

How Working Part-Time

A common question we encounter at The Pensions Trust is 'What effect does part-time working have on my pension? The answer depends on the type of pension scheme you belong to.

In all types of scheme your (and your employer's) pension contributions are related to your part-time earnings. Your contributions will therefore be lower than they would have been if you were working full-time. Your pension benefits are related directly or indirectly to your earnings, and this is where the effect of part-time working can become more difficult to explain.

Defined Contribution Schemes

If you are a member of a defined contribution scheme such as the **Flexible Retirement Plan**, the **Ethical Plan** or the new **Growth Plan Series 4** being launched on 1 October 2008, your pension contributions are paid into a personal fund which is converted to

a pension when you retire. There are no complex calculations involved but it is difficult to predict what your retirement income might be until quite close to retirement. The same applies to full-time workers.

Lower contributions will produce a smaller fund at retirement so if pension benefits are a priority, you might consider paying extra contributions to boost your fund. If any death-in-service benefits are provided these are linked to your earnings.

Growth Plan Series 3

Because of its capital guarantee Growth Plan Series 3 (introduced in October 2001) cannot be classified as a defined contribution scheme. However, it works as if it were a defined contribution scheme – a personal fund is converted to a pension when you retire – so the issues outlined earlier also apply to members of Growth Plan Series 3 who are working part-time.



Career Average (CARE) Schemes

Pension calculations for members of career average (CARE) schemes are based on each year's earnings. Members can mix periods of full-time and part-time service, they can move to different posts, and their working hours can even vary from week to week.

At the end of the scheme year the member's total pensionable earnings are worked out and that year's pension is then calculated using the scheme accrual rate (e.g. 1/60th, 1/70th, 1/80th, 1/100th as applicable to the scheme).

Active members receive an Annual Benefit Statement showing the pension that has already built up in the scheme; however, it is difficult to predict what the eventual pension might be as working hours and/or earnings will change in the years ahead.

Lump sum death-in-service benefits are linked to the member's earnings at the date of death. Dependents' pensions, if any, are based on the pension already earned. If the



Affects Your Pension

scheme rules provide for enhanced benefits then this part of the pension is usually calculated using earnings at the date of death. More information is available in your 'A Guide for Members' booklet.

Final Salary Schemes

The position for members of final salary schemes can be more complex to explain.

If a member works the same part-time hours throughout their scheme membership, it is relatively easy to calculate benefits.

For example, if a member has ten years in the scheme, earns £10,000 and the Scheme accrual rate is 1/80th the benefits are: 10 years x 1/80th x £10,000 = £1,250 pension a year.

In this scenario, any death-in-service benefits will be calculated by reference to actual earnings and pensionable service.

However, where the part-time hours change, then pensionable service and pensionable earnings have to be converted to their full-time equivalents to make sure that benefits are calculated correctly.

Similarly any dependants' pension benefits will be calculated using full-time equivalent earnings and full-time equivalent service.

However, any lump sum death benefit will be based on your reduced earnings.

Some members of final salary schemes are put off reducing their hours as they approach retirement because they fear it will reduce their pension dramatically. However,

reducing your hours will only affect the pension that you build up from the date your hours change.

If your rate of pay reduces (i.e. your hourly rate), it is essential to check with The Pensions Trust to see what arrangements will be made to ensure that you will not lose out.

Need more information?

If your 'A Guide for Members' booklet and this article haven't answered all your questions about part-time working and your pension, please contact your pension scheme administrator for more information.

How to calculate full-time equivalent service

Sue is a member of a final salary scheme. She currently works 24 hours out of 36 and her actual salary is £15,000.

Her full-time equivalent salary is $£15,000 \times 36/24 = £22,500$

Sue's hours have changed during her membership. She has been in the pension scheme for ten years. Her full-time equivalent service is five years and two months. The calculation is shown in the table below.



Hours worked	Actual Service	Calculation	Full-Time Equivalent Service
12 out of 36	2 years (24 months)	24 months x 12/36	8 months
18 out of 36	5 years (60 months)	60 months x 18/36	2 years 6 months
24 out of 36	3 years (36 months)	36 months x 24/36	2 years
Total	10 years		5 years 2 months