

For an explanation of the terms underlined see the LGPS 2014- Glossary

These documents describe proposals and do not override any existing legislation. Any examples given are for illustration only, not as an estimate of the benefits you may receive

LGPS 2014 - THE 50/50 OPTION

The proposed LGPS 2014 has an option that allows employees eligible for LGPS membership to elect to contribute less and receive less benefit in return instead of opting out of the scheme altogether. This option will require renewal after a limited time and is not designed to replace long term membership of the full scheme.

HOW 50/50 WORKS

This '50/50' option will enable members to pay half their normal rate of contribution and in return build up half pension during that period. They will still retain the full value of other benefits such as the death in service lump sum. Members would elect for the 50/50 option and from the next pay period their contributions would be halved. No further election would be required until either the member wishes to rejoin the main scheme or they are brought back into the main scheme under automatic enrolment provisions (see below).

EXAMPLE 1

Ellen is paying off a loan and is finding things difficult financially so she decides to opt for the 50/50 scheme for the remainder of the time she has left on the loan. Her pensionable pay is £15,000 a year and she would contribute 5.8% (£58 per month after tax relief is applied) in the main scheme. For the time she is in the 50/50 option she contributes half that amount: 2.9% (£29 per month after tax relief).

In return she builds up a pension with an accrual rate of 1/98th (in contrast with the main scheme accrual of 1/49th) so if she stays in the 50/50 section for 2 years she will build up an annual pension of £306. This amount will be added to Ellen's pension in the main scheme.

While she is saving in the 50/50 scheme she remains eligible for the full value of other benefits of the scheme for example her death in service lump sum would be £45,000 (3 times her pensionable pay).

	Main scheme	50/50 option
Net contribution	£58 per month	£29 per month
Pension build up before revaluation	1/49 th = £306 per annum	1/98 th = £153 per annum
Death in service lump sum	£45,000	£45,000

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EXAMPLE 2

Roger's partner has been made redundant and they are facing a difficult time until work can be found. Roger decides to opt for the 50/50 scheme. 6 months later their finances are back to normal.

His pensionable pay is £55,000 a year so during the 6 months of 50/50 membership he has paid at a rate of 4.25% instead of 8.5%.

After tax relief this has reduced his contributions by a total of £701 during the period of 50/50 membership. The pension built up in that year has reduced from 1/49th of £55,000 for the whole year to 6 months at 1/49th and 6 months at 1/98th (from £1,122 to £842) whilst his death in service lump sum has remained at £165,000 throughout.

	Main scheme (6 months)	50/50 option (6 months)
Net contribution	£234 per month	£117 per month
Pension build up before revaluation	1/49th x 0.5 (6 months) = £561	1/98th x 0.5 (6 months) = £281
Death in service lump sum	£165,000	£165,000

50/50 AND AUTOMATIC ENROLMENT

The option is designed to provide a short term alternative to those considering opting out of the scheme. It will work in tandem with the forthcoming automatic enrolment provisions which will apply to all employers not just those who offer the LGPS. Members who have elected for the 50/50 option will be regularly automatically enrolled back into the main scheme in line with these provisions.

For more information on automatic enrolment please see www.direct.gov.uk/en/Pensionsandretirementplanning/DG_183783