

**NATIONAL HEALTH SERVICE SUPERANNUATION SCHEME (SCOTLAND)  
2014/05**

**WHO SHOULD READ:** HR and Payroll Managers  
Direction Bodies  
GP Practice Managers  
Practitioner Services Division  
Dental Payments  
Pension Administration Staff

**ACTION:** To read and circulate as appropriate

**SUBJECT:** 1. Final pay controls  
2. Administration charge and interest payable on late payment of contributions by employers

**The purpose of this circular is to:**

1. set out the arrangements for dealing with inordinate increases in final salary pay for the purposes of calculating pension in the 1995 section of the scheme
2. inform employers of new charges in respect of late payment of scheme contributions

**1. Final Salary cap**

A cap on final salary for the calculation of pension is now included in the scheme regulations and will be applicable from 1 July 2014. The cap is applicable to all officer members of the 1995 section of the NHS Superannuation Scheme (Scotland) including non-GP providers. If a member receives an increase to pensionable pay that exceeds the cap (allowable amount) in any of the three years prior to their last day of service, the employing authority that awarded the excess pay will be liable for a final pay control charge.

The allowable amount for a relevant year is determined by increasing the member's pensionable pay in the year immediately preceding the relevant year by CPI plus 4.5%. (The level of CPI to be applied will be that applicable to the preceding 12 months).

SPPA will identify each instance of pensionable pay increase in excess of the allowable amount, calculate the employing authority charge and collect payment of that charge. An invoice will be sent to the employing authority where a charge is applicable after the member's award has been processed.

The final pay cap only applies to pay rises that are awarded on or after 1 July 2014 and will not apply to a death benefit or in cases where the rise is solely due to the member taking up a new employment with a new employer. The final pay cap will also not be applied to an increase in pensionable pay if that increase occurred before 1 July 2014 or increases in pay more than 1095 days before the member's last day of pensionable employment.



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Where there are two or more employing authorities the charge will be made to the authority that increased the pensionable pay. Where the member's final year's pensionable pay exceeds the allowable amount by reason of the inclusion of a distinction award then the awarding body will be responsible for the charge. The amount of excess employer contribution charge must be paid to SPPA within one month of receipt of invoice.

See below for an illustration on how the cap will work.

### EXAMPLE

An assumption is made for the purposes of this example that CPI + 4.5% is 8% for each of the years considered and that the 'best' of the member's last three year's pay for benefit calculation purposes is their final year - Y1. Please note that Y4 pay of £30,000 is considered only for the purposes of comparison with Y3 pay. The assumption is also made that the member had 30 years of membership.

#### a. Actual pensionable pay recorded for the member

Y4 £30,000  
Y3 £33,000 (+10%)  
Y2 £36,300-(+10%)  
Y1 £39,930-(+10%)

Actual pension payable =  $30/80$  of £39,930 = £14,973.75

Actual lump sum payable (at 3 x pension) = £44,921.25

#### b. 'Virtually capped' pensionable pay for employer charge purposes

Y4-£30,000  
Y3 £32,400-(+8%)  
Y2 £34,992-(+8%)  
Y1 £37,791.36-(+8%)

In paragraph a. of the example, actual pensionable pay increases at the rate of 10% each year, to reach the amount £39,930, which will be used to calculate the member's pension benefits.

In paragraph b. of the example, pensionable pay for years Y3 to Y1 is virtually capped at the assumed level of 8% each year, to reach the lower 'maximum allowable figure' of £37,791.36, which will be used to calculate the employer charge but not the member's pension benefits.

In the example the increases in pay awarded to the member exceed the new maximum allowable amount in the years close to retirement. This excess creates additional costs for the scheme and so an employer charge will be generated. The employer charge will be the capitalised value of the benefits payable to the member, worked out using only the pay in excess of the maximum allowable level.

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The charge is calculated by working out a pension based only on the pay difference between the actual and virtually capped pay levels. In the example above, this difference is £39,930 - £37,791.36 = £2,138.64.

So a pension for employer charge purposes is worked out using the excess pay

$30/80 \times £2,138.64 = £801.99$ , and a lump sum (at 3 x pension) = £2,405.97

### **Employer charge**

The employer charge is then the excess pension x capitalisation amount supplied by the Scheme Actuary plus the excess lump sum amount.

For example, £801.99 x factor of (21)\* = £16,841.79 + lump sum of £2,405.97

= total employer charge of £19,247.76

\*a representative factor, which may vary according to the member's age at retirement

## **2. Administration and interest charges on late payment of contributions by employers**

From 1 July 2014 SPPA will reserve the right to charge an administration fee of £75 where NHS employers fail to pay contributions by the due date. The charge is to cover the additional costs of identification, recovery and correspondence with the employer. In addition, interest will be charged at a standard rate which will be equal to the discount rate used by HM Treasury for scheme valuations. This is known as the SCAPE (the rate of superannuation contributions adjusted for past experience) and is normally equal to the rate of the consumer prices index (CPI) plus 3% and is payable from the day following the due date until the date SPPA receive the late contribution amount. Similar charges are being applied in the England and Wales pension scheme.

In the event that some or all of late paid contributions remain outstanding at a further due date, there will be further administration charge(s) and interest will continue to accrue, compounded with monthly rests, until full recovery is affected.

**Sharon Liptrott**  
**Policy Manager**  
**18 July 2014**

### **Contact information:**

Should you have any enquiries about this circular, or require further information, please contact: [Mark.Cockburn@Scotland.gsi.gov.uk](mailto:Mark.Cockburn@Scotland.gsi.gov.uk)

**Scottish Public Pensions Agency**  
**7 Tweedside Park**  
**Tweedbank**  
**GALASHIELS**  
**TD1 3TE**

[www.sppa.gov.uk](http://www.sppa.gov.uk)  
**Telephone: 01896 893000**  
**Fax: 01896 893242**