



Perth and Kinross Council

Salary Sacrifice Shared Cost AVC scheme

Introduction

Under the Local Government Pension Scheme (LGPS), employees may opt to make Additional Voluntary Contributions (AVCs). In accordance with the terms of the LGPS, an employer can also contribute to the employee's AVC arrangement. This is known as a Shared Cost Additional Voluntary Contribution (Shared Cost AVC) arrangement, and other than in exceptional circumstances (see FAQs) offers the same benefit options as a standard AVC arrangement.

Perth and Kinross Council ('the Council') is pleased to provide two AVC facilities for LGPS members.

- A standard AVC that provides Income Tax relief.
- A new Shared Cost AVC scheme that provides Income Tax relief and National Insurance contribution (NIC) savings.

The Shared Cost AVC scheme is provided by using a salary sacrifice arrangement and is fully supported by the Council on the basis that it will:

- Provide further flexible pension saving opportunities
- Result in an increase in take-home pay when compared to paying AVCs in the standard way
- Deliver employer NIC savings

The Council is working with AVC Wise to introduce and facilitate the Shared Cost AVC scheme and, as experts in this field, AVC Wise will be responsible for managing and administering this new benefit for the Council.

How to Join?

STEP 1 Go to www.avcwise.co.uk/register

STEP 2 You will receive an email from AVC Wise titled 'Confirmation Instructions'. Click on the link in the email 'Confirm my account'.

STEP 3 Sign in to AVC Wise to enter your Employee Portal. Read the FAQs and Terms and Conditions and scroll down to the bottom of the page.

STEP 4 If you are a member of the LGPS but don't currently have an AVC plan with your employer, select 'NEW SHARED COST AVC SCHEME APPLICATION'. If you currently pay standard AVCs, select 'CONVERT TO SHARED COST AVCs'.

STEP 5 Complete the form with the information required and submit your application by clicking the 'Submit' button.

Your application will be processed, and you will be notified when this has been completed.

If you have any queries about the application process or the Shared Cost AVC scheme, please contact the AVC Wise Customer Service Team to discuss. Telephone: 01252 959779 Email: support@AVCWise.co.uk

Frequently Asked Questions ('FAQs')

The questions and answers set out below provide a basic guide to the Council's salary sacrifice Shared Cost AVC (Shared Cost AVC) scheme. The FAQs apply equally to those who are not currently paying AVCs, but may be interested in doing so, and those currently paying standard AVCs.

Please note that neither the Council nor the Tayside Pension Fund can provide advice on the suitability of AVCs for members and that other options for saving for retirement are available. For details of other options for saving for retirement within the Local Government Pension Scheme (LGPS), please refer to the <http://scotlgps2015.org/> website or seek independent financial advice from your preferred advisor.

If you choose to join the scheme, your Shared Cost AVC pot will be held and invested by the Council's AVC providers, Prudential.

1. What are Additional Voluntary Contributions (AVCs)?

AVCs provide an opportunity for employees who are members of the LGPS to pay additional contributions to increase their pension benefits at retirement.

AVCs are an efficient way to save for retirement because they attract full Income Tax relief through your payslip, provided your income is sufficient to pay tax, and you are also subject to certain overall limits set by HMRC. Please see Q11 for further information.

If you choose to pay AVCs, the additional contributions are invested separately in your choice of fund(s) which are managed by the AVC providers (Prudential). The funds should, hopefully, grow over time and will be available at retirement to convert into an additional pension of your choice or, subject to certain limits, a tax-free lump sum, or a combination of both. Any interest, income or capital gain earned on the AVCs is free from tax while the money is invested in your plan.

2. Why have we introduced the Shared Cost AVC scheme?

The Council has introduced the scheme to provide members of the LGPS with an opportunity to pay AVCs in a cost-effective way.

The main advantage over a standard AVC option is that, as well as receiving full Income Tax savings, you will not pay National Insurance contributions (NICs) on the amount of pay that you have sacrificed. As a result, the scheme allows you to save NICs in addition to Income Tax, therefore increasing your take-home pay when compared to paying AVCs in the standard way.

