

Opting out of the LGPS

Can I opt out of the Local Government Pension Scheme (LGPS)?

You have the right to opt out of your LGPS pension if you decide that you do not wish to be a member. What happens if you opt out depends on how long you have been a member of the Scheme. You should think carefully before opting out. Opting out may reduce your income in later life. You may wish to get help from an independent financial adviser.

What should I think about before opting out of the LGPS?

Before you opt out of the LGPS you need to be aware of the important benefits you will be losing.

- Your pension contributions are deducted from your pay before tax is taken. So the net cost to you, if you are a tax payer is less than you will see on your payslip..
- Your employer pays into the LGPS for you. Currently between 16% and 30% (with effect from 1 April 2023 to 31 March 2024) depending upon your individual employer. If you opt out of the LGPS this money is not payable.

While you are paying into the LGPS as an active member you have valuable life cover

- A tax free lump sum is payable if you should die that is equal to 3 times your annual pay
- If you have to leave work because of illness, your LGPS benefits may be paid straight away (once you have met the 2 year membership required). Ill health benefits can be paid at any age. Your pension would not be reduced for early payment. Your pension may be enhanced to make up for your early retirement.

In addition, once you have met the 2 year membership required, you will be entitled to the pension that you build up and also a pension for your spouse, civil partner or eligible cohabiting partner and even eligible children.

I can't afford to pay my pension contributions, what can I do?

If you are thinking about opting out of the LGPS because you can't afford to pay the monthly contributions, there is an alternative option. You are able to pay half your normal contribution rate and build up half your normal pension. This is called the 50/50 section of the LGPS. The good news is that you keep full life and ill-health cover if you join the 50/50 section. Further details on the 50/50 section of the LGPS can be found at www.lgpsmember.org/your-pension/paying-in/paying-less

If you would like to join the 50/50 section of the LGPS a form is available at www.dorsetpensionfund.org/forms-and-publications . The 50/50 form should be completed and returned to your payroll provider so that they can move you in into the 50/50 section of the LGPS at the next available pay period.

You can move between the main scheme and the 50/50 section of the LGPS as many times as you like. Your employer will automatically put you back into the main scheme roughly every 3 years when they do their employer Automatic Enrolment required by pensions regulations. But you can move straight back into the 50/50 section of the scheme if you are still not able to make the full contributions.

Can I re-join the Local Government Pension Scheme if I've previously opted out?

If you opt out, your employer is required to re-enrol you in the LGPS approximately every three years on a set re-enrolment date.

If you would like to opt back into the LGPS you are almost always able to do so if you are still eligible to join the Scheme and you are under age 75. You can opt back into the Scheme by completing a Pension Membership Form, available from your employer or at www.dorsetpensionfund.org/forms-and-publications

Is the LGPS good value for money?

You may be concerned that the amount of pension you will receive for the pension contributions you are paying is not good value for money.

Below is an example showing the pension contributions compared to the pension you would receive.

An LGPS member who earns £18,000 for two years will pay a contribution rate of 5.8% (2.90% if in the 50/50 section of the scheme). Here is an example of the cost of pension contributions

Main scheme member = £18,000 X 5.80 % = £1044 each year, by monthly payments of £87

50/ 50 section member = £18,000 X 2.90% = £522 each year, by monthly payments of £43.50

This member would receive a pension for these two years of pension contributions when they reach their Normal Pension Age of:

Main scheme member = £734.70 paid to them every year

50/50 section member = £367.35 paid to them every year

(An LGPS pension is calculated by taking your annual pensionable pay and dividing it by 49 or by 98 if you are a member of the 50/50 section of the scheme.)

In both main scheme or 50/50 section, once this member has received their pension for 3 years, they will be receiving more in pension payments than paid in pension contributions.

All LGPS pension are adjusted each year in line with the cost of living.

What happens to the pension contributions I've made if I decide to opt out?

What happens to the pension contributions you've already made depends on how long you have been a member of the LGPS.

Less than 3 months

Your employer will refund you through payroll and will make any necessary tax adjustments before refunding your pension contributions.

More than 3 months and less than 2 years

A refund will be payable from the Dorset County Pension Fund, a 20% adjustment for pensions tax will be applied. Alternatively you can transfer out these contributions to another pension provider.

2 years or more total LGPS membership

If you have been in the LGPS (in the Dorset County Pension Fund or another LGPS fund) for more than 2 years you will not be entitled to a refund of your pension contributions. You would then have a choice of transferring out your pension benefits to another pension provider or you could keep them in the fund until they become payable. You would then have a deferred pension benefit with cost of living pension adjustments applied each year and a statement sent to you annually.

Further details are available at www.lgpsmember.org

Disclaimer

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