

Salary link and overtime

March 2022



What is the final salary link?

For members who've benefits in both the final salary scheme and the career average scheme and don't go on to have a break in service of more than five years, their final salary benefits are protected and will remain in final salary.

However, when they retire, we'll use the salaries they're earning in career average to calculate the average salary used in determining final salary benefits as well (rather than the salary they were on when they left final salary).

The average salary is the greater of the last 365 days of pensionable salary, or the average of the best three consecutive year's salaries revalued in the ten years prior to leaving service.

This means a member will still benefit from any growth in their salary. This is called the final salary link.

Example 1:

Dianne has five years' pensionable service in the NPA 60 final salary scheme and as she's a transition member, she moved into the career average scheme on 1 April 2015. At this point she was earning £30,000.

She continues to work and builds up 20 years of benefits in career average without a break in service and when she retires her salary has increased to £60,000.

Her pension benefits will be calculated as:

Final salary pension = five years service x £60,000 / 80 = £3,750 pension (plus an automatic lump sum)
+ 20 years of career average pension = £18,000. Total = £3,750 + £18,000 = £21,750.

If a transition member has a continuous break in service of more than five years starting on or after 1 April 2015, then the salary link is broken.

Final salary benefits are then calculated using the existing average salary method, using the salaries earned in career average up to the point of the break.

Example 2:

Vicki's career is different. Vicki has five years pensionable service in the NPA 60 final salary scheme and as she's a transition member she moved into the career average scheme on 1 April 2015. At this point she was earning £30,000.

She worked for another year building up career average benefits, then she decided to work overseas for ten years. She later returned to the UK and re-joined the career average scheme, where she completed a further eight years.

Her benefits are calculated as:

Final salary pension = five years service x £30,000 / 80 = £1,875 pension (plus an automatic lump sum), with the resulting pension then increased in line with inflation + nine years of career average pension = £10,000.

Total = £1,875 + £10,000 = £11,875.

Recording overtime

From 1 April 2022, all members will be moved into the career average scheme, and any new members joining the Teachers' Pension Scheme will automatically join career average too. This means overtime will be pensionable for all members from 1 April 2022.

If a member is being moved over to the career average scheme from final salary, when you complete any service return or update, you should input the member's salary in the full annual salary rate field and any overtime should be added to the allowances field. It can then be easily determined if it's to be treated as pensionable or not.

Where members earn overtime, it'll be pensionable. You should deduct contributions from both the salary and the overtime that the member has earned.

When you complete any service return or update, you should input the member's salary in the full annual salary rate field and any overtime paid.