

Pensions and Part-Time Working

INTRODUCTION

This briefing sets out what differences part-timers might see in their work-based pension savings, when compared with full-time workers.

The law states that, since July 2000, part-time workers should be given the same rights of access to occupational pension arrangements as their full-time colleagues (unless different treatment can be justified by an employer). As detailed below however there may be differences that exist between the rules applying to part-time workers.

We will look at the two main types of work-based pension scheme; namely defined benefit (including final salary and career average schemes) and defined contribution (including stakeholder, personal pensions and group personal pension).

Your Basic State Pension is not affected by part-time working so long as you earn above the Lower Earnings Limit (currently £97 per week). State Second Pension (previously SERPS) is determined by the level of earnings on which you paid National Insurance, so a part time worker would expect to receive less from these benefits than a full time comparator.

DEFINED BENEFIT SCHEMES

Such pension schemes will guarantee a pension benefit to be paid in line with a set formula:

$$\text{Accrual Rate} \times \text{Length of Service} \times \text{Pensionable Salary}$$

Accrual Rates

Accrual rates should be the same for part-time workers and full-time comparators.

Length of Service (including enhancements)

As well calculating the amount of pension using the length of service, some schemes also set minimum service criteria before allowing an employee to join. It is typical for pension schemes to pro-rate downwards periods of service during which a member worked part-time. This is outlined in the example on the next page. Some defined benefit schemes can offer enhancements to service for members retiring on grounds of ill health or redundancy. It is common for any such enhanced service to be pro-rated for part time workers.

Pensionable Salary (including pension contributions and offsets)

Each pension scheme will have its own definition of pensionable salary which typically includes basic salary but may not necessarily include other elements of pay (e.g. overtime or shift allowance). It is typical for pension schemes to pro-rate upwards a part-time member's salary so that pensionable salary reflects the full-time equivalent. Your pension contributions should only be worked out on the basis of your actual part-time salary. However where different tiers of contributions exists, such as in the Local Government and NHS Pension Schemes, your allocation to different tiers will be based on your full-time equivalent salary. Many schemes define the pensionable salary using an offset, which is typically aligned with the Basic State Pension or the National Insurance Lower Earnings Limit. The High Court has previously ruled that not pro-rating a Lower Earnings Limit offset for part-time workers is not discriminatory, provided it is applied equally to males and females. The exact definition for pensionable salary for your scheme should be available from your pension scheme contacts or your employer.

Example of Part Time Worker in a Final Salary Scheme, with an accrual rate of 1/60th

Jo works a total of 20 years, but works the first ten years at the full time rate and the second ten years at 2.5 days per week (i.e. half of the full time hours). She consequently gets 15 years service towards her pension (which consists of her full ten years of full time service and one-half of her period of part time service). Her part time pay on retirement is £8,000pa (meaning that her full time equivalent pay is £16,000pa).

Her annual pension is calculated as

$$1/60 \times 15 \text{ years} \times \text{£}16,000 = \text{£}4,000\text{pa}$$

DEFINED CONTRIBUTION SCHEMES

These schemes do not offer any type of guarantee, but rather pension contributions are invested in an individual account which is invested and used to provide pension benefits on retirement.

GMB policy states that, for defined contribution schemes, all earned income should attract pension contributions from both employees and employers. However many schemes set a pensionable salary on which contributions are paid. The definition of pensionable salary can exclude certain aspects of pay (e.g. bonuses, shift allowance). It can also apply an offset, which is typically aligned with the Basic State Pension or the National Insurance Lower Earnings Limit. The High Court has previously ruled that not pro-rating a Lower Earnings Limit offset for part-time workers is not discriminatory, provided it is applied equally to males and females. The exact definition for pensionable salary for your scheme should be available from your pension scheme contacts or your employer.

THE EFFECT OF CHANGING WORKING HOURS ON PENSIONS

If you are in a defined benefit pension scheme, the service you build up through full-time service is protected, and will count in full towards your pension. However the service you build up going forward will be reduced as long as you work part-time. This is reflected in the example on the previous page. To ensure that you do not lose out twice, your pension would be calculated by reference to your full time equivalent pay.

If you are in a defined contribution scheme, the contributions that are paid to your pension account would be reduced in line with reductions to your take home pay from moving to part-time.

Some employers with a defined benefit scheme offer the possibility of flexible retirement. This allows you to continue in work on a part-time basis whilst drawing on some or all of your pension.

EXAMPLE OF A DEFINED BENEFIT SCHEME MEMBER WHO VARIES WORKING HOURS THROUGHOUT CAREER

This example assumes general pay rises are 2% per annum on average whereas price inflation is 2.5%. The member moves from working full time hours to reduced hours after four years – both part time and whole time equivalent (WTE) earnings are shown.

The pensions shown highlight what would be paid if the member was in either a final salary scheme, or a career average scheme (both with accrual rates of 1/60).

Year	Hours	Pensionable Service (years)	Actual Earnings	WTE Earnings	Revalued WTE Earnings
1	37.5	1	£20,000	£20,000	£23,774
2	37.5	1	£20,400	£20,400	£23,658
3	37.5	1	£20,808	£20,808	£23,542
4	37.5	1	£21,224	£21,224	£23,428
5	22.5	0.6	£12,989	£21,649	£23,313
6	22.5	0.6	£13,249	£22,082	£23,199
7	15	0.4	£9,009	£22,523	£23,086
8	15	0.4	£9,189	£22,974	£22,974
Total Service		6		Average	£23,372
CARE Pension (1/60)					£2,337
Final Salary Pension (1/60)					£2,297

REDUNDANCY AND PART-TIME WORKING

The statutory redundancy scheme bases payments on the actual level of earnings you receive. Many enhanced schemes replicate certain provisions of the statutory scheme and basing the redundancy payments on part-time earnings is a common feature.

This can mean that, even if you had worked full-time for many years and only recently moved to part-time, redundancy payments could still be based on your part-time earnings, as opposed to any full-time equivalent level. For many people this can lead to redundancy payments being much lower than they had anticipated.

For example John has worked for 24 years for his employer at a full time rate and earned £16,500pa. One year ago he moved to working part time and his earnings were reduced to £11,000pa. He is now being made redundant at the age of 55 and his employer offers the statutory redundancy amount. This would be calculated as:

(14 years times 1.5 of his weekly pay) plus (6 years times his weekly pay)

giving a redundancy payment of £5,711.

(If John had been made redundant one year ago whilst he was still working full time, he would have received a statutory redundancy payment of £8,409)

COMPLAINTS

Anyone wishing to complain against any perceived unfair treatment of their pensions on the grounds that they worked part-time may take such a complaint to an employment tribunal. This must be done no more than three months after the date you first became aware of the discrimination or within six months of leaving employment (if earlier). If the complaint relates to a lack of access to the pension scheme, tribunals have the power to grant backdated service to April 1976. Anyone receiving backdated service would be expected to make good the employee contributions that would have been paid by them.