For example: If your salary is £24,000 per year and you pay £3,000 in standard AVCs per year, your Income Tax savings will be circa £600 per year. If you join the scheme and still choose pay £3,000 per year, you will benefit from the same Income Tax savings, but you will also benefit from NICs savings of circa £360 per year, making the Scheme a lot more beneficial for you versus paying AVCs the standard way.

3. How does the Shared Cost AVC scheme work?

If you decide to take advantage of the scheme, the Council will contribute all but £1 of the amount you have specified into your Shared Cost AVC fund, and in return you will agree to enter a 'salary sacrifice' arrangement under which you formally accept a reduction in your gross salary, which is equal to the contribution from the Council.

As the scheme must be operated on a 'shared cost' basis, you will also be required to pay £1 per month as your contribution to the shared cost AVC arrangement. This tax-free contribution will be deducted from your salary and paid into your Shared Cost AVC fund, in addition to the contribution from the Council under the salary sacrifice arrangement.

As an example, if you would like to pay £100 each month, your total Shared Cost AVC amount will be £100 with £99 being the salary sacrifice amount and £1 being your personal contribution.

4. What is salary sacrifice?

A salary sacrifice is an arrangement between you and your employer where you formally agree to a reduction in your salary and in return you receive a benefit (in this case the benefit is contributions, paid by your employer, into your Shared Cost AVC fund).

The Council provides a range of benefits using a salary sacrifice arrangement as part of its commitment to help employees reduce their everyday costs.

Further guidance about salary sacrifice is available at <https://www.gov.uk/guidance/salary-sacrifice-and-the-effects-on-pay>

5. Who is eligible to participate?

All employees of the Council that are members of the LGPS are eligible to join the scheme. This includes part-time employees. However, employees who are employed under a variable contract, casual hours or zero hours contract are not eligible to participate in the scheme. You must have a permanent or fixed term contract with us. The Scottish Teachers' Pension Scheme (STPS) currently do not permit salary sacrifice for this type of scheme.

If you have more than one contract of employment with the Council, you can apply to join the scheme under each contract of employment.

Please note that, if at any point your employment income is insufficient to support the salary sacrifice arrangement or if by sacrificing salary, your earnings should fall below the National Minimum/Living Wage or the Lower Earnings Limit, you will be unable to participate in the scheme. However, it may still be possible to participate in the scheme by reducing the salary sacrifice amount to a level that maintains your salary above the required limit.

6. Am I still able to join or remain in the standard AVC arrangement as opposed to the Shared Cost AVC scheme?

The Council will continue to offer a standard AVC arrangement where it is required, however by choosing to do this you will not receive the NIC benefits as per the Shared Cost AVC scheme. The differences between the Shared Cost AVC scheme and the standard AVC arrangement are explained in the table below:

Shared Cost AVC Scheme	Standard AVC Arrangement
The salary sacrifice amount qualifies for both Income Tax and National Insurance savings.	AVC contributions qualify for Income Tax relief only. No NIC saving is available.
In addition to sacrificing salary you must pay a £1 contribution each month to make it a Shared Cost AVC. This £1 qualifies for Income Tax savings only.	N/A
No Income Tax saving is available if your taxable earnings are less than the Personal Allowance. See link below for current allowance.	No Income Tax saving is available if your taxable earnings are less than the Personal Allowance.
No NIC savings are available if you earn below the Primary NIC threshold.	No NIC savings are available on AVCs.
https://www.gov.uk/government/publications/rates-and-allowances-national-insurance-contributions	

7. I'm already paying AVCs or I have an inactive LGPS AVC plan which is linked to my employment with the Council. If I move to the Shared Cost AVC scheme, what impact does this have on my existing AVC plan?

When you move to the Shared Cost AVC scheme, a new Shared Cost AVC plan will be set-up, and both your contributions and the contributions the Council pays for you through salary sacrifice will be paid into your new Shared Cost AVC plan. The contributions will be invested according to your existing instructions at the date your participation is approved. You can of course change these instructions at any time.

Please note, moving to the Shared Cost AVC scheme will not impact on any other AVC pots you may have related to another job you have or with another LGPS pension fund.

