## Factsheet twenty-one

# Employees in Variable Time Employment

## Who is classed as a variable time employee?

A variable time employee is an employee who is paid on a basis which is not calculated either by reference to a fixed annual salary, or in such a way that it would be reasonably practicable to identify a fraction of part-time working. Variable time employees may have either a fixed term contract or not. Where any doubt arises about the variable time status of an individual (for the purposes of the scheme), USS Ltd has the power to decide whether a member is a variable time employee or not.

### How is this different to a part-time employee?

A part-time employee is a regular employee who does not work full-time and is paid wholly or in part by reference to a salary, which is a fraction of salary received by their colleagues in the same role with a full-time commitment. For example, an employee who has a contract stating the hours they work and their rate of pay, just like a full-time permanent employee, except the hours they work are not full-time.

## Categories of variable time members

**Sole variable time** – an individual who holds a single variable time pensionable post with one USS institution.

**Multiple variable time** – an individual who holds more than one variable time pensionable post at the same and/or another USS institution.

**Concurrent** – an individual employed in regular employment with a USS institution who, at the same time, is employed as a variable time employee with another or the same USS institution.

## How are benefits calculated for variable time members?

The method by which benefits are calculated varies depending on which category a member falls into.

### 1. Concurrent Variable Time

In the case where an individual is employed in regular employment with a USS institution and, at the same time, is employed as a variable time employee with another or the same USS institution, the USS rules provide that an individual builds up pension benefits from his or her variable time employment that are linked to his or her benefits from the regular employment.

This is done by working out a period of additional pensionable service, earned in respect of the variable time employment that is then added to the employee's pensionable service from the regular employment.

There is a specific formula, which is used to determine the additional period of service due in respect of the variable time employment. The service is calculated by dividing the actual salary received in the variable time employment by the full-time equivalent level of salary in the *regular* employment, for the period during which the concurrency subsists (this is sometimes referred to as the "(A/B) x C formula"). This is illustrated as below:

$$\frac{\text{Actual earnings in variable-time employment (A)}}{\text{Full-time equivalent earnings in regular employment (B)}} \times \text{Period during which both employments held concurrently (C)}$$

The formula ensures that employees receive a fair credit for the level of earnings received (and therefore for the contributions paid) in a variable time employment, which is held concurrently, and retain the valuable link to the salary progression in their regular (main) employment.

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It is important to note that the emerging benefits paid in respect of a period of concurrent employment will be calculated by reference to the pensionable service from the regular employment plus the additional pensionable service from the variable time employment; but the pensionable *salary* used will be from the regular employment only.

Please refer to the appendix where you will find examples of the calculation of benefits for members in concurrent employment (where regular employment is full and part-time and also where concurrent membership is for a part-year).

**2. Sole Variable Time**

If a person holds a sole variable time employment or multiple variable time employments there are no pension benefits from regular employment to which the variable time employment can be linked. As for concurrent variable time employees, the purpose is to determine a fair credit of pensionable service for the level of earnings received (and therefore the contributions paid) in the variable time employment. To do this, USS converts the pensionable service and pensionable pay into notional full-time equivalents. Using this formula means that each year the employee will build up a period of pensionable service, which is linked to a notional full-time equivalent pensionable salary. This will be the case even though that person's actual earnings may fluctuate greatly and may in some years reduce. The way in which benefits are calculated for sole variable time employees is based on the traditional formula which is as follows:

$$\text{Pension} = \text{1/80th} \times \begin{array}{c}\text{Pensionable}\\\text{Salary}\end{array} \times \begin{array}{c}\text{Pensionable}\\\text{Service}\end{array}$$

$$+ \text{ Tax-free lump sum of } 3 \times \text{Pension}$$

When a variable time member joins the scheme, where possible the employer must advise USS of a notional full-time equivalent level of pay for the member. In arriving at this notional full-time equivalent, the employer will need to assess what a person employed in a similar role would receive if they worked a full-time commitment (if that were possible). Given the nature of variable time employments this is often a difficult or impossible task, and therefore if the employer cannot provide such a figure then USS will (with the employer's agreement) apply a notional default salary figure, which will be used in the calculation of benefits for the member. For the financial year 2007/08 this figure is £31,870 per annum, and the figure is reviewed each year by USS Ltd. There is a link below Factsheet twenty-one on the website to a table of historic default salaries.

