MEMBER CONTRIBUTIONS AND THE FLEXIBILITY TO PAY MORE OR LESS

There are changes to the Local Government Pension Scheme (LGPS) from 1 April 2014. This leaflet looks at the cost of the scheme and the ability you have to pay more or less by way of contributions from April 2014. In particular:

- Member contributions from April 2014
- The changes to 'pay' for pension purposes
- The member contribution table
- How your rate of contributions is assessed
- The flexibility you have to pay less - the new 50/50 option
- The flexibility you have to pay more to increase your benefits.

Member Contributions from April 2014

The rate of contributions you pay from April 2014 will be based on your actual pensionable pay. There are nine different contribution rates ranging from 5.5% to 12.5% - see the table below. Your employer will assess the rate of your contributions for each employment based on your actual pay.

Pensionable Pay

Pensionable pay is the amount of pay on which you pay contributions. From 1 April 2014 it includes non-contractual (as well as contractual) overtime and any additional hours worked in excess of your contractual hours.

Member Contribution Table

Pay Bands	Contribution Rates
Up to £13,500	5.5%
£13,501 - £21,000	5.8%
£21,001 - £34,000	6.5%
£34,001 - £43,000	6.8%
£43,001 - £60,000	8.5%
£60,001 - £85,000	9.9%
£85,001 - £100,000	10.5%
£100,001 - £150,000	11.4%
Over £150,000	12.5%

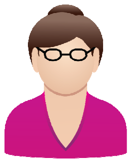
From April 2014 higher paid employees may pay more and part time employees may pay less when compared to the scheme before April 2014.

Assessing your rate of contributions

Each April, your employer will decide your appropriate rate of contributions for each employment by matching your actual pensionable pay to the appropriate band in the contributions table. It is expected that every three years the contribution bands will be reviewed.

If your pay changes during the year, your employer may decide to review your contribution rate. If this results in a change to your contribution rate, they will let you know.

How much will the new scheme cost? – Examples



Jennifer is a part-time receptionist	
Hours of work	30 hours per week
Full time equivalent Pensionable Pay	£22,220
Actual Pensionable Pay	£18,000
Contribution rate before April 2014	6.5%
Contribution rate from April 2014	5.8%

Before April 2014, Jennifer paid a contribution rate of 6.5% of her pensionable pay because her full-time equivalent pay was £22,220 a year.

From April 2014, Jennifer's contribution rate is reduced to 5.8%. This is because her contribution rate from April 2014 is determined on her actual pay which is £18,000 as Jennifer works 30 hours per week.

James is a full-time trainee horticulturist	
Hours of work	37 hours per week (full-time) plus non-contractual overtime
Full time equivalent Pensionable Pay	£20,000 plus £1,000 non-contractual overtime
Actual Pensionable Pay	£20,000 plus £1,000 non-contractual overtime
Contribution rate before April 2014	5.9%
Contribution rate from April 2014	5.8%

Before April 2014, James paid a contribution rate of 5.9% of his pensionable pay because his full-time equivalent pay was £20,000 a year. He did not pay contributions on his non-contractual overtime.

From April 2014, James's contribution rate is 5.8%. He will now pay contributions on his actual pay which includes non-contractual overtime (£21,000). This also means the pay used to work out his pension is higher.

John is a full-time senior administration officer	
Hours of work	37 hours per week (full-time)
Full time equivalent Pensionable Pay	£47,000
Actual Pensionable Pay	£47,000
Contribution rate before April 2014	7.2%
Contribution rate from April 2014	8.5%

Before April 2014, John paid a contribution rate of 7.2% of his pensionable pay because his full-time equivalent pay was £47,000 a year.

From April 2014, John's contribution rate is increased to 8.5% even though his actual pay remains at £47,000. This is because the contribution rates from April 2014 have changed.

And remember …

From April 2014 you will continue to receive tax relief on your pension contributions. To achieve this, your contributions are deducted from your pay before you pay tax.

You will also (up to State Pension Age) continue to pay reduced national insurance contributions. From April 2016 the government plans to remove this reduction in National Insurance contributions for all pension schemes, but full details on how this will work have yet to be finalised.

Your employer will continue to pay the balance of the cost of providing your pension benefits after taking into account investment returns.

Flexibility to pay less – the new 50/50 option

From April 2014 there is a new option in the scheme called '50/50'. You can elect for this option at any time, pay half your normal contributions and build up half your normal pension.

How does 50/50 work?

There are two sections in the scheme from 1 April 2014 – the main section and the 50/50 section.

The main section of the scheme is the section you will be placed in. In that section, you pay normal contributions and get the normal pension build up.

The 50/50 section is a new option. You will be able to elect to move to this section if you wish. If you do so, you will then pay half contributions but, whilst you are in the 50/50 section, you will only be building up half the normal pension. If you have more than one employment you can elect for the 50/50 option in one, some or all your employments.

Regardless of the section you are in, you get full life assurance cover.

Who can elect for 50/50?

Any member can elect to pay into the 50/50 section at any time. An election to join this section must be made in writing to your employer.

How long can you remain in the 50/50 section?

The 50/50 section is designed to be a short-term option for when times are tough financially. Because of this your employer is required to re-enrol you back into the main section of the scheme every three years. This will be carried out in line with your employer's automatic re-enrolment date. Your employer will tell you when this is if you're in the 50/50 section of the scheme. If you wish to continue in the 50/50 section at that point you would need to make another election to remain in that section.

You can choose to revert back to the main section of the scheme at any time by informing your employer in writing and you will then start to build up full benefits in the main section from your next available pay period.

50/50 – An example

Let's take a look at Susan and compare her being in the main section to the 50/50 section of the scheme for one year.

	Main Section	50/50 Section
Actual Pensionable Pay	£24,500	£24,500
Contribution Rate	6.5%	3.25%
Gross Contribution Amount for 1 year (before tax relief)	£1,592.50	£796.25
Pension built up in 1 year (payable every year in retirement)	£500	£250
Lump Sum Life Assurance cover	£73,500	£73,500

Susan would pay less in contributions in the 50/50 section – 3.25% instead of 6.5% and she would build up half the pension in the 50/50 section, £250, payable every year in retirement, compared to a pension of £500 if she was in the main section.

But remember, the value of any lump sum life assurance cover payable (three times annual pensionable pay) remains the same regardless of which section of the scheme Susan pays into.

Flexibility to pay more – increasing your benefits

If you want to make additional pension savings to increase your pension benefits there are two tax efficient ways to do so from April 2014. These are Additional Voluntary Contributions (AVCs) and Additional Pension Contributions (APCs).

Additional Voluntary Contributions (AVCs)

AVCs allow you to pay more to build up extra savings for retirement. From 1 April 2014 your contributions to an AVC arrangement will no longer be limited to 50% of your pay, so you can, if you wish, pay up to 100% of your pay towards an AVC, after allowing for any tax and National Insurance liability or any other existing deductions you may have.

Contact Liberata for more information on the AVC fund(s) offered by the London Borough of Bromley.

Additional Pension Contributions (APCs)

You can buy extra pension by paying APCs regularly, over a period of time, or you can buy extra pension by paying in a one-off lump sum. The maximum amount of additional pension you can buy from April 2014 is £6,500 (this figure will increase each year in line with the cost of living).

The amount it costs depends on how much extra pension you want to buy, the age you start paying the extra contributions and the length of time you want to pay them for.

In the new scheme you can only buy extra pension for yourself and not for additional dependants' benefits.

Contact Liberata for more information on APCs and a quotation if you are interested in this option.

Shared Cost APCs

In the new scheme, there is also the option of Shared Cost APCs.

Shared Cost APCs cover the amount of pension "lost" during periods of unpaid additional Maternity, Adoption and Paternity leave or periods of unpaid authorised leave of absence.

Shared cost means that if you want to cover such a period, the cost of buying the "lost" pension is shared between you and your employer, with your employer meeting 2/3rds of the cost (provided you make an election to buy the "lost" pension within 30 days of returning to work). Shared cost APCs can be a one off lump sum or regular amount over a period of time.

Contact Liberata for more information on APCs and a quotation if you are interested in this option.

More information

For more information, or if you have a problem or question about your LGPS membership or benefits, please contact:

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The national website for members of the LGPS can be found at www.lgps.org.uk. More information on LGPS 2014 can be found at www.lgps2014.org.uk

Disclaimer

The information in this leaflet applies to individuals who were contributing members of the Local Government Pension Scheme on 1 April 2014 or who have since joined. This leaflet was up-to-date at the time of publication in March 2014. This leaflet is for general use and cannot cover every personal circumstance, nor does it cover specific protected rights that apply to a very limited number of employees. In the event of any dispute over your pension benefits, the appropriate legislation will prevail as this leaflet does not confer any contractual or statutory rights, and is provided for information purposes only.

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