FAQs for LGPS employers: Backdated pay awards

These FAQs cover the common questions that arise when you pay a backdated pay award.

A backdated pay award occurs when a pay increase is agreed after the date the new rate of pay should have been paid from.

In the unlikely event that arrears are for work done before April 2015, the information below does not apply.

Are pension contributions deducted on pay arrears due to a backdated pay award?

Yes - employee and employer contributions must be deducted from arrears of pensionable pay that is paid because of a backdated pay award.

However, in most cases, employer contributions would instead continue being deducted from the assumed pensionable pay (APP) for members treated as receiving APP while on leave.

If an employee leaves employment before the award is agreed, do we need to pay the award?

This is a question of employment law. In our view, you are not obliged to contact former employees to offer the pay award. However, if the former employee requests it, the pay award should be applied and arrears paid.

We are paying a backdated pay award to an employee who left employment before the pay award was agreed - are pension contributions deducted from the arrears?

Yes - employee and employer contributions must be deducted from arrears of pensionable pay that is paid because of a backdated pay award.

Where pensionable pay is paid after a person left employment or opted out of the Scheme and you have already submitted leaving data to the administering authority, you must send the:

- revised data - if the payment is made in the year of leaving, or
- new data - if the payment is made in a year after leaving

to the administering authority together with the date the additional payment is made. You need to contact your administering authority to find out how to pay the contributions owed to the Scheme and inform them of the change to pensionable pay.

Should we review employee contribution rates when we implement the pay award?

You must review employee contributions rate each April. At the last April review, the pay increase would not have been considered.

You must review the rate before the next April review where there has been a permanent material change to the member's employment terms and conditions which affects their pensionable pay before the next April. We do not expect this to apply because of pay awards. It is likely that the award would merely be fulfilling an existing term.

The pay increase is considered at the next April review.

For more information on reviewing contribution rates, see guidance from the Scottish Public Pensions Agency. The latest version was published in March 2023.

What employee and employer contribution rates should we use to deduct contributions from the pensionable arrears?

You use the rates applicable at the date you implement the pay award.

It is not relevant whether the rates changed during the period covered by the arrears.

How does a backdated pay award affect CARE pay?

A backdated pay award will buy earned pension in a member's pension account in the scheme year it is paid. For example, if a pay award relating to 1 April 2021 to 31 March 2022 is paid in April 2022 earned pension is credited to the member's CARE account in the scheme year beginning on 1 April 2022.However, if the award is paid to a person who has left the LGPS, the arrears for the period before leaving buys earned pension in the year the member left.

How does a backdated pay award affect final salary pay?

A backdated pay award must be included in any final pay calculations for members with final salary benefits. It must be attributed to the period it was earned.

For example, if a pay award relating to 1 April 2022 to 31 March 2023 is paid in April 2023 and a final pay calculation is required, the arrears of pay must be allocated to the period in which they were earned when calculating final pay.

Final pay is usually the pensionable pay for the final 365 days of employment. Pay from one of the previous two years must be used if higher.

Should pension contributions be deducted on pay arrears if a member has opted out?

It depends:

No - if the member opted out within three months of joining the LGPS and a refund of contributions was processed via the payroll.

Yes – if the member opted out after three months of joining the LGPS and the pay arrears relate, in part or whole, to a period the employee was a member of the LGPS. Employee and employer contributions should be deducted on the pay arrears that relate to the period the employee was a member of the LGPS.

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