



London Borough
of Hounslow



Employer Factsheet

PAY

Pensionable pay is everything you pay an employee to do their job, except what's listed below.

1. A payment for 'loss of future pensionable payments or benefits' is not pensionable. For example, if you remove contractual overtime from a member's contract and pay a lump sum to compensate for that removal, it's not pensionable.
2. Payments you make during Reserve Forces Service Leave (RFSL) are not pensionable – the Ministry of Defence pays contributions based on assumed pensionable pay (APP).

From the regulations **also excluded are-**

- (a) any sum which has not had income tax liability determined on it
- (b) any travelling, subsistence or other allowance paid in respect of expenses incurred in relation to the employment
- (c) any payment in consideration of loss of holidays
- (d) any payment in lieu of notice to terminate a contract of employment
- (e) any payment as an inducement not to terminate employment before the payment is made
- (f) any amount treated as the money value to the employee of the provision of a motor vehicle or any amount paid in lieu of such provision
- (g) any payment in consideration of loss of future pensionable payments or benefits
- (h) any award of compensation (excluding any sum representing arrears of pay) for the purpose of achieving equal pay in relation to other employees
- (i) any payment made by the scheme employer to a member on reserve forces service leave
- (j) returning officer, or acting returning officer fees other than fees paid in respect of
 - (i) local government elections
 - (ii) elections for the National Assembly for Wales
 - (iii) Parliamentary elections or
 - (iv) European Parliamentary elections.

1. Pensionable pay and salary sacrifice

HMRC approved salary sacrifice arrangements are pensionable if the benefit in kind is specified in the employee's employment contract as a pensionable emolument.

If holiday entitlement is sold in return for extra pay the extra pay is non-pensionable, because it's a 'payment in consideration of loss of holidays'

If a member gives up pay for additional days of holiday

Where an employee has purchased additional annual leave and this is treated as unpaid leave by the employer. Members who participate in such a scheme will no longer have to arrange an Additional Pension Contribution (APC) contract to buy back the pension they have 'lost' during the extra leave. It is our understanding that most schemes of this type are paid for by a reduction to the member's pay spread out over the year. From 1 April 2026, members will be required to pay contributions on their pensionable pay before any adjustment for the additional holiday purchased.

Arrears of pay

Benefits are calculated on the pensionable pay a member actually gets in the scheme year (1 April to 31 March), not the pay *due* in that period.

If you pay arrears – or make other payments in the current pay period that relate to a previous period or scheme year – they are treated as cumulative pensionable pay in the period you pay them.

2. Cumulative pensionable pay (CPP)

This is the total of the actual pensionable pay the member paid pension contributions on and/or the assumed pensionable pay (in either section of the scheme) in the scheme year.

Provide CPP separately for each section of the scheme (main and 50/50) because different accrual rates apply to the two sections when we calculate a member's pension.

Example – moving sections within a year

A member is on a salary of £24,000 for the full scheme year and moves to the 50/50 section after three months. They will have already earned £6,000. They stay in the 50/50 section for five months and earn £10,000. They then move back to the main section and earn another £8,000. So their cumulative pay at the end of the scheme year is £14,000 in the main section and £10,000 in the 50/50 section.

3. Assumed Pensionable Pay

APP is used instead of actual pay for a member who

- a. is on leave due to sickness or injury and is on reduced contractual pay or no pay
- b. is on child-related leave, or
- c. is absent on reserve forces service leave.

You need to calculate APP for pension purposes from

- the date of the reduction (for sickness or injury), **or**
- the date the relevant child-related leave began
- the date the unpaid reserve forces service leave began

Members pay contributions on any pensionable pay they get in these periods of absence, but employers pay contributions on the APP.

Relevant period

APP is calculated as an annual rate then applied to the relevant period as a proportion of that rate. The relevant period starts on the date the member drops to reduced contractual pay or no pay due to sickness or injury – or when the relevant child-related leave or Reserve Forces Service Leave starts – and ends on the day they return to full pay, return from child-related or Reserve Forces Leave or leave the scheme.

Calculating APP

Calculate the APP using an average of 12 weeks' or 3 months' pay (depending on the pay frequency) and uprate it to an annual figure. You can add any regular lump sums you expect them to receive over the relevant period. Then apply APP instead of actual pay for the relevant period.

