

# 10

## Making elements of pay pensionable

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# 10.1

## Making elements of pay pensionable

**10.1.1** This section tells you what you need to consider if you are thinking about

- making elements of pay pensionable
- consolidating elements of pay into basic pay.

In all cases, you must get authorisation from **CSPD** before you implement any changes.

What is pensionable?

**10.1.2** As a general rule, only permanent elements of pay or, to use the correct term, 'emoluments' are pensionable. It is not possible to draw up an exhaustive list of pensionable emoluments, since whether an emolument is pensionable often depends on individual circumstances. Annex 10A lists the main emoluments that are pensionable or non – pensionable.

Background

**10.1.3** Changes in pay and pay-related terms and conditions of service can affect a **member's** level of pension benefits in an excessively beneficial or detrimental way. This is because **classic, classic plus** and **premium** benefits are based on final salary.

**10.1.4** Basic pay normally increases each year. The **ASLC** mechanism ensures that you pay the pension costs associated with such increases. However, where basic pay significantly increases or, for example, allowances or bonuses become pensionable, the payment of **ASLCs** may not cover the cost of the benefits. The value of the extra benefit to the **member** could be considerable.

**10.1.5 ASLCs** assume average pay progression. They do not take account of step changes in pensionable earnings. Where such changes take place, the **ASLC** will cover the future service pension cost, but not the liability for any earlier reckonable service. For example, a **classic member** aged 59 with 39 years' service who receives a £1,000 one-off increase in pensionable earnings will benefit by an increase in their annual pension of  $£1,000 \times 39/80 = £487.50$  in addition to the pension earned for the current year. For a **member** with short service the impact on pension would be much less.

The cash value of the impact on accrued benefits is known as the 'past service cost'. In the above example, the past service cost to the scheme of meeting the £487.50 increase would come to around 8 to 10 times the increase in pensionable earnings. Where pay restructuring results in past service costs, you will have to pay them.

**10.1.6** Conversely, if a **member's** pensionable earnings reduce, the value of the pension benefits they have already accrued can reduce as well as those that they could earn in the future. An example is where basic pay is reduced in exchange for more generous overtime payments (which are non-pensionable). In such circumstances, you would need to explain the detrimental effect of such a change to those affected and ask them to agree to the change.

### Making non-consolidated pay pensionable

**10.1.7** Non-consolidated payments are awards made to staff that are not included in basic pay in future years. They are usually one-off performance related payments that have to be 're-earned' every year. Normally they are non-pensionable. However, the Minister for the Civil Service has discretion to treat non-consolidated pay as pensionable. In practice, we carry out this work on the Minister's behalf. If you are considering making an element of non-consolidated pay pensionable, you must first get our authorisation.

**10.1.8** You should be aware that it does not always benefit **members** (particularly in **classic**) to make non-consolidated bonuses pensionable where they receive them outside the period for reckoning pensionable earnings. While you and the **member** will pay contributions on the bonuses they will not increase the final pensionable earnings unless they fall within the pay period(s) for calculation. For example, the pay period for **classic members** remains their last three years of service.

### Fluctuating emoluments

**10.1.9** This term defines any part of an employee's earnings that you do not pay on a fixed basis. It can include such things as non-consolidated bonuses. Fluctuating emoluments can only be made pensionable if they are averaged over the last three years. The reason for this is to prevent the deliberate increase of pension entitlement in the last year of service. You must discuss the administrative implications with your **APAC** as well as consulting **CSPD** before any fluctuating emoluments are made pensionable.

### Procedure for applying to make non-consolidated pay pensionable

**10.1.10** If you want to make a non-consolidated element of pay pensionable, you must first email Employer Helpdesk at **CSPD** (see address in Section 1), giving details of the allowance and the date from which you want it to become pensionable. We will either give you the go ahead or tell you the reasons why we cannot approve your request.

**10.1.11** Tell your **APAC** of your intentions and agree with them how they will handle the administration and payroll interface implications.

**10.1.12** If we agree to you making the pay element pensionable, you must ask **HBW** to assess the past service costs. Their address is in Section 12, annex B.

**10.1.13** You will have to pay **HBW** for their service.

**10.1.14** You must give **HBW** the following information:

- Details of the proposed change and the number of **members** who will benefit.
- Whether you plan to make it available to new staff and, if so, how many.
- Effective date for the pay element to become pensionable. (**HBW** will calculate the past service costs as at that date. From that date contributions will be payable on the total new pensionable pay.)
- Details of where to send the invoice.