Additionally, the value of your standard AVC will automatically move to the Shared Cost AVC plan. These existing funds will be invested in the same funds and proportions as your standard AVC and will not affect your plan value but will save you money (NIC savings) on the Council contribution via salary sacrifice. You can change the funds your money is invested in at any time by contacting Prudential.

Please note: your standard AVC plan will automatically be combined with the Shared Cost AVC plan unless you choose to keep them as separate plans.

The implications of combining or not on the terms which apply are as follows:

Existing AVC Plan Start Date	Member combines plans	Impact
Prior to 1 st April 2015	Yes	Member has one plan - new terms apply to combined value and future contributions. Please see Q8 for further information.
Prior to 1 st April 2015	No	Member has two plans - new terms apply to future contributions to new Shared Cost AVC plan only
On, or after, 1 st April 2015	Yes	Member has one plan - no impact as new terms applied to old plan and continue to apply to combined new plan and future contributions
On, or after, 1 st April 2015	No	Member has two plans – no change to terms as new terms apply to both old and new plans

Depending on when your standard AVC plan originally started, there may be some changes to the way your Shared Cost AVC plan is administered in line with LGPS scheme rules. See Q8 below for further details.

8. Will my Shared Cost AVC plan be administered on the same terms as a standard AVC?

Your Shared Cost AVC plan will continue to be administered under the same terms as a standard AVC and there will be no change to the annual management charges you currently pay as a result of your participation in this scheme.

However, depending on when your standard AVC plan started there may be some changes to the way the Administering authority is required to administer your Shared Cost AVC plan in line with LGPS scheme rules.

It is important to consider the implications of the regulation differences if you entered your active standard AVC before 1st April 2015 and you decide to join the Shared Cost AVC scheme. The key differences and impacts, which include example scenarios, are explained in the section at the end of the FAQs (Appendix A). The information reflects the Council's understanding of the LGPS Scheme rules that apply to different groups of AVC members, as at June 2017. The rules may change in the future.

Please ensure you read the information in Appendix A as it contains important information to help you decide if the Shared Cost AVC scheme is right for you.

9. Can I see an example of the savings?

The amount you save will depend on the amount of salary sacrificed and the rate at which you pay Income Tax and NICs.

On joining the scheme, your basic gross salary will be reduced by the salary sacrifice amount you have specified, and the Council will pay the equivalent sum to your AVC fund.

The advantage is that you do not pay tax or NICs on the amount that you have sacrificed.

EXAMPLE

Paul, Annual Salary: £25,000 (basic rate tax payer)

Paul is considering paying £300 a month (£3,600 per year) in AVCs. If Paul decides to join the scheme, his annual salary will be reduced by £3,588, resulting in a monthly reduction in his gross pay of £299. Paul won't have to pay any Income Tax or NICs on the £299 and this will save him £59.80 per month in Income Tax and £35.88 in NICs - a total saving of £95.68 per month or £1,148.16 a year.

In return for sacrificing £3,588 of his salary, the Council will pay this amount into his Shared Cost AVC fund, and he will pay £1 per month as his contribution. The £1 contribution qualifies for income Tax relief but not any NIC reduction. For Paul this means his personal contribution (£12 per year) will cost £9.60 after Income Tax relief.

Therefore, by participating in the scheme, the gross cost to Paul of investing £3,600 into his Shared Cost AVC plan will be reduced to a net cost of £2,449.44 and this is calculated as follows:

Salary sacrifice (reduction in gross salary)	£3,588.00
Paul's personal shared cost contribution	£12.00
Total	£3,600.00
Less Income Tax saving on salary sacrifice	(£717.60)
Less NIC saving on salary sacrifice	(£430.56)
Less Income Tax relief on Paul's personal shared cost contribution	(£2.40)
Net cost of Shared Cost AVC Scheme	£2,449.44

Although Paul's net costs are £2,449.44, his Shared Cost AVC fund will receive £3,600 (£3,588 from the Council under the salary sacrifice arrangement and £12 contribution from Paul). The table below shows how the monthly and annual tax and NIC savings arise.

