

## **COST MANAGEMENT, BENEFIT DESIGN AND ADMINISTRATION COMMITTEE**

**– 7<sup>th</sup> November 2017**

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### **Item 4 Paper B : 50/50 Survey**

#### **50/50 Survey – Summary, conclusions and recommendations**

As part of the internal cost management process, the Scheme Advisory Board tasked the LGPC Secretariat to produce an online survey to ascertain the reason for the low take up of the scheme's 50/50 section. Administering authorities in England and Wales were asked to make their members aware of the survey and encourage them to complete it, where applicable.

The survey was live on the homepage of [www.lgpsmember.org](http://www.lgpsmember.org) between 6<sup>th</sup> April and 29<sup>th</sup> July 2017 during which 8,716 responses were submitted. The results of the survey are shown at **Annex 1**.

#### **Summary**

##### **a) 50/50 section members**

1. 242 respondents (2.8%) had opted from the main scheme into the 50/50 section of the scheme. This is slightly higher than the anecdotal evidence prior to the survey suggested but significantly less than the assumption of 10% (of those members earning less than £21k) imposed by HM Treasury on the cost of the new scheme introduced in April 2014. Because the savings to the scheme from the 50/50 section appear to be significantly less than was assumed, we can expect to see a cost pressure in the cost management process of around 0.5% of paybill **[check figure with GAD]**.

2. Of the 242 respondents who had opted into the 50/50 section, almost 50% (121) said that they had done so because they could not afford full membership at the moment but that they do plan to move to the full scheme when they can. A further 81 respondents (33%) said that they were content to remain in the 50/50 section as it represents good value. About 10% of those members who had opted into the 50/50 section said that they had done so because they had reached the ceilings on contributions or annual or lifetime tax allowances.

##### **b) Full scheme optants-out**

3. 222 respondents (2.5%) had opted out of the scheme. 67% of these respondents (150) said that they were unaware of the 50/50 section of the scheme. It should be noted that it is possible some of these individuals opted out of the scheme prior to the introduction of 50/50.

4. Almost 1,500 (17.2%) of those surveyed said that they weren't sure whether they were in the scheme or not. Although not directly relevant to the 50/50 section, this statistic does indicate an issue with communication between administering authorities and their workforce on pension issues.

5. Of the 75 respondents who opted out of the scheme knowing about the 50/50 section, 28 (37%) considered that it was still too expensive despite the reduced contributions. A further 22 respondents (29%) said that they had other pension arrangements while 15 (20%) said that they did not want a pension.

### **c) Full scheme members**

6. Out of the 6,769 respondents who are full members of the scheme, 3,428 (50%) said that had not heard about the 50/50 section whereas 2,745 (40%) said that they had heard of the 50/50 section but preferred the level of benefits offered by the full scheme. A very small minority of 34 members (0.5%) claimed that the process of moving to the 50/50 section is too difficult and complicated.

## **Conclusions**

### **a) Low take up rate**

7. The survey confirmed the anecdotal evidence that the number of scheme members choosing to opt into the 50/50 section is far less than that assumed when the new scheme was designed and on which the cost of future service of 19.5% was partially based. This low take up rate is further evidenced by the choice made by some fund actuaries at the 2016 valuation to assume a zero level of optants into the 50/50 section.

### **b) Poor communication**

8. The survey also confirmed the concern that the 50/50 option has not been well publicised both in terms of current scheme members and those who had opted out altogether from the main scheme. Conversely, claims about the opting in to the 50/50 section process being made too difficult or complicated was not borne out by the survey where only 34 out of the 3,428 scheme members who were aware of the 50/50 section considered the process to be too difficult or complicated.

9. On a more general level, the fact that about 17% of respondents weren't sure whether they were in the scheme indicates that the communications problem goes beyond publicity surrounding the 50/50 section where it is known that certain administering authorities have taken a clear decision not to promote it on the grounds that it is in scheme members' best interest to remain in the full scheme.

