,200.$

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You can get more information on APP and other employer responsibilities from [www.lgpsregs.org](http://www.lgpsregs.org).



## APP and pension contributions

### Employee contributions and APP

1. When APP applies, employee contributions should be taken on the actual pay the member is due during the period.
2. The only exception is if an employee is on reserve forces leave and they choose to remain a member of the LGPS.
3. While on reserve forces leave, the member will pay contributions on the APP figure. Employee contributions are usually deducted by the Ministry of Defence who then pay them directly to the LGPS administering authority.
4. If the employer pays the reservist any pay during a period of reserve forces leave, this is not pensionable.

### Employer contributions and APP

1. The employer contributions are based on the APP figure which applies for the period.
2. When a member is on **reserve forces leave** the employer contributions will be paid by the Ministry of Defence.

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## Sickness scenario

Fahima is on reduced pay sick leave for the whole of August and receives £500 sick pay. Her employer has calculated her APP for August as £1,000.

Fahima's usual employee contribution rate is 5.5% of pay. What contributions should Fahima pay in August?

- a. Her employee contributions should be  $£500 \times 5.5\% = £27.50$
- b. Her employee contributions should be  $£1,000 \times 5.5\% = £55.00$

**Answer:** a. Fahima's employee contribution should be based on her actual pay

Fahima's employer's contribution rate is 20%. What employer contributions should be paid in August?

- a. The employer should pay  $£500 \times 20\% = £100$
- b. The employer should pay  $£1,000 \times 20\% = £200$

**Answer:** b. The employer must pay contributions based on the APP figure of £1,000.

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You can get more information on APP and other employer responsibilities from [www.lgpsregs.org](http://www.lgpsregs.org).

## APP and KIT, SPLIT and Stringer days

This training looks at how Assumed Pensionable Pay (APP) interacts with:

1. Keeping in touch (KIT) days
2. Shared parental leave in touch (SPLIT) days
3. Stringer days

### KIT days

During maternity or adoption leave, employees can work up to 10 days. These days are called 'keeping in touch days' and are optional, with both employer and employee having to agree to them.

The right to maternity or adoption leave and pay is not affected by KIT days. The pay an employee receives for a KIT day is agreed in advance but is normally the usual rate of pay for that role.

### SPLIT days

During a period of shared parental leave, employees can work up to 20 days. These are called 'Shared parental leave in touch' days. They work in the same way as KIT days.

The right to shared parental leave and pay is not affected by SPLIT days. The pay an employee receives for a SPLIT day is agreed in advance but is normally the usual rate of pay for that role.

### Stringer days

Annual leave continues to build up during sick leave. An employee has the right to take leave whilst off sick and be paid at their normal rate. These are known as Stringer days.

**Important:** If an employee's pensionable pay for a KIT, SPLIT or Stringer day is **higher** than APP, **APP does not apply.**

APP is not recalculated after the KIT, SPLIT or Stringer day.

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## KIT days - example

Esther is a monthly paid employee. She goes on maternity on 16 June 2020. She returns to work for KIT days on 16 January and 11 March 2021.

Her last day of paid additional maternity leave is 15 March 2021 and she returns to work on 1 May 2021.

Her employer has calculated her APP as £24,000 per year (£2,000 per month).

Her contractual pay is £24,504 per year (£2,042 per month).

### January 2021

Esther's cumulative pensionable pay (CPP) is:

$$\text{APP: } £2,000 \times 30 \div 31 = £1,935.48$$

$$\text{KIT day: } £2,042 \times 1 \div 31 = £65.87$$

$$\text{CPP} = £1,935.48 + £65.87 = £2,001.35$$

### February 2021

Esther's CPP is:

$$\text{APP: } £2,000$$

$$\text{CPP} = £2,000$$

### March 2021

Esther's CPP is:

$$\text{APP: } £2,000 \times 14 \div 31 = £903.23$$

$$\text{KIT day: } £2,042 \times 1 \div 31 = £65.87$$

$$\text{CPP} = £903.23 + £65.87 = £969.10$$

As Esther goes on to additional maternity leave with no pay from 16 March, APP only applies to 15 March.

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| <p><b>Important:</b> Employers may have their own method of working out a day's pay which can be used instead.</p> |
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## Knowledge check – SPLIT days

Ben is on paid shared parental leave

His monthly APP is £2,600

His usual pay rate is £2,800 a month

He works a SPLIT day on 4 April

His employer uses the daily paid method for pro-rating pay

**What is Ben's cumulative pensionable pay (CPP) in April?**

- a. £2,600
- b. £2,606.66
- c. £2,782.66
- d. £2,800

**Answer:** the correct answer is b. £2,606.66.

Ben's CPP is calculated as:

$$29 \div 30 \times £2,600 = £2,513.33 \text{ plus } 1 \div 30 \times £2,800 = £93.33$$

$$£2,513.33 + £93.33 = £2,606.66$$

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You can get more information on APP and other employer responsibilities from [www.lgpsregs.org](http://www.lgpsregs.org).