You can substitute a higher figure where APP is lower than the pay the members would have received if they were at work. The higher figure is calculated using the pay the member received in the previous 12 months.

Note: if the pensionable pay the member received was reduced as a result of absence due to strike or authorised absence, the reduction is to be ignored for the purpose of calculating the member's assumed pensionable pay.

Pay periods other than monthly

Calculate the annual rate as follows for a member paid other than monthly.

- Calculate the average of the pensionable pay for the 12 complete weeks before the start of the relevant period, after removing any lump sums but including any APP already credited in those 12 weeks.
- Gross up to an annual figure.
- If 12 complete pay periods don't exist, use the complete periods that are available.

Monthly Paid

For a monthly-paid member, use 3 complete pay periods instead of 12 but calculate it the same way.

Example – calculating APP for a monthly-paid member

A monthly-paid member has received the following pensionable pay in the three complete months before the start of the relevant period, and you expect that APP will apply for the next six months.

Month 1 – £1,400,

Month 2 – £2,500 including a £1,000 regular bonus and £100 overtime

Month 3 – £1,400

The annual rate of APP is $(£1,400 + £1,500 + £1,400 \div 3) \times 12 = £17,200$

Remove the bonus before averaging and grossing up the calculation or it will artificially inflate the APP figure.

If (when the APP starts) you think it's likely the member will again receive (during the relevant period when APP will apply) the regular lump sum payment they received in the previous 12 months, add it back into the annual rate of APP after you uprate it to an annual figure.

When you decide whether the lump sum should be added back into the APP annual rate, consider if the member will be still be on APP when they next get the lump sum.

In the example above, if you decide the period of APP will extend to 11 months or more and the £1,000 bonus would have been paid again within the period of APP, the amount could be added back into the assumed annual pensionable pay rate.

The calculation is $(£1,400 + £1,500 + £1,400 / 3) \times 12 = £17,200 + £1,000 = £18,200$

Proportioning

Decide what proportion of the annual APP that you calculated needs to be added in to CPP, this will be the length of the relevant period. If the relevant period is not in complete months or weeks, proportion it for the part pay period.

Calculate this just as you would to pay somebody for a part month.

Example – proportioning three days' pay

If APP applies for the period 1 May 2019 to 3 August 2019 use three complete months and three days from August.

For three days in August this could be:

- Annual rate/365 x 3
- Annual rate/365 x 3/31
- Annual rate/12 x 3/22

Keep in Touch (KIT) days

When a member is on relevant child-related leave and returns for a KIT day, add their pensionable pay for that day to the cumulative pensionable pay rather than the APP if the actual pay is higher than the assumed pay. The APP before and after the KIT day will be the same, so you don't need to recalculate it.

Adjusting the assumed pensionable pay figure

Once set, assumed pensionable pay is not subsequently adjusted unless it continues for a period that goes over two 31 March dates. Where a member is on long term sick leave, assumed pensionable pay needs to be adjusted because of inflation. It is adjusted at midnight on the second 31 March following the date the relevant period commenced.

The adjustment is the percentage specified in the Treasury Revaluation order for that (second) scheme year ending on that 31 March.

If the relevant period continues for a further year it will be revalued again at midnight on the next 31 March and so on.

4. Child related leave

Child-related leave includes unpaid shared parental leave, unpaid additional maternity leave and unpaid adoption leave from 1 April 2026.

Assumed pensionable pay (APP) applies during a period of child-related leave. From 1 April 2026 **APP now applies** to the **whole** period of child-related leave, including both paid and unpaid parts if the **unpaid period starts on or after 1 April 2026**. So APP will now apply during the following types of leave:

- unpaid additional maternity leave
- unpaid additional adoption leave
- unpaid shared parental leave.

APP will apply during these periods in the same way as it applies during any current period of child-related leave:

- the member pays contributions on any pay that they receive
- the employer pays contributions on APP
- the employer reports APP as the member's pensionable pay to the administering authority for the period.

APP does not apply during any **unpaid additional child-related leave** that **started before 1 April 2026**. Members will have the option to pay additional pension contributions to buy the 'lost' pension under the pre-April 2026 rules.

50/50 rule

A member in the 50/50 section moves to the main section at the beginning of the pay period after the day they go onto no pay during child-related leave.

