SECTION 5: PENSIONABLE SALARY & CONTRIBUTIONS

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1. Meaning of Pensionable Salary
Pensionable salary is defined in STSS Regulation C1(1) and means, subject to the provisions of this regulation:

- all salary, wages, fees and other regular payments payable to a member, in respect of pensionable employment.

The following payments or allowances do not form part of pensionable salary:

- payments in respect of overtime, special services or extra duties
- any emoluments receivable from, or out of, an educational endowment or bequest
- any additional allowance paid to a member serving outside the British Islands under arrangements approved by the Scottish Ministers for the interchange of members
- payments by way of travelling or expense allowances
- any sums chargeable to tax under section 148 of the Taxes Act
- the equivalent money value to the member of the provision of a motor vehicle by or on behalf of his or her employer
- any compensation paid under the Local Government (Compensation for Reduction of Remuneration on Reorganisation) (Scotland) Regulations 1995.
- If you require information about a specific type of payment which is not mentioned in this section, please contact SPPA for further information.
2. Membership Limits

A member may not earn or pay contributions on more than 40 years reckonable membership before attaining age 60. At age 65 this limited to scheme maximum of 45 years.

As soon as contributions cease, employers must inform the member that benefits will be based on membership and pay up to the date of cessation of contributions and not the date of termination of employment. Pensions Increase (PI) is added to benefits if applicable at retirement.

The lifting of the service limits took effect service from 1st April 2007. The limit of 45 years will include the years credited for any transferred in service.

The limit of 40 yrs service before age 60 is removed for service accruing on or after 1st April 2007.
Pensionable Pay and Contributions

Scheme regulations have been extended to include Death in Service cover where contributions have ceased because maximum membership has been achieved.

The cover includes:

- death lump sum
- survivor partner benefits
- child allowance.

The overall scheme restriction of 45 yrs maximum membership remains.

Where there is difficulty in determining the precise date when contributions should cease, a written request should be sent to SPPA to supply a full membership check and confirm the date.

3. Restrictions on Pensionable Salary
Where the method of calculating benefits is based on 365 days, if the rate of salary has increased by more than 10% above the standard salary increase in the three years leading up to retirement, the full amount will not be used in the calculation of retirement benefits unless the employer pays the additional contributions to the scheme. In those circumstances, when the application for retirement benefits is received, SPPA will calculate benefits on both the restricted and unrestricted average salaries and notify both employer and employee of the sum required (known as 'additional contribution'). If the employer pays the additional contribution, the member will receive retirement benefits calculated on the unrestricted average salary.

It is not possible to anticipate whether this provision might apply in any individual’s case (and if so, what the impact might be) in advance of retirement. It is only at retirement that SPPA will be in a position to determine the average salary period and assess salary progression against standard pay awards during that period.

Any retirement benefit calculations that SPPA make can only be done on receipt of validated salary rates that have been provided by the employer. However, in no circumstances will SPPA undertake calculations of estimates on behalf of employers on the basis of potential or hypothetical salary figures.

4. Payment of Contributions to SPPA
Employers are responsible for the collection and payment to SPPA, of all STSS contributions. The Pensions Act 1995 requires contributions to be paid to the scheme within 7 days of the end of the month in which they were deducted from salary. These time scales ensure that monies deducted for pensions are not appropriated for any other purpose and it is very important that these time scales are strictly adhered to.

If employers do not complete and forward the relevant submissions, this may mean that employee’s pension rights are affected and the employer is acting in breach of the statutory Scheme Regulations and also Section 49 of the Pensions Act 1995.

Under Section 48 of the Pensions Act and Section 70 of the Pensions Act 2004, SPPA have a legal duty to report any ‘breaches of law’ to the Pensions Regulator.

Employers are advised that the Pensions Regulator is likely to seek information from scheme managers about any breaches which they regard as a criminal offence.

SPPA relies on employers to provide total pensionable salary information both timeously and accurately, either on request, or automatically when completing benefit application forms.
5. Contributions

Employers continue to contribute (currently) 17.2% - about two thirds of the cost of an individual's pension.

The regulations do not allow members to be excused from paying contributions that are properly due. Care should be taken therefore to ensure as far as possible that arrears of contributions do not arise.

