

Salary link and overtime

April 2015



Introduction

The Teachers' Pension Scheme changed from 1 April 2015. The new arrangements saw the introduction of career average as well as final salary arrangements. Two important changes which you need to be aware of are:

- 1) Any overtime earned for members who are in the career average arrangements will now be pensionable
- 2) Transition members who have both final salary and career average benefits will benefit from the salary link provision, which means when their final salary benefits are calculated, salaries earned in the career average arrangements will be used in that calculation.

Our factsheet aims to provide you with an understanding of these important changes.

How will I know which arrangement a member is in?

If you're unclear about which arrangements apply to a member, please refer to the factsheet on 'Understanding the member types' where you'll find examples of the different member types. [The member profiles](#) that are available on the website will also help in determining a member type.

What is the final salary link?

For transition members who have benefits in both final salary and career average 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 are 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 the final salary arrangement).

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 - Dianne a transition member

Dianne has five years' pensionable service in the NPA 60 final salary arrangement and as she is a transition member, she moved into the career average arrangement 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 (average salary at the point of retirement) / 80th = £3,750 pension (plus an automatic lump sum) + 20 years of career average pension = £18,000

Total = £3,750 + £18,000 = £21,750

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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 another transition member

Vicki's career is different. Vicki has five years' pensionable service in the NPA 60 final salary arrangement and as she is a transition member she moved into the career average arrangement 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 10 years. She later returned to the UK and re-joined the career average arrangement, where she completed a further eight years. Her benefits are calculated as:

Final salary pension = five years service x £30,000 (average salary at the point of her break) / 80th = £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 service

We've provided you with examples for a protected member and transition member on how to record service and overtime.

What should I do for a protected member still in the final salary arrangement?

If protected members are remaining in the final salary arrangement, any overtime they receive is not treated as pensionable. You should only deduct contributions from their salary excluding any overtime. If an emolument has previously been agreed with Teachers' Pensions it will remain pensionable.

Emoluments should be reviewed every two years with us. 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, although not pensionable, should still be entered into the other allowances field. This is because if at any time in the future there is any query from a member about their salary, the full information is available.

What should I do for a tapered member who is still in the final salary arrangement?

If a tapered member is currently still in the final salary arrangement, any overtime they receive is not treated as pensionable. You should only deduct contributions from their salary excluding any overtime. If an emolument has previously been agreed with Teachers' Pensions it will remain pensionable. Emoluments should be reviewed every two years with us.

When they pass their transition date and enter the career average arrangement, any overtime they earn will then be pensionable.

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 should still be entered into the other allowances tapered field. You must split the service line to show the period in which the overtime was earned. This applies to any period where overtime is paid regardless of whether or not a member is in the career average arrangement. It can then be easily determined if it's to be treated as pensionable or not.

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What about new or transition members?

Where new members or transition members earn overtime, it will 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.

New members should be entered into the other allowances field. You must split the service line to show the period in which the overtime was earned. It can then be easily determined by us if it's to be treated as pensionable or not. If a member has a starter salary link to their final salary benefits, then the correct pensionable salary will be used for the final salary calculations.