Additional Guidance

Final Salary Pension Scheme

The accrued pension at the end of any period is defined as follows:

Accrued pension = number of years’ service x accrual rate x salary at end of period

Career Average Pension Scheme

Instead of using the salary at a single point in time (i.e. the end of the period), the formula for career average calculation uses the average salary earned over the period. To recognise the general increase in the cost of living over time, the formula applies inflation increases from the year in which the salary is earned up to the end of the period.

The career average accrued pension builds up as follows:

- At the end of year 1 = salary in year 1 x accrual rate
- At the end of year 2 = (salary in year 2 x accrual rate) + (accrued pension at end of year 1 x (1 + inflation))
- At the end of year 3 = (salary in year 3 x accrual rate) + (accrued pension at end of year 2 x (1 + inflation))
- And the general case for all future years N:
- At the end of year N: accrued pension at end of year N = (salary in year N x accrual rate) + (accrued pension at end of year (N-1) x (1 + inflation))

It should be noted that the accrued pension under a career average scheme would be the same as that under a final salary scheme if the following conditions apply:

- Salary increases are equal to inflation.
- The accrual rate is the same for both schemes.