5.1 Under Deducted Contributions

Where contributions have been under deducted or there has been a delay in inclusion or/and payment, the following action should be taken:

- arrears during a current financial year should be collected as soon as is reasonably possible, either by a lump sum payment or by instalments over a short period.
- in other cases, payment will be made by the member direct to SPPA. If it is known that contributions will be outstanding at retirement, SPPA will deduct these contributions from benefits with permission from the member.
- prompt notification and collection of arrears prevents administrative complications from arising should the member transfer to another employer.
- prompt action by the employer is essential. Only HMRC can advise a member whether or not tax relief is appropriate.
Any arrears of contributions due by the employer should be submitted to SPPA immediately. Failure to do so may result in interest being charged.

5.2 Over deducted contributions

When contributions have been deducted in error, the employer should adjust the contributions and repay the member as required. No interest is payable.

6. Additional Hours Worked (Part-Time)

A part-time member who works hours in addition to their normal contracted hours will be pensionable for those additional hours up to the whole time equivalent. This includes part-time members who have concurrent employments. Example

A P/T employee whose contractual P/T hours are 20 hours a week and whose standard WT hours are 37.5 works 23 hours, i.e. 3 extra hours.

7. Non Contributing Days

Contributions continue to be deducted from salary when a member is receiving reduced pay due to sick leave. The contributions stop, however, when the member comes to the end of this period and goes onto nil pay.
Contributions also stop for other periods of unauthorised absence such as strike days.

8. Retrospective Pay Increases

Where retirement forms have already been sent to SPPA, any changes in pensionable salary must be notified by the employer to SPPA immediately so that revision action can be taken if appropriate.

9. Sick Leave - Reduction of Pensionable Salary

Statutory Sick Pay (SSP) is treated as pensionable salary and pension contributions are payable. SSP should be included as pensionable salary in the total pensionable salary for benefit purposes.

10. Employer's Statutory Sick Pay - Full Rate Sick Pay

When a member becomes entitled to sick pay at full rate, the SSP is added to sick pay and both member and employer pay contributions on full rate of pay.

11. Employer's Statutory Sick Pay - Half Rate Sick Pay

When a member becomes entitled to sick pay at half rate, the SSP is paid in addition to this except when SSP is more than half pay. In which case half Occupational Sick Pay will be adjusted to ensure that this element, when added to SSP, does not exceed full pay.
Employer’s contributions are based on unreduced pay and member’s contributions on the pay plus SSP received, providing the total does not exceed full pay.

12. Employer’s Statutory Sick Pay - Unpaid Sick Leave

While the member receives at least half pay including any SSP, scheme contributions should be deducted. However, when the member is only in receipt of SSP, scheme contributions should not be deducted from this.

13. Maternity/Paternity/Adoption Pay and Leave

Where a member is absent from duty on maternity/paternity/adoption leave, such absence is treated as pensionable employment so long as the member receives a salary. The following guidelines apply:

- member resigns at the outset (leaver form to be submitted)
- member is regarded as being in pensionable employment up to the last day of his or her contract
- member takes maternity leave and then returns to duty
- any period of maternity leave for which the member receives pay or Statutory Maternity Pay (SMP) is classed as pensionable employment
- member does not return to duty after maternity leave
- leaver form to be completed, pensionable employment will be treated as having ended at the end of the paid maternity leave
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- member takes paternity leave
  - any period of paternity leave for which the member receives full salary or statutory pay is classed as pensionable employment. Where the member receives no pay, that period does not count as pensionable employment and must be shown as a period on non-contributing service.

- member takes adoption leave
  - any period of adoption leave for which the member receives full salary or statutory pay is classed as pensionable employment. Where the member receives no pay, that period does not count as pensionable employment and should be shown as days excluded.

If the circumstances for an individual member differ from the above and it is not clear what service should be regarded as pensionable under the STSS, please contact SPPA for advice.

An employee who chooses to have "Keep in Touch Days" should have contributions deducted on the pay actually received. Employer's contributions are based on the member's normal salary.

Any arrears of pension contributions can be collected when the member returns to work.

14. Total Pensionable Salary
Scheme benefits are based on pensionable salary and membership (otherwise known as service).

There are a number of occasions when a total pensionable salary will be required, e.g. benefit estimates and awards, transfer estimates and payments or credits, AVC quotes and purchases etc.

15. Paid Notice

Paid notice should not be confused with payments made in lieu of notice and employers are advised to work on the following basis:

- the period reckons as contributing membership
- pension contributions should be deducted on the full amount.