

Protection of Pay & Voluntary Protection of Pay Factsheet

There are two provisions under which a member can protect their pensionable pay: Protection of pay through no fault of the member (both Sections of the Scheme) and Voluntary Protection of Pay (1995 Section only).

Protection of Pay (through no fault of the member)

A member, who has at least two years qualifying service and suffers a reduction in earnings through no fault of their own, may apply to protect their pension benefits.

Examples of accepted reasons for protection of pay are:

- A change in the nature of the duties performed, for example due to ill health
- A move to a lower paid post because of pending or actual redundancy.
- Being transferred to other employment with an employer.

We can consider protecting pension benefits when redundancy results in a member receiving a lower rate of pensionable pay within 12 months of redundancy. As pension benefits are automatically deferred after a break of 12 months, a member would not need to apply for protection if returning to HSC pensionable employment 12 months or more after being made redundant.

Where pay is to 'mark-time' for a specified period, pensions can be protected at the beginning and the end of the mark-time period.

Voluntary Protection of Pay (VPP)

If a member of the 1995 Section of the Scheme has attained minimum pension age and chooses to 'step down' to a less demanding role where their new or remaining duties are less demanding and carry less responsibility than their previous duties, they may be able to apply for voluntary pay protection, if their pay reduces by at least 10%.

VPP was introduced from 1 April 2008 to provide more flexibility in the 1995 Section of the Scheme. The provision recognises that in the run up to retirement a member may prefer, if possible, to remain in HSC employment, perhaps in a lesser capacity, whilst protecting their pension benefits.

This provision allows an employer to maintain valuable knowledge and skills of a member who may otherwise have left the HSC Any 'step down' will therefore be agreed between the employer and the member and the employer will have to provide HSC Pensions with information that the 'step down' has been agreed.

The provision is not intended for situations where a member leaves one employer and joins another on a reduced rate of pay. The provision is intended for lasting, rather than trivial or short-term reductions in pay.

The following criteria must be met:

- A member must be in the 1995 Section of the Scheme.
- A member must have stepped down to a less demanding role where the new, or remaining duties are less demanding and carry less responsibility than the previous duties. The employer(s) must confirm this.
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- The member's pensionable pay has not been subject to any other reductions in the 12 month period before they stepped down, as verified by the employer(s).
- An application has been made after 12 months, but within 15 months, of the pensionable pay being reduced.
- The member has attained their normal minimum pension age. (Further information about minimum pension age can be found in the Scheme Guide).
- The member has attained at least 2 years qualifying membership within the HSC Pension Scheme at the time they step down.
- The member has not previously protected their pensionable pay under the Voluntarily Protected Pay provision.

How does a member apply?

The member should normally complete form 'Pro Pay 1' and send this to the employer. On receipt of a completed 'Pro Pay 1' form, (or written request) from a member, the employer should complete form 'Pro Pay 2', ensuring that all relevant information is provided. The employer should then send the form to HSC Pensions along with the 'Pro Pay 1', (or written application) from the member.

HSC Pensions will consider the application and write to the member, via the employer, with the outcome.

Time Limits

Protection of Pay through no fault of the member – requests should be made within 3 months of the member going on to reduced pay.

Voluntary Protection of Pay – Requests should be made after 12 months, but within 15 months of the pensionable pay being reduced.

A member does not need to apply if:

- The member is reducing their hours but not their hourly rate of pay. This is because we always use the notional whole time equivalent pay when calculating retirement benefits.

Calculating Benefits

When a member retires, or transfers benefits out to another pension scheme, if they have one period of protection, two pensions will be calculated. A pension based on the protected rate of pay* plus inflation increases for membership up to the date of protection and a second pension for membership after that date will be calculated using pay* at retirement.

If the benefit calculation using the protected pay plus inflation increases is not more beneficial, then the whole of the benefits will be calculated using pay* at retirement.

*1995 Section - The best of the last three years pensionable pay

*2008 Section - The reckonable pay, which is an average of the best three consecutive year's pensionable pay in the last ten years

Remember: in the 2008 section, voluntary protection of pay does not apply.