### **c) Motive**

10. Leaving aside the 50% of full scheme members who said that they were unaware of the 50/50 section, the overwhelming majority said that the full scheme offered

good value, the clear inference being that the 50/50 section is not seen as a worthwhile option.

11. Of the small number of members who had opted into the 50/50 section, a sizeable number have done so on grounds of affordability but conversely, a fair number of those members who have opted out of the scheme altogether cited even the 50/50 section being too expensive.

12. There is clear evidence from the survey that affordability is the main motivating factor for opting into the 50/50 section but given the low pay nature of the workforce, it is surprising that only 2.8% of respondents felt it necessary to reduce their spend on pension contributions. This could be for a number of reasons including :-

- The full scheme is considered to represent good value for money;
- Poor communication, or
- Most members have become accustomed to paying the full rate of contribution.

#### **d) General**

13. With such a low take up rate, the future viability of the 50/50 section ought to be open to question. However, the survey results indicate that a significant proportion of scheme members, and those who have already opted out of the main scheme, were unaware of the 50/50 section. It is therefore reasonable to assume that the take up rate could improve with better and more effective publicity and communication.

14. It may therefore be premature to recommend withdrawal of the 50/50 section from the scheme on the basis of the survey's findings alone.

**Recommendations** – That the committee considers the findings of the survey summarised above, considers next steps and agrees action points for consideration by SAB on the 16<sup>th</sup> November 2017 in two areas: communication and costing.

**Firstly, to consider a recommendation to the SAB of a focussed communication exercise to increase awareness of the 50/50 scheme, in particular to those considering opting out of the scheme.**

**To consider a recommendation regarding the treatment of 50/50 for the purpose of the Scheme's cost management process:**

**Option 1 – stick with HMT's assumption**

**Option 2 – follow the 2016 assumption of local fund actuaries**

**Option 3 – adopt a SAB assumption between 1 & 2"**

## Annex 1

The answers to certain questions in the survey directed respondents to complete a certain section of the survey. These are shown below in bold text below. IN all other cases, respondents received an end of survey message.

### Q1. Are you currently a member of the LGPS?

8716 responses

Yes, I am a full member of the LGPS (i.e. not in the 50/50 section) ( <b>Go to Q4</b> )	6756	77.5%
Yes, but I have opted for the 50/50 section of the LGPS rather than full membership ( <b>Go to Q5</b> )	242	2.8%
No, I have opted out of the scheme ( <b>Go to Q2</b> )	222	2.5%
I'm not sure	1496	17.2%

### Q2. When you opted out of the LGPS were you aware of the option of joining the 50/50 section?

224 responses

No, I didn't know about the 50/50 section	150	67%
Yes, I knew about the 50/50 section ( <b>Go to Q3</b> )	74	33%

### Q3. When you opted out of the LGPS why did you not consider joining the 50/50 section instead?

75 responses

I don't understand how the 50/50 section works	9	12%
The process of moving to the 50/50 section is too difficult/complicated	1	1.3%
Even with the reduced contributions it is still too expensive	28	37.3%
I have other pension arrangements	22	29.3%
I don't want a pension	15	20%

### Q4. Have you considered opting for the 50/50 section of the LGPS?

6769 responses

No, I haven't heard about the 50/50 section	3428	50.6%
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Yes, but I don't understand how the 50/50 section works	562	8.3%
Yes, but the process of moving to the 50/50 section is too difficult/complicated	34	0.5%
Yes, but I prefer the benefits that full membership provides	2745	40.6%

#### Q5. Why did you opt for the 50/50 section?

243 responses

Because I cannot afford full membership at the moment but I plan to move to the full section when I can	121	49.8%
Because I cannot afford full membership and the benefits provided by the 50/50 section are still good value	81	33.3%
Because I have already built up sufficient pension benefits but I want to keep the ill health and life cover, as well as taking advantage of tax relief and employer contributions	9	3.7%
Because being in the 50/50 section enables me to reduce the chance of exceeding the annual or lifetime allowance.	15	6.2%
Other reason(s)	17	7%