Financial Reporting Advisory Board

MyCSP explainer on pension figures in remuneration reports

How do remuneration reports and Annual Benefit Statements differ in purpose?
As in the private sector, the purpose of the remuneration reports is to provide transparent information to readers about the reward package provided to an organisation's Directors and most senior staff. Guidance on how the pension element of the package should be presented in departmental accounts is contained in the Government Financial Reporting Manual (FReM) and Employer Pension Notices, which largely reflect the private sector requirements set out in the Companies Act 2006 and subsequent regulations. Remuneration report disclosures (including pension figures) are subject to independent audit.

Information is presented slightly differently from the way it is provided to members in Annual Benefit Statements (ABS), which are to aid individual financial and retirement planning, and which are governed by requirements in the Pension Schemes Act 1993, Pensions Act 1995 and subsequent regulations.

How are ABS figures calculated?
When an individual's alpha pension benefits are calculated, they are based on the Pensionable Earnings figure that was provided from the department over the year. The individual accrues 2.32% of this as their pension. In addition, revaluation (currently equivalent to the September increase in the Consumer Prices Index) is applied, so the figure shown on the ABS is the alpha pension as at 1 April of the year that it is issued.

When the Final Salary element (classic, classic plus and premium) of a pension is calculated on the ABS, it is based on a simplified Pensionable Earnings figure. This simplified calculation is based on an individual's last twelve months' Pensionable Earnings at 31 March.

How are the remuneration report figures calculated?
Remuneration reports include a calculation of an individual's pension and, based on that, include two figures which are shown as capitalised lump sums - the Cash Equivalent Transfer Value (CETV) and the Single Total Figure of Remuneration (STFR).

Alpha (and nuvos) pensions are shown in remuneration reports as at 31 March, before the April revaluation is applied. The figures therefore will be less than appear in the individual's subsequent ABS (which will include the April revaluation).

In contrast to ABSs, remuneration reports show the gross pension benefit figures earned, regardless of an individual's circumstances. This means, for example, that the figures will not reflect a debit resulting from a pension sharing order as part of a divorce settlement, or a Scheme Pays reduction if an individual has elected to pay an Annual Allowance tax bill that way.

There is also a difference in approach in the remuneration report if the individual has any final salary benefits (because they were a member of classic, classic plus or premium prior to April 2022). As noted above, the pension figure in the ABS is based on a simplified Pensionable Earnings figure, but any final salary elements shown in the remuneration report are based on the more detailed calculations set out in the scheme rules. For example, if an individual was a member of the classic scheme, their pension would be calculated using the best 12 months' pensionable earnings in their last three years of service.

How is the Single Total Figure of Remuneration (STFR) calculated?

This is a simplified representation of how the pension has increased in the year. It is calculated as the real increase in annual pension multiplied by 20, plus the real increase in any lump sum, less the contributions made by the individual in the year. A flat factor of 20 is used, regardless of an individual's age. The real increases in pension and the real increase in lump sum are determined by comparing how the values as at the previous 31 March have changed due to an extra year of pension benefits being accrued, with what the values as at the previous 31 March would be if they had simply changed in line with inflation without any further pension accrual. In some cases, the real "increase" can be negative if the accrual of pension benefits has not matched inflation.

How is the Cash Equivalent Transfer Value (CETV) calculated?

The CETV is the capitalised or cash value of all the individual's pension benefits, including the survivor pension that would be paid if they died. It is the amount of money that would be transferred to another pension scheme if the individual transferred their pension rights. The pensions used in the calculation are based on an individual's Pensionable Earnings under the scheme rules and, in contrast to the STFR, the CETV is calculated using actuarial factors determined by the individual's age and length of time to their scheme pension age. It is a complex calculation that needs to be calculated by the scheme administrator but, as a rule of thumb, the CETV is likely to be between 10 and 20 times the individual's pension.

Which pensions are shown in remuneration reports for individuals who are in scope of the 2015 Remedy?

The pensions of those in scope of the 2015 Remedy were reported in 2023/24 remuneration reports on the basis of being in their relevant legacy scheme for the period between 1 April 2015 and 31 March 2022, following the McCloud judgment. This approach reflects the legal position and will continue for 2024/25 (as described in paragraphs 6.5.8 and 6.5.15 of the 2024-25 Government Financial Reporting Manual (FReM)). On retirement, individuals will have a choice to elect to instead receive benefits under the terms of the alpha scheme for the period from 1 April 2015 to 31 March 2022.

Example of information that MyCSP provides to departments

A full example of the calculations involved in the production of the Resource accounts figures can be found here.