

APPENDIX 1: Further Disclosure Calculations and Examples.

The salary and pension entitlements of the most senior members of Department X were as follows for year ending 31.3.2008:

	Perm Sec	Director 1	Director 2	Director 3	Director 4
	Sir Mark Drover	Jack Johns	Mandy James	John Brown	Jane Smith
Date of Birth	01/10/1950	01/09/1956	01/04/1965	01/02/1960	01/08/1962
Age at 31 March 2008	57	51	42	48	45
Sex	Male	Male	Female	Male	Female
Joined Civil Service	01/06/1984	01/08/1990	01/08/1993	01/10/1981	01/10/2003
Service to 31/3/08 (yrs)	23.834	17.668	14.668	26.501	4.501
pensionable earnings for 12 months to 31 March 2007	£145,000	£111,000	£86,000	£64,000	£93,000
Salary from 1/4/07	£149,000	£115,000	£90,000	£68,000	£97,000
Pension arrangement	PCSPS (classic: Contributions =1.5%)	PCSPS (classic: Contributions =1.5%)	PCSPS (classic: Contributions =1.5%)	PCSPS (classic: Contributions =1.5%)	PCSPS (premium: Contributions = 3.5%)

In determining the real increase in the value of the accrued pension over the reporting period the accrued benefit figures for the beginning of the reporting period must be up-rated by an inflation adjustment factor. The factor for use with 2007-08 pension disclosure for someone in post throughout the Year is 3.9%.

The following calculations are required for each person:

- (A) Accrued pension at the reporting date
- (B) Accrued pension at one year before the reporting date, uplifted by inflation for the reporting year
- (C) Pension increase in real terms

For the members of Department X, the calculations are taken forward as follows:

Sir Mark Drover

Accrued pension at 31.03.2008 = $23.834/80 \times \text{£}149,000 = \text{£}44,391$ (A)
Accrued pension one year earlier (31.3.2007) = $22.834/80 \times \text{£}145,000 = \text{£}41,387$
Pension at 31.3.2007 increased by inflation for 2007-08 = $\text{£}41,387 \times 1.039 = \text{£}43,001$ (B)
Pension increase in real terms = (A) - (B) = $\text{£}44,391 - \text{£}43,001 = \text{£}1,390$ (C)

Director 1 – Jack Johns

Accrued pension at 31.3.2008 = $17.668/80 \times \text{£}115,000 = \text{£}25,398$ (A)
Accrued pension one year earlier (31.3.2007) = $16.668/80 \times \text{£}111,000 = \text{£}23,127$
Pension at 31.3.2007 increased by inflation for 2007-08 = $\text{£}23,127 \times 1.039 = \text{£}24,029$ (B)
Pension increase in real terms = (A) - (B) = $\text{£}25,398 - \text{£}24,029 = \text{£}1,369$ (C)

Director 2 – Mandy James

Accrued pension at 31.3.2008 = $14.668/80 \times \text{£}90,000 = \text{£}16,501$ (A)
Accrued pension one year earlier (31.3.2007) = $13.668/80 \times \text{£}86,000 = \text{£}14,693$
Pension at 31.3.2007 increased by inflation for 2007-08 = $\text{£}14,693 \times 1.039 = \text{£}15,266$ (B)
Pension increase in real terms = (A) - (B) = $\text{£}16,501 - \text{£}15,266 = \text{£}1,235$ (C)

Director 3 – John Brown

Accrued pension at 31.3.2008 = $26.501/80 \times \text{£}68,000 = \text{£}22,526$ (A)
Accrued pension one year earlier (31.3.2007) = $25.501/80 \times \text{£}64,000 = \text{£}20,401$
Pension at 31.3.2007 increased by inflation for 2007-08 = $\text{£}20,401 \times 1.039 = \text{£}21,197$ (B)
Pension increase in real terms = (A) - (B) = $\text{£}22,526 - \text{£}21,197 = \text{£}1,329$ (C)

Director 4 – Jane Smith

Accrued pension at 31.3.2008 = $4.501/60 \times \text{£}97,000 = \text{£}7,277$ (A)
Accrued pension one year earlier (31.3.98) = $3.501/60 \times \text{£}93,000 = \text{£}5,427$
Pension at 31.3.2007 increased by inflation for 2007-08 = $\text{£}5,427 \times 1.039 = \text{£}5,639$ (B)
Pension increase in real terms = (A) - (B) = $\text{£}7,277 - \text{£}5,639 = \text{£}1,638$ (C)