At the end of the financial year the employer will provide USS with details of the total actual pensionable salary paid to the member for the year - USS can then establish a notional part-time service fraction and calculate the credit of pensionable service as follows:

$$\begin{array}{l}\text{Notional}\\\text{part-time}\\\text{service}\\\text{fraction}\end{array} = \frac{\text{Actual salary received}}{\begin{array}{c}\text{Notional full-time}\\\text{equivalent level of pay*}\end{array}} \times 100\%$$

**this figure is defined by the employer, or is the default value specified by USS Ltd (currently £31,870)*

The period of pensionable service credited to the member for the year of active membership is therefore:

$$\begin{array}{l}\text{Pensionable}\\\text{service}\end{array} = \begin{array}{c}\text{Notional part-time}\\\text{service fraction}\end{array} \times \text{365 days}$$

The retirement pension accrued for that financial year is therefore:

$$\frac{\text{Pensionable service}}{80} \times \begin{array}{c}\text{Notional full-time}\\\text{equivalent level of pay}\end{array}$$

**3. Multiple Variable Time Appointments**

Where there are multiple variable time appointments at the same institution then the institution will advise USS Ltd of the total earnings and the full-time equivalent level of pay for all appointments and USS Ltd will then be able to calculate the employee's pensionable service for that year.

Where multiple appointments are held at more than one institution, each period of employment will be calculated independently and benefits will be calculated separately.

## Death in service benefits

The methods for calculating death in service benefits are broadly the same whichever category of employment the member is in. There are additional provisions contained within the scheme for variable time employees who die after having contributed to the scheme for less than two years, so that the estimated salary which would have been received up to the 31 March following death, can be used if it provides a more advantageous benefit.

All members of USS are covered for three times their salary as a lump sum payment to their beneficiaries in the event of their death whilst an active member of the scheme. A member is considered to be an active member of the scheme so long as a contractual arrangement exists between the employer and the employee – in all cases it is for the employer to confirm if an employment relationship exists as at the point that a benefit becomes payable from the pension scheme. For a variable time employee it is not always easy for USS Ltd to know whether in a particular case there is (i) a break in period of work but the employee remains under a contract of employment, or (ii) the cessation of a period of variable time employment. This matter is, however, a decision for the employing institution.

In addition to a lump sum benefit, a spouse's, dependant's, civil partner's and/or children's pension may be payable. The following is an example of the death benefits calculation for a sole variable time employee:

**Lump sum death benefit**

Lump Sum = 3 x Actual salary received*

**Actual salary for these purposes is normally the actual salary received over the last 12 months of variable time employment (note, it is the actual salary received and not the full-time equivalent level of pay). However, there is an adjustment, which can be applied to provide an equitable figure where employment is short-term in nature. The way that this adjustment applies is that, where a member has less than two years' active membership, the rules enable the calculation to be undertaken as if he/she had survived to the 31 March following death, if that would provide a higher figure for these purposes. In the example therefore of a member who dies on 31 December who has completed seven months of USS membership, it would be projected that the member had survived until 31 March of the following year, and therefore the salary used would be based on a period of 10 months in total (the original seven months plus the three projected months), with the employer making an assumption as to the level of earnings that would have been gained during that projected three month period. It should be noted that this 'project-forward' facility could only be applied where a member has less than two years' service, and no period greater than 12 months can be used in this assessment.*

*In the case of a concurrent variable time employee this is added to the salary from the regular employment.*

## Spouse's/dependant's/civil partner's pensions

The benefit payable in these circumstances is in the form of an ongoing pension, and in carrying out the calculation of the pension payable the scheme rules provide for pensionable service to be projected forward as if the member had remained in the scheme to age 65 subject to a maximum of service achieved at death or 40 years, whichever is greater.

For concurrent variable time employees this projection will be done on the basis of the total pensionable service built up before death (including the additional service). For sole/multiple variable time employees, in estimating this service enhancement USS will use a career average notional part-time service fraction. In other words, the scheme will use the average service accrued in each year up to date of death for projecting forward what the overall pensionable service would have been at 65 subject to a maximum of service achieved at death or 40 years, whichever is greater. The following is an example of this calculation:

| Year | FTE Salary | Actual Salary | Service Fraction | | Pensionable Service |
|---|---|---|---|---|---|
| 2004 | 29,000.00 | 7,000.00 | 24.14% | | 88 days |
| 2005 | 30,000.00 | 12,000.00 | 40.00% | | 146 days |
| 2006 | 31,000.00 | 9,000.00 | 29.03% | | 106 days |
| | | Average | 31.06% | Total | 340 days |

The service used in the calculation would be the total service accrued to date plus future service to age 65 (or to the completion of 40 years' service if sooner) multiplied by the average service fraction. For example, in the event of the death of a variable time member at age 55 who has the employment and earnings pattern described above, the service enhancement would be 10 years x 31.06%, or 3 years and 39 days. The total service in this example would then be 3 years 39 days plus 340 days, in total 4 years and 14 days.