	Monthly	Yearly
Gross salary (before tax)	£2,500.00	£30,000
Salary Reduction	£299.00	£3,588.00
Personal contribution	£1.00	£12.00
Tax saving	£59.80	£717.60
Plus tax saving on £1	£0.20	£2.40
Plus NIC saving	£35.88	£430.56
Total savings	£95.88	£1,150.66

The example above is based on current tax and NICs rate. Please note that the tax saving is available through the standard AVC scheme but the NIC saving is only available through the Shared Cost AVC scheme.

10. When can I join the Shared Cost AVC scheme?

You may join the scheme at any time.

11. How do I decide the contribution amount to be paid by the Council?

You will be required to specify the total Shared Cost AVC contribution amount. This is the total amount the Council will contribute (the amount salary sacrificed) and your contribution (£1 deduction from

gross pay) amount per payroll period.

In deciding the amount to contribute, you will need to consider your pension objectives and annual limits to determine your monthly/annual contribution amount. In addition, you will need to consider the National Minimum/Living wage requirements.

Please note that the Council will ensure that you will have sufficient pay after any reduction to meet all lawful deductions from pay, e.g. student loans, season ticket loans etc.

It is important to remember that you may become subject to a tax charge if you make pension savings which exceed the 'Annual Allowance' in any tax year. This is the amount by which the value of a person's accrued pension rights can grow in one year free of tax. This limit includes:

- the growth in the value of your main LGPS benefits
- any AVCs paid by you and your employer
- contributions to other UK registered pension schemes in a tax year (between 6th April and the following 5th April).

You may be subject to a reduced (tapered) Annual Allowance if your total income exceeds the defined amount. The Council recommends you seek financial and/or tax advice if you think the tapered Annual Allowance applies to you before paying AVCs. You will also be subject to a reduced limit if you have 'flexibly accessed' any money purchase pension savings. Your pension scheme will inform you if this applies to you.

There is no limit on how big your pension fund can grow to. However, you will have a 'Lifetime Allowance' in relation to the maximum amount of tax-relieved benefits you can build up over your lifetime. Therefore, if your pension fund is worth more than your Lifetime Allowance, you may be subject to a tax charge.

Individuals who flexibly access pension benefits from money purchase arrangements are subject to a reduced Money Purchase Annual Allowance (MPAA). The MPAA limits the amount of contributions to money purchase arrangements on which tax relief is available.

For more details about the Annual Allowance, Lifetime Allowance and MPAA please go to HMRC website <http://www.hmrc.gov.uk/pensionschemes/understanding-aa.htm>

If you require further information on your individual circumstances, contact Tayside Pension Fund on pensions@dundee.gov.uk, quoting your NI number in the subject heading.

12. Can I change the contribution amount?

Yes, you may change the employer contribution amount (the amount salary sacrificed) but you cannot change your £1 contribution amount. This is a fixed amount and cannot be changed at any time during your participation in the scheme.

If you wish to change the contribution amount, you must sign in to AVC Wise and complete the Amendment amount process, please contact support@AVCWise.co.uk for the full detail on this process.

Please note. When deciding the contribution amount you will need to consider the National Minimum wage, National Living wage and Lower Earning Limit requirements. Please see Q5 and Q24 for further details. In addition, if you wish to increase the contribution amount, you must also consider the annual

pension limits - please see Q11 for further details.

13. When can I take the Shared Cost AVC benefits from this arrangement?

The benefits can be taken at the same time as the main LGPS benefits and additionally you can take one or more cash withdrawals from your Shared Cost AVC before or after retirement/taking your main scheme benefits. Alternatively, you can transfer your Shared Cost AVC plan to another Registered Pension Scheme.

Please note that in cases of flexible retirement you may continue to make Shared Cost AVC payments if you wish. This is in accordance with changes to the LGPS rules that took effect from 1 April 2015.

The Government currently allows you to start taking your benefits from the age of 55, even if you are still working. You may be able to start taking your benefits early if you're in ill health. The minimum age from which you can access your personal or occupational pension is expected to increase from 55 to 57 in 2028 and remain at 10 years below the State Pension age. The maximum age from which you must take your Shared Cost AVC benefits is currently 75.

14. Should I be worried by the fact that you are reducing my gross pay?

Employees should not be worried; the Council will track your original salary which we will now be calling 'notional salary'.

