MEMBER CONTRIBUTIONS AND THE FLEXIBILITY TO PAY MORE OR LESS

The Local Government Pension Scheme (LGPS) is changing from 1 April 2015. This is one of a series of Member Briefings developed to explain the main changes to the LGPS. Further information as well as a video can be found on the LGPS 2015 website: **http://www.scotlgps2015.org**

In this Member Briefing we will look at the cost of the scheme and the ability you will have to pay more or less contributions from April 2015. In particular:

- Member contributions from April 2015
- The changes to what counts as 'pay' for pension purposes
- The member contribution table
- How your rate of contributions is assessed
- The flexibility you have to pay more to increase your benefits
- The flexibility you have to pay less - the new 50/50 option

Let's look at these in more detail.

Member Contributions from April 2015

The rate of contributions you pay from April 2015 will be calculated using the same tiered contributions approach as currently used.

Rate of pay	Contribution rates 2014/15
Less than £20,934	5.5%
Between £20,934 and £27,205	Between 5.6% and 6.0%
Between £27,206 and £34,152	Between 6.1% and 6.5%
Between £34,153 and £48,141	Between 6.6% and 7.5%
Between £48,142 and £54,235	Between 7.6% and 8.0%
Between £54,236 and £72,620	Between 8.1% and 9.0%
Between £72,621 and £109,862	Between 9.1% and 10.0%
More than £109,863	10.1% and over

However, they will be based on your actual pensionable pay as at 1 April including any additional hours (up to the additional full time hours for your post), not the full-time equivalent pay for your post.

Pensionable pay is the amount of pay on which you pay contributions. It includes your normal salary plus contractual overtime, bonuses, shift allowances and child related leave pay. For part time members, your pensionable pay will be based on your actual earnings (including any additional hours up to your post's full time hours), not full time equivalent.

Pensionable pay also determines how much pension you earn each year.

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. The intention is that contribution rates and / or pay bands will be reviewed on a regular basis and may change in the future.

If your pay changes materially 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.

Tax relief and reduced national insurance contributions

From April 2015 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 (in tax year 2015 / 2016) continue to pay reduced national insurance contributions. From April 2016 the government will remove the 1.4% reduction in employee National Insurance contributions for all contracted-out pension schemes.

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 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 2015. 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. You can pay up to 100% of your pay towards an AVC, after allowing for any pension and National Insurance liability or any other existing deductions you may have. Contact your pension fund for more information on the AVC fund(s) that they offer.

Additional Pension Contributions (APCs)

You can buy extra pension by paying APCs regularly, over a period of time (minimum 1 year up to your Normal Pension Age), or you can buy extra pension by paying in a one-off lump sum.

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.

Your pension fund will be able to give you 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 up to a maximum of 36 months.

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.

Your employer will be able to give you more information and a quotation.

Flexibility to pay less – the new 50/50 option

From April 2015 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 2015 – 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 and full ill health cover.

Who can elect for 50/50?

Any active member of the scheme 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 roughly every three years. 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.

If you are in the 50/50 section and move onto a period of no pay due to sickness or injury or whilst on ordinary maternity, paternity or adoption leave, then you will be moved back into the main section of the scheme from your next pay period if you are still in a no pay situation.

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 of the scheme 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 (2014 /2015)	5.8%	2.9%
Gross Contribution Amount for 1 year (before tax relief)	£1,421	£710.50
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 – 2.9% instead of 5.8% 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) and of any ill health retirement cover remains the same regardless of which section of the scheme Susan pays into.

Further Member Briefings available

There are four further Member Briefings in this series:

- The LGPS is changing from 1 April 2015
- Paying into the LGPS before April 2015?
- How is my pension worked out?
- When can I take my pension?

For more information on the new scheme and to view a video explaining the new scheme and to try out the modeller showing how a pension account works and the contribution cost calculator please visit **http://www.scotlgps2015.org**

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