The long term spouse's / dependant's / civil partner's pension would therefore be:

$$\frac{\text{4 years 14 days}}{160} \times \text{£31,000} = \text{£782.43 per annum}$$

If there are eligible children then pensions may also be due to be paid, determined in much the same way but applying a different fraction than 1/160ths. Further details of children's pensions are available in factsheet number seven (available at http://www.usshq.co.uk).

## Incapacity retirement

Where a member is found to be suffering from either partial or total incapacity, he/she will become eligible to receive immediate payment of retirement benefits assuming that two years' active membership has been completed. In the case of total incapacity, the member is entitled to receive an enhanced incapacity retirement pension, with pensionable service projected to age 65 subject to a maximum of service achieved at retirement or 40 years, whichever is greater. In such cases, the service enhancement is calculated in the same way as for the determination of spouse's/dependant's/civil partner's pensions shown above.

## Paying additional voluntary contributions

Whilst many members in USS will not be able to achieve the maximum benefits, there are ways in which you can pay extra contributions to increase your benefits. Full details on AVCs are included in USS factsheet one (available at http://www.usshq.co.uk).

However, the position for variable time members is a little more complex, particularly for extra contributions to the scheme's added years arrangement. Where a member wishes to pay AVCs into the money purchase AVC, this is possible each month or on an annual basis so long as the total AVCs paid do not exceed limits set by HM Revenue & Customs.

The most you can pay to the added years AVC is 15% of salary in addition to the standard contribution of 6.35%. HM Revenue & Customs allow you to pay up to 100% of your available earnings (or up to £3,600 pa if greater) to any UK registered pension scheme, which could include the USS money purchase AVC. Additionally you are not restricted from joining just one scheme; you can pay into any number of registered pension schemes and receive tax relief so long as your total contributions in any tax year do not exceed 100% of your total taxable earnings (or up to £3,600 pa if this is greater). For further general information on AVCs see Factsheet one.

As mentioned, the position for the added years AVC is more complicated, especially if monthly contributions are preferred to paying a lump sum.

Where a lump sum AVC is paid, the first requirement is to ensure that the contribution limit of 15% has not been exceeded for that tax year. Once this check is satisfied, USS can confirm the level of additional service purchased making an assumption regarding the level of earnings that will be gained during that tax year. Any lump sum AVC service is calculated using factors expressed as a percentage of pensionable salary. USS can calculate what this will buy based on the notional pensionable salary supplied by your employer.

## Small 'Trivial' pensions

Currently, where your pension from USS is less than £260 per annum, it may be possible in some circumstances to 'fully commute' this benefit. In other words you could receive a one-off lump sum payment rather than the small pension income.

Full details will be given to you at the point of retirement.

**Calculation for a sole variable time employee**

Example:

Actual salary £9,000

Notional salary £30,000

£500 lump sum paid to buy additional pensionable service (1.67% of notional salary = 5.55% of actual earnings)

Male member aged 35, cost to buy 1 year of service to retire at 65 = 16.15% of salary

**Service purchased is (1.67 ÷ 16.15) x 365 days = 38 days**

Any future pension in respect of this lump sum AVC would be calculated as:

$\frac{38}{365} \times \frac{1}{80}$ x notional full-time salary at leaving/retirement

Where a monthly added years AVC is paid USS would only be able to confirm each years' service credit when your employer has provided your salary and contribution data for that year.

USS would need to assess the service credit for each year of variable time employment and then add this together on leaving/retirement.