**10.1.15** You will also need to provide **HBW** with an Excel spreadsheet on which you will need to include the following information on each member you are applying for:

- Name
- NI number
- Date of birth
- Gender
- Marital status
- Last 3 years salary (show annually)
- The last 3 years value of the element of pay you want to make pensionable (shown annually)
- **PCSPS** section which the individual is in (**classic, classic plus** or **premium**)
- Total reckonable service (including a breakdown of pre and post 1 October 2002 service for **classic plus members**)

- Start date of current period of service if the member earns in excess of £100,000.

**10.1.16** You will need to ask your **APAC** for some of this information. They may charge you for this service.

**10.1.17** You do not have to provide any information on **members** who are in **partnership**. This is because there are no past service costs to consider in stakeholder-type pension arrangements.

**10.1.18** If you are happy with **HBW's** assessment, you will then need to email our Employer Helpdesk again, confirming that you wish to accept it. You must enclose a copy of **HBW's** assessment and details of how you will be paying the past service costs to the **Cabinet Office Civil Superannuation**.

**10.1.19** Once we have received payment for the past service costs we will then write to you to confirm that the allowance is pensionable.

**10.1.20** You will need to make sure that your payroll and **APAC** understand the status of the pay element. Your payroll must understand that it has to calculate both **ASLCs** and employee contributions on the new pensionable element.

## Other issues to consider

**10.1.21** Once you have established the past service costs you will not normally have to pay past service costs for new staff working in posts eligible for the non-consolidated pensionable payment as the general turnover of staff should balance any future liabilities. However, if you want to increase significantly the number of staff to whom you want to give the new pensionable pay element, you will have to ask **HBW** for a further assessment of past service costs.

**10.1.22** Once past service costs are agreed, you will not require further past service costs assessments if the element of pay is increased as part of the normal annual pay review.

**10.1.23** For new pensionable pay elements, **members of classic, classic plus and premium** will all pay employee contributions. There may be some historical reasons why **classic members** may not have to contribute on existing pensionable elements of pay. However, these are not precedents for new elements. If you are in doubt about existing elements of pay, please contact **CSPD** for advice.

Pensionable emoluments (this list has been taken from Appendix 1 of the Rules. Rule 1.9 refers.)

The following emoluments are pensionable:

- (i) Substitution pay or deputising allowance.
- (ii) Sunday duty pay.
- (iii) Night duty and shift duty allowances for work performed in the course of normal duty.
- (iv) Additional emoluments paid for extra responsibility and granted on a permanent basis, for example,
  - (a) allowances in lieu of promotion
  - (b) private secretaries' allowance
  - (c) typing grade allowances
  - (d) allowances for supervision
  - (e) allowances for performing the duties of deputy to the head of a branch.
- (v) Free rations, free laundry and uniforms which are expressly provided on a pensionable basis. (The pensionable value of such uniforms is taken to be 2% of salary, excluding emoluments.)

- (vi) Free official residences or quarters, fuel and light, or allowances in lieu of these, granted to civil servants stationed in the United Kingdom (unless they are expressly granted on a non-pensionable basis). But:
  - (a) the pensionable value of a free official residence or quarters (or of cash allowances in lieu of these) may not exceed one-sixth of pensionable pay.
  - (b) the pensionable value of all emoluments under this sub-paragraph may not exceed one-third of pensionable pay.
- (vii) Free official residences or quarters abroad are pensionable only if the grade in question or a corresponding grade is employed in the United Kingdom, and if the employee in question would be entitled to similar emoluments if the person was serving in such a grade in the United Kingdom.
- (viii) Recruitment and retention allowance expressly provided on a pensionable basis.
- (ix) Non-consolidated pay schemes designated in whole or in part as pensionable by the Civil Service Minister.

The following emoluments are not pensionable:

- (i) Gratuities.
- (ii) Allowances intended to meet special expenses (for example, subsistence allowances, cost of living allowances and other foreign service allowances).
- (iii) Fluctuating emoluments including overtime pay and bonus payments other than those designated as pensionable. See (ix) above and the final paragraph.
- (iv) Other payments or allowances for casual or intermittent duties.
- (v) Recruitment and retention allowance expressly provided on a non-pensionable basis.
- (vi) Free uniforms which are expressly provided on a non-pensionable basis.

Where there are special circumstances the Civil Service Minister may agree to count as pensionable an emolument which is normally non-pensionable.

Where authorised by the Civil Service Minister, staff appointed before certain dates have reserved rights to count some non-pensionable emoluments as pensionable. In particular, certain staff in post on 1 March 1965 may count overtime pay as pensionable if it is drawn continuously and regularly and if they remain in grade or post in which overtime pay was pensionable on that date.