15. What will happen if I have a pay award, promotion or other increment?

Any future pay awards, increments or promotions will be based on your original salary, prior to your participation in the Shared Cost AVC scheme. This original salary is known as 'notional salary'.

16. What happens to earnings related payments such as overtime?

Participation in the Shared Cost AVC scheme will not affect payments such as overtime, additional hours' payments and shift allowances. These will continue to be calculated on your notional salary prior to participation in the scheme.

17. Will my LGPS pension be affected?

The Council is permitted to treat the Shared Cost AVC amount as part of your pensionable pay and, therefore, the contributions that both you and the Council make into the LGPS will continue as though your salary had not been reduced. Consequently, your main LGPS benefits will be unaffected by your joining the Shared Cost AVC scheme including any benefits due to your dependants in the event of your death.

18. Will participating in the Shared Cost AVC scheme impact on any salary-related payments?

Your participation in the scheme may have an impact on the following earnings-related

statutory benefits:

- Statutory Maternity Pay (SMP)
- Statutory Paternity Pay (SPP)
- Statutory Adoption Pay (SAP)
- Statutory Sick Pay (SSP)
- Statutory Redundancy Pay (SRP)
- Statutory Shared Parental Pay (ShPP)

If you are eligible for any of the above payments, the statutory amount due to you is based on your earnings during a certain period. Therefore, by taking part in the scheme, the statutory benefits will be calculated by reference to your reduced salary and the amount of benefit you receive is likely to be lower.

More information can be found on the HMRC Website [Salary sacrifice for employers - GOV.UK \(www.gov.uk\)](http://www.gov.uk)

19. What happens if I am eligible for any occupational related benefits e.g. occupational maternity pay?

Participation in the Shared Cost AVC Scheme will not affect occupational related benefits.

20. If I am made redundant or take voluntary redundancy, will participation in the scheme affect my redundancy payment?

Participation in the Shared Cost AVC scheme will not affect occupational redundancy payments.

21. What happens if I am absent from work or on unpaid leave?

The salary sacrifice and benefit arrangements will continue during any period of maternity, paternity, adoption, parental or sick leave as long as your employment income is sufficient to support the salary sacrifice arrangement. If at any point your employment income is insufficient or should your entitlement to paid leave cease, you will not be eligible to participate in the scheme and the contributions paid into your Shared Cost AVC fund will cease.

Once your employment income is sufficient to support the salary sacrifice arrangement, you can apply to resume your participation in the scheme.

Please note that statutory payments must be made in full and cannot be reduced by the terms of a salary sacrifice arrangement. However, since any reduction in your gross pay will adversely affect your statutory entitlement to benefits such as SSP and SMP, it may be in your interest to terminate the arrangement before the absence period and return to your original gross salary. Please see Q26 for further details.

22. I currently receive tax credits. Will joining the Shared Cost AVC scheme affect my entitlement to tax credits?

The tax credit calculation is based on your taxable (P60) income. By signing up to the Shared Cost AVC scheme, your taxable income will be reduced and therefore your tax credit entitlement may change.

Given the complexities involved in calculating entitlement to tax credits, we recommend that if you have any queries you go to: <https://www.gov.uk/topic/benefits-credits/tax-credits> for more information or contact HM Revenue & Customs helpline on 0345 300 3900.

23. I am currently repaying a student loan which is based on a percentage of my earnings over the approved threshold. Will this alter?

Yes, it will alter as the student loan repayments are calculated on the salary on which you are liable to pay NICs. Under the Shared Cost AVC scheme your total gross salary on which NICs is paid will reduce, hence your loan repayments will decrease. You should bear in mind that any decrease in your loan repayments will result in you repaying for an additional time period.

24. Will participating in the scheme impact on mortgage or loan applications?

This will depend on the mortgage provider. The 'Notional Salary' will continue to be shown on your payslip and therefore should not affect applications for loans and mortgages. However, it is important to note that different lenders take their own approach and some may choose to base the affordability criteria on the reduced salary.

25. Will participating in the scheme impact on any contribution-based benefits?

If entering the Shared Cost AVC scheme means that your gross pay is less than the annual Lower Earnings Limit (LEL) for NICs, it may affect your eventual entitlement to the Basic State Retirement Pension and you may lose entitlement to certain other benefits. