

# Scheme Member Zone

## What earnings were used in calculating my pension?

*One of a series of Factsheets and Quicknotes in the Module:  
Important Aspects of my Pension*

Information  
Education  
Communication



# Pensioner Members



## What earnings were used in calculating my pension? Pensioner Members

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This Factsheet is written for people who are **pensioner members** of an employer's pension scheme.

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### Introduction

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This Factsheet looks at **pensionable salary** which would have been important in terms of what contributions would have gone to making up your pension benefits. If you ever wondered how your pension was made up, then your pensionable salary will have played an important part.

This Factsheet forms part of our Module [Important Aspects of My Pension](#) and should be read alongside the other Factsheets and Quicknotes in the series.

## Pensionable salary

Your **pensionable salary** would have been *important* as your **pension** will have been based upon it, one way or another. The calculations of pensionable salary can be very complex and can involve factors such as *maximum* amounts to be taken into account, or *exclusions* of certain types of earnings. All employer sponsored pension schemes will have their *own* definition of what is pensionable salary and schemes *will* be different to one another.

Pensionable salary *only* includes those earnings which are listed in the Scheme Rules. Typically, pensionable salary *could* have included:

- Basic Salary
- Shift Pay
- Bonus
- Overtime
- Commission
- Location Allowances
- Benefits-in-Kind

Examples of pensionable salary	
Employer A	Employer B
<p>Paid a basic salary of £30,000 p.a., plus a further £8,000 p.a. in bonus/overtime.</p> <p>For pension purposes, it allowed employees' <i>full</i> earnings to be used as <b>pensionable salary</b>.</p> <p>So, the <i>full</i> <b>£38,000</b> would have been used in calculating pension benefit.</p>	<p>Paid a basic salary of £33,000 p.a., plus a further £15,000 p.a. in bonus/overtime.</p> <p>For pension purposes, it allowed only employees' <i>basic salary</i> to be used as <b>pensionable salary</b>.</p> <p>So, <i>only</i> <b>£33,000</b> would have been used in calculating pension benefit.</p>

Sometimes, a scheme's Rules will define pensionable salary in such a way that it would have used an average of certain types of earnings where there was likely to be significant fluctuations.

Example of averaging certain earnings which go towards pensionable salary:

**pensionable salary** = basic salary + average of the last 3 years bonuses

## Final salary schemes

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A final salary scheme is a **type** of defined benefit scheme and will have used a *formula* to calculate your pension using 4 key elements. The formula (and the definitions for each part of it) will be set out in the Scheme Rules.

Because your **pensionable salary** would have been used as one part of the formula in order to calculate your pension, a final salary scheme is commonly referred to as 'salary related' scheme.

In a final salary scheme your pension would have been based upon your **final pensionable salary** in the years immediately before you *ceased* to be an **active member** of the scheme. Different schemes use different definitions, so it is the definition of your 'final pensionable salary' (or 'final pensionable earnings') that is important in this type of scheme.

There are many different types of final salary schemes, each having its own formula to calculate members' benefits.

### Example of a final salary formula:

$$\frac{\text{length of pensionable service}}{\text{accrual rate}} \times \text{final pensionable salary}$$

Three common examples of final pensionable salary would be:

- your last year's pensionable salary whilst you were an active member
- an average of your last 3 years pensionable salary whilst you were an active member
- an average of the best 3 consecutive years pensionable salary over the last 10 years that you were an active member.

If you experienced any decrease in your earnings immediately before you ceased to be an active member, this could have had a significant impact upon your pension.

In a final salary schemes, your *contributions* would have usually been expressed as *a percentage of your pensionable salary*, e.g. 7% employee with your employer paying the balance of the costs to fund the promised pensions (with the exception of some Public Sector schemes).

## Career average revalued earning schemes (CARE schemes)

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A CARE scheme is a **type** of defined benefit scheme and it too would have used a *formula* to calculate your pension benefits using 4 key elements. The formula (and the definitions for each part of it) will be set out in the Scheme Rules.

In a CARE scheme, usually each year's pensionable salary would have been *revalued* (increased) to allow for inflation between the date it was received and the date on which you *ceased* to be an active member (called *inflation adjustment*). The *total* of your pensionable salary would then have been averaged out by dividing it by the number of years you were a member of the pension scheme.

### Example of a 'CARE scheme' formula:

$$\frac{\text{length of pensionable service}}{\text{accrual rate}} \quad \times \quad \text{averaged pensionable salary}$$

The definition of your pensionable salary is important in this type of scheme.

The 'inflation adjustment' could have been structured in many ways, but would have been based upon one of the Prices Inflation Indexes (such as RPI or CPI) or in a generous scheme on Average Earnings increases.

In a CARE scheme, your *contributions* would have usually been expressed as *a percentage of your pensionable salary*, e.g. 7% employee with your employer paying the balance to fund the promised pensions (with the exception of some Public Sector schemes).



## Money purchase schemes

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A 'money purchase scheme' provides benefits based upon the amount of money that was in YOUR own pension 'pot' when benefits were paid.

The amount that was in your 'pot' when benefits were paid will have depended upon the payments made into your 'pot'; the investment return achieved on each individual payment to the pot; and any costs which were charged against your growing 'pot'. The benefits you or your dependents received from a money purchase scheme will have come entirely from your 'pot'.

The *contributions* that your employer and YOU made to the money purchase scheme will have been based upon your *earnings* whilst you were an active member of the scheme, and in this respect your **pensionable salary** was important. As with other types of employer sponsored schemes, calculating your pensionable salary can have been quite complex, involving factors such as maximum amounts of your earnings which could have been taken into account, or exclusions of certain types of earnings.

In an employer sponsored money purchase scheme, your *contributions* would usually have been expressed as *a percentage of your pensionable salary*, e.g. 5% employee, 7% employer contributions.



## Summary & Key Points

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When making enquiries about your **pension benefit** it is very important that you make it clear that you are a **pensioner member** rather than an **active member** or **preserved member**. Active, preserved and pensioner are different classes of membership of a pension scheme and any definitions and paragraphs contained within your Scheme Rules or scheme literature relating to any benefit may differ considerably between these categories.

You retirement income is important:

- Keep informed. Your scheme may modify benefits and Rules. Legislation may change. Your circumstances may alter.
- Rules differ from scheme to scheme and are wide and varied in content. Don't assume that what applies to one of your pension schemes will necessarily apply to others that you may have.
- **HMRC** impose rules which **registered pension schemes** must conform to.

People seldom have identical pensions and you should avoid drawing comparisons with colleagues whose circumstances may at first appear the same but could emerge as having significant differences.

This Factsheet forms part of our Module [Important Aspects of My Pension](#) and should be read alongside the other Factsheets and Quicknotes in the series.

This is not an authoritative document. Seek professional advice from an appropriately experienced and qualified adviser.

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