The following figures are required for disclosure

All monetary amounts in £k	Perm Sec	Director 1	Director 2	Director 3	Director 4
Age	57	51	42	48	45
Pay at 31/03/2008	149	115	90	68	97
Pension Increase (net of inflation)(C)	1.3	1.3	1.2	1.3	1.6
Accrued pension (A)	44.3	25.3	16.4	22.5	7.5

Disclosure should be made under the following headings, and for monetary amounts to be shown in bands. Pay and accrued pension are to be disclosed in £5,000 bands and pension increase is to be disclosed in £2,500 bands:

All monetary amounts in £k	Perm Sec	Director 1	Director 2	Director 3	Director 4
Age	57	51	42	48	45
Salary, including performance pay, at 31/03/2008	145-150	110-115	85-90	65-70	95-100
Real increase in pension at 60	0-2.5	0-2.5	0-2.5	0-2.5	0-2.5
Total accrued pension at 60 at 31/03/2008	40-45	25-30	15-20	20-25	5-10

Handling members with capped and uncapped service

It is essential you identify those members who have a mix of service subject to the cap and service which remains uncapped. You must ensure that any benefit information provided to the scheme members correctly reflects the mix of capped and uncapped service. Given the current limitations of PenServer, this means that you will need to produce the following information manually (although PenServer can be used for some of the underlying calculations – See below)

- Annual benefit statements

- Statement of benefits at A-day
- Information for inclusion in annual resource accounts
- CETVs for transfers or divorce

Using PenServer

PenServer is not able to do the calculations for a mix of capped and uncapped service. You can use PenServer in the following way.

Run the PenServer calculation on the basis of all service capped

Run the PenServer calculation on the basis of all service being uncapped

Calculate the benefits for capped service and uncapped service on a pro rata basis

Example

Member Y joined **premium** 2 years ago. He also has two transfer credits. One representing 4 years' service, is capped, the other, representing 18 years, is uncapped. Member Y's pensionable earnings (last 12 months) are £125,000 and the earnings cap is £112,800.

Total service = 24 years

Step 1 – If all capped, pension = $£112,800 \times 24/60 = £45,120$

Step 2 – if all uncapped, pension = $£125,000 \times 24/60 = £50,000$

Step 3 – actual benefits = $(2+4)/24 \times £45,120 + 18/24 \times £50,000 = £48,780$

Compulsory Early Retirement Examples: Option A and Option B

If we assume that Sir Mark Drover is leaving at the end of the reporting year on CER, (Permission to disclose the compensation payment has been authorised by Sir Mark), he has two options either A or B. The disclosure must reflect the package he chooses (i.e. Option A - which results in bigger pension figures – or Option B which gives bigger compensation figures). The calculations for option A and B are as follows:

OPTION A

Pension for life = $£149,000 \times (23.834 + 2.493) \times 1/80 = £49,012$

Tax-Free lump sum = 3 x pension = $3 \times £49,012 = £147,036$

Lump sum compensation = $6/12 \times £149,000 = £74,500$

Lump sum compensation payment tapered by 6/36 = £62,083

All benefits are paid immediately

OPTION B

Annual compensation payment to **pension age** = £149,000 x (23.834 + 2.501) x 1/80 = £49,049

Pension from **pension age** = £149,000 x 23.834 x 1/80 = £44,391

Annual compensation payment from **pension age** = £149,000 x 2.501 x 1/80 = £4,658

Alternatively, he could take a lump sum instead of 12 x £4,658 = £55,896

Tax-free lump sum payable at **pension age** = 3 x pension = 3 x £44,391 = £133,173

Lump sum compensation payable at date of leaving:

Part 1 = 6/12 x £149,000 = £74,500

Lump sum compensation payment tapered by 6/36 = £62,083

Part 2 = 3/80 x £149,000 x 23.834 x 0.179 (factor based on age) = £23,837

Part 3 = 3/80 x £149,000 x 2.501 = £13,974

Total lump sum = £99,894