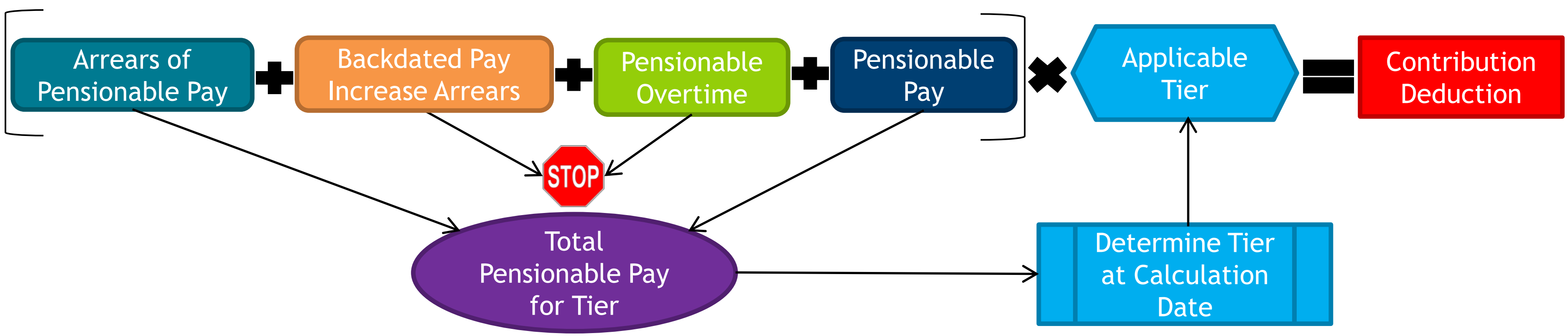
MCR Hot Topics - Contribution Calculations

Calculating Contribution Deductions based on the ‘When Paid’ method

This method requires you to take the total of the member’s pensionable pay paid within a pay month (excluding any payments relating to overtime and/or arrears relating to a backdated pay increase), multiply it by twelve and use this calculated value to determine the contribution percentage (i.e. tier) the member is required to pay in that pay month.

This contribution percentage is then applied to the total pensionable pay paid in the pay month (including any payments relating to overtime and/or arrears relating to a backdated pay increase) to determine the deduction.



This will be the default method used within our routines (and generally by payroll software systems) to calculate contribution deductions.

MCR Hot Topics - Contribution Calculations

Calculating Contribution Deductions/Refund based on the 'When Earned' method

The 'When Earned' method must be used once you move to MCR for the following types of calculations:

- Refund of contributions due to overpaid salary or a retrospective opt out

  This would be the case even when other changes occur within the same pay month to the same periods the refund relates (e.g. when paying a backdated pay increase and also adjusting for overpaid salary)

- When making a payment to a member (which requires contributions to be deducted) in pay month after the one in which the member left employment.

We'd also recommend the 'When Earned' method is used when an error has occurred in the member's pensionable pay (e.g. pay not received, incorrect amount paid, Etc...) and the correction of this using the standard 'When Paid' method will cause the member to pay more contributions than if calculated using the 'When Earned' method.

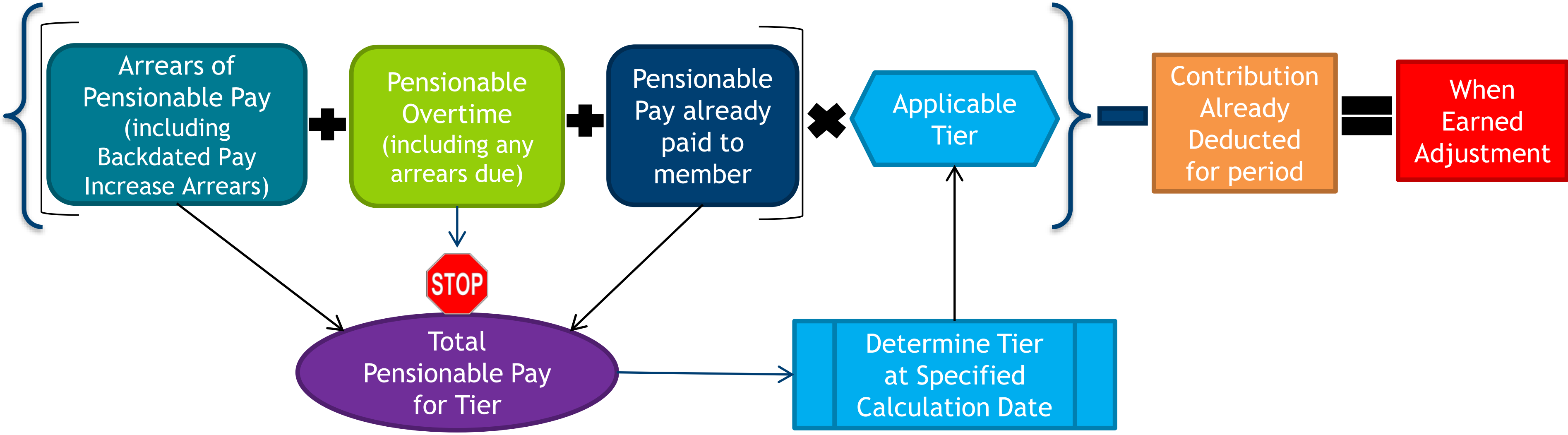
However, using this method to process a correction as described above is at your discretion and is not mandated by the Scheme. We do advocate that if you choose to use this method, that consistency is applied across the employer.

MCR Hot Topics - Contribution Calculations

<u>Calculating Contribution Deductions/Refund based on the 'When Earned' method</u>

This method requires you to determine two values, the 'What **should** have been deducted' value and the 'What **has** been deducted' value.

You then minus the 'What has been deducted' value from the 'What should have been deducted' value and the result of this sum will leave you with a **'When Earned'** adjustment.



A 'When Earned' adjustment can be a positive or negative value.

MCR Hot Topics - Contribution Calculations

Calculating Contribution Deductions/Refund based on the ‘When Earned’ method

You apply this formula to the different payment types as follows:-

First time payment *(e.g. late notification of joiner)*

Determine the ‘What should have been deducted’ value by assessing the payment as though it was being paid when it was earned (or at a specific calculation date if required) and the ‘What has been deducted’ value as zero.

Correction of payment (e.g. refund, underpayment of salary due to employer error)

Determine the ‘What should have been deducted’ value by reassessing the pay month the correction relates to using the up to date pensionable pay information for that period.

This reassessment must use the tier and banding rates applicable during the pay month, but using the correct amount of pensionable pay to determine the contribution percentage (i.e. tier) and the new contributions total for the period.

The ‘What has been deducted’ value will be the total amount of contributions that have already been deducted in relation to each period of affected service.