Example – 50/50 no pay

A member started maternity leave on 13 July 2025 and was entitled to statutory maternity pay (SMP). They were in the 50/50 section of the LGPS immediately before their maternity leave started: 13/07/2025 to 10/01/2026: 26 weeks of ordinary maternity leave (paid)
11/01/2026 to 11/04/2026: 13 weeks of paid additional maternity leave (SMP paid)

12/04/2026 to 12/07/2026: unpaid additional maternity leave APP applies throughout the year of maternity leave because the unpaid period starts after 1 April 2026.

The member remains in the 50/50 section while they are receiving some pay. However, after moving on to nil pay, they must switch to the main section. This happens at the beginning of the pay period after the unpaid period starts. In this example, if the member was paid monthly, they would join the main section from 1 May 2026.

5. Authorised unpaid leave

Pension contributions are compulsory in a period of authorised unpaid leave of less than 15 days that starts on 1 April 2026 or later.

The 15 days are calendar days. There is no adjustment for working days or in respect of members who work part time when working out whether an unpaid break is less than 15 days. Members will no longer need to apply to buy back pension lost during a short authorised unpaid break. This change does not apply to a period in which the member is unpaid because of a trade dispute (strike).

The compulsory contributions are based on 'lost pensionable pay'. This is the pay the member would have received if they had been at work receiving their 'normal' pay instead of taking unpaid leave. 'Normal' pay is based on the member's contractual pay. Unlike Assumed Pensionable Pay (APP), it is not increased because of non-contractual payments the member received in the past, such as pay for non-contractual overtime. Lost pensionable pay does not replace a member's actual pensionable pay. If a member receives some pensionable pay during a period of authorised unpaid leave, the actual pensionable pay and lost pensionable pay should be added together to find the cumulative pensionable pay for the period. This could happen if the member is paid a bonus or arrears of pay following a pay award while they are on unpaid leave.

Employer contributions are based on the rate set by the actuary for the year in which the leave was taken. Member contributions are based on their normal contribution rate. If the member was paying reduced contributions immediately before the unpaid period because they had elected to join the 50/50 section of the scheme, the reduced rate also applies when working out the compulsory pension contributions the member must pay in respect of the unpaid period. A pay reduction because of unpaid leave is ignored when allocating the member to the correct contribution band.

Problem Cases

Length of absence changes: Unpaid period reduced to less than 15 days.

A monthly paid member was granted unpaid leave from 8 to 28 June 2026 and payroll were informed. The member's pay was reduced because of the unpaid period. Because that period is more than 14 days, no pension contributions were deducted.

The member returns to work early from the unpaid period on 17 June 2026, but it is too late to make any changes to the June payroll. An adjustment must be made in the next pay period to:

- account for the shorter unpaid absence in the member's pay, and

- deduct compulsory pension contributions from the ‘lost’ pay because the absence was less than 15 days.

Not enough pay to deduct contributions: There will be some occasions when it will not be possible to deduct the compulsory contributions in the pay period that the absence occurs. This might happen if the member is paid weekly, or if the unpaid leave is immediately after a different unpaid period such as unpaid sickness absence or unpaid maternity leave. Employers must have a process in place to ensure that the compulsory contributions are deducted and paid to the administering authority as soon as possible after the unpaid break occurs.

Reporting requirements Employers must include lost pensionable pay, and employer and member contributions paid in respect of the lost pensionable pay when they submit data to the administering authority. Pensionable pay and member contributions for a member in the 50/50 section must be reported separately from pay and contributions in the main section.

The pre-April 2026 rules continue to apply to a period of authorised unpaid leave that started before 1 April 2026.

6. Reserve Forces Service Leave (RFSL) and APP

If a member is on RFSL calculate APP while the reservist is on leave and add it into the member’s pensionable pay in either the main or 50/50 section so the member continues to build up a pension as if they were still at work.

Employers don’t pay employer contributions on the APP, instead, you should notify the reservist and the Ministry of Defence (MoD) of

- the APP figure, and
- member and employer contribution rate

The MoD deducts the member contribution from the reservist and pays that, together with the employer contribution, directly to us.

If the employer continues to pay the reservist some pay when they are on RFSL, neither member or employer contributions are payable on that pay (because it’s non-pensionable and contributions are paid on the APP figure instead). What you pay the reservist isn’t added into the member’s pensionable pay figure (into the main or 50/50 section pensionable pay) because the APP has already been added into the pensionable pay.