When requesting a quotation USS will confirm how much service you could buy, based on full-time service. The amount of service you then actually buy each year depends on the salary you actually receive. For example:

Possible shortfall in full-time service of 5 years

Extra % contribution of salary for a male aged 35 at start of contract is 0.61% x 5 = 3.05%

If you were a variable time member you could pay 3.05% of your salary (i.e. your actual salary each month). Using the previous example to calculate the additional service for the year:

Actual salary £9,000

Notional salary £30,000

Period of Added Years AVC contract is 30 years to buy 5 years additional service

Service purchased = $\left(\frac{5}{30} \times \frac{9,000}{30,000}\right)^{*} \times 365$

Service purchased = 18 days

** this is the calculation to determine the amount of full-time service purchased for the year*

If this level of employment was maintained for the next 30 years (i.e. to age 65) then the total additional service would be 30 x 18 days = 1 year 175 days.

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# Appendix 1

# Example calculations

## Example One - Pension and tax-free cash sum (concurrent employment)

**Regular employment:**

| | |
|---|---|
| Start date of USS membership | 1 October 1986 |
| Pensionable earnings in year one | £30,000 |
| Pensionable earnings in year two | £32,000 |
| Part-time service fraction | 100% |

**Variable time employment:**

| | |
|---|---|
| Start date of USS membership | 1 April 2005 |
| Pensionable earnings in year one | £5,000 |
| Pensionable earnings in year two | £6,000 |

**Year One** - calculation of credit from variable time employment after first year of concurrent employment:

$$\frac{\text{Variable time earnings}}{\text{Regular time earnings}} \times 1 \text{ year} = \text{credit from variable time employment}$$

$$\frac{£5{,}000}{£30{,}000} \times 1 \text{ year } 000 \text{ days} = 0 \text{ years } 61 \text{ days}$$

**Year Two** - calculation of credit from variable time employment after second year of concurrent employment:

$$\frac{£6{,}000}{£32{,}000} \times 1 \text{ year } 000 \text{ days} = 0 \text{ years } 68 \text{ days}$$

**Calculation of USS benefits at point of leaving the scheme (at 31 March 2007):**

| | |
|---|---|
| Pensionable service in regular employment | 20 years 182 days |
| Credit from variable time employment – year one | 00 years 61 days |
| Credit from variable time employment – year two | 00 years 68 days |
| Total pensionable service | 20 years 311 days |

$$\frac{20 \text{ years } 311 \text{ days}}{80} \times £32{,}000 = £8{,}340.82 \text{ per annum}$$

$$\frac{3 \times 20 \text{ years } 311 \text{ days}}{80} \times £32{,}000 = £25{,}022.46$$

**Final retirement benefits:**

Retirement pension £8,340.82 per annum
Lump sum £25,022.46

## Example Two - Pension and tax-free cash sum (concurrent employment)

**Regular employment:**

| | |
|---|---|
| Start date of USS membership | 1 February 1983 |
| Part-time service fraction | 60% |
| Pensionable earnings in year one | £31,000 |
| Full-time equivalent earnings in year one | £51,666 |
| Pensionable earnings in year two | £32,500 |
| Full-time equivalent earnings in year two | £54,167 |

**Variable time employment:**

| | |
|---|---|
| Start date of USS membership | 1 October 2005 |
| Pensionable earnings in year one | £4,000 |
| Pensionable earnings in year two | £9,000 |

**Year One** - calculation of credit from variable time employment after first (part) year of concurrent employment (using financial years as the basis):

$$\frac{A}{B} \times C = \text{credit from variable time employment}$$

$$\frac{£4{,}000}{£25{,}833^{a}} \times \text{0 year 182 days} = \text{0 years 28 days}$$

[a] this is the value of the full-time equivalent salary over the six month period during which concurrent employment existed in year one (1 October 2005 to 31 March 2006)

**Year Two** - calculation of credit from variable time employment after second year of concurrent employment:

$$\frac{£9{,}000}{£54{,}167} \times \text{1 year 000 days} = \text{0 years 61 days}$$

**Calculation of USS benefits at point of leaving the scheme (at 31 March 2007):**

| | |
|---|---|
| Pensionable service in regular employment | 14 years 181 days |
| Credit from variable time employment – year one | 00 years 28 days |
| Credit from variable time employment – year two | 00 years 61 days |
| Total pensionable service | 14 years 270 days |

$$\frac{\text{14 years 270 days}}{80} \times £54{,}167 = £9{,}980.08 \text{ per annum}$$

$$\frac{3 \times \text{14 years 270 days}}{80} \times £54{,}167 = £29{,}940.24$$

**Final retirement benefits:**

Retirement pension £9,980.08 per annum
Lump sum £29,940.24