

# CONTRACTING-OUT REBATES TO FALL FROM APRIL 2012

## IMPORTANT INFORMATION FOR LGPS EMPLOYERS AND EMPLOYEES

### BACKGROUND

The Local Government pension Scheme (LGPS) is a contracted-out defined benefit pension scheme. This means that LGPS members are contracted-out of the State Second Pension (S2P), previously known as the State Earnings Related Pension Scheme (SERPS).

As its members are contracted-out, instead of building up entitlement to the additional pension within S2P, employers and employees within the LGPS instead receive rebates on their National Insurance Contributions (NICs) meaning that they pay NICs at a lower rate than otherwise would be applicable.

Although LGPS members do not build up an entitlement to S2P / SERPS whilst in the LGPS, their entitlement to a Basic State Pension (BSP) is unaffected.

### WHAT'S CHANGING?

The Government has published a [statutory order](#) that reduces this National Insurance rebate from 5.3% to 4.8% from April 2012.

The rebate will be split 3.4% for employers, and 1.4% for employees, compared to 3.7% and 1.6% currently. The Government's decision follows a consultation carried out in 2010 by the Government Actuary.

Given that NICs are payable on earnings above the *Primary Threshold* (currently £139 per week), the impact of the change is highly dependent on the salary profile of employees. Furthermore, the impact will be mitigated by the fact that the *Primary Threshold* will be increasing to £146 per week in April 2012, to allow for the effects of inflation. However, once the effect of inflation is allowed for then on a like-for-like basis the change will translate directly to a small real reduction in an LGPS employee's take home pay from April 2012. Similarly it will lead to a real increase in an employer's National Insurance bill.

Employers should communicate this change to employees and ensure payroll systems etc. programmed to pick up the change from April 2012.

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