## APP and the 50/50 section

If an employee joins the 50/50 section, the employer must report the cumulative pensionable pay in the 50/50 section separately to the main section of the LGPS.

If an employee who is paying into the 50/50 section receives **no pay** during a period of:

1. Sickness
2. Ordinary Maternity Leave (first 26 weeks)
3. Ordinary Adoption Leave (first 26 weeks)
4. Paternity Leave

they should be moved from the 50/50 section into the main section of the scheme from the beginning of the next pay period if they are still on no pay.

This means they will be building up full pension benefits.

They will remain in the 50/50 section unless they make another 50/50 election.

### Short periods of sickness

Where an employer has a policy of not paying staff for the first X days of sickness, the employee will need to be moved into the main section if the period of no pay crosses two pay periods.

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### Short periods of sickness - example

Josh is on sick leave for a period of five days from 10 to 14 July.

He is in the 50/50 section of the LGPS.

His employer does not pay for the first three days of sick leave.

**Josh remains in the 50/50 section** of the LGPS because he is receiving pay at the beginning of the month following the no pay period.

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## APP and the 50/50 section – exercise 1

Juan is in the 50/50 section of the LGPS. He is away from work from 29 June to 2 July on sick leave. His employer does not pay sick pay for the first three days of sick leave.

### What should Juan's employer do?

1. The employer should move Juan into the main section of the scheme from 1 July
2. The employer should move Juan into the main section of the scheme from 29 June
3. The employer should keep Juan in the 50/50 section

**Answer:** 1. As the no pay period crosses two pay periods, Juan should be moved to the main section from the start of the next pay period.

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## APP and the 50/50 section – exercise 2

Suzie is in the 50/50 section. She goes on adoption leave from 15 June, but she does not qualify for occupational or statutory adoption pay. She receives no pay from 15 June.

### What should Suzie's employer do?

1. Move Suzie into the main section of the scheme once her period of Ordinary Adoption Leave ends
2. Move Suzie into the main section of the scheme from 1 July
3. Keep Suzie in the 50/50 section for the entire period of her adoption leave

**Answer:** 2. Suzie is on nil pay during a period of Ordinary Adoption Leave so should be moved to the main section of the scheme on the first day of the next pay period.

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You can get more information on APP and other employer responsibilities from [www.lgpsregs.org](http://www.lgpsregs.org).

## APP for ill health and death benefits

Assumed Pensionable Pay (APP) is a notional figure that employers must calculate when an employee's pay is reduced because they are absent from work.

APP is also used to calculate:

1. death in service lump sums
2. enhanced pensions for partners and children
3. enhanced ill health pensions.

### Calculating APP

If a member is ill health retired with an enhanced pension (tier one or two) or dies in service, the employer will need to calculate the annual APP figure. The employer should provide this to the administering authority with the usual leaver information.

#### Step 1: Calculation

Look at the member's pensionable pay in the last three full months before the date of death or ill health retirement.

If the member is not monthly paid, look at the member's pensionable pay in the last full 12 weeks before the date of death or ill health retirement.

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

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

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

Use any previously calculated 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 weeks if not monthly paid.



### Step 3: Add regular lump sums

Consider any lump sum payments paid in the last 12 months before the pay period in which the member died or was ill health retired.

Decide whether those lump sums were 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 which are not regular should be ignored.

#### Points to note

- If APP is materially lower than the pay the employee normally received, 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.
- Check if the employee reduced their hours. If an Independent Registered Medical Practitioner certifies that the hours were reduced because of the ill health condition which led to retirement or death, ignore the hours change when calculating APP.

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#### Example – death in service

Solomon G dies in service on Saturday 11 July.

His pensionable pay over the last three months was:

April: £1,350

May: £1,350

June: £1,400

A regular bonus of £2,000 had been paid in the previous August.

#### Average last three months' pay

The employer will first need to calculate the average of the last three months, and then convert to an annual figure:

$$\begin{aligned} &£1,350 + £1,350 + £1,400 \\ &= £4,100 \div 3 \times 12 = \mathbf{£16,400} \end{aligned}$$

### **Add regular lump sums**

As the £2,000 bonus paid in the previous August was a regular payment made in the last 12 months, it should be added to the annual figure to work out the APP amount.

Solomon's APP is therefore:

$$£16,400 + £2,000 = \mathbf{£18,400}$$

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## Well done! You have completed this bite-size training

You can get more information on APP and other employer responsibilities from [www.lgpsregs.org](http://www.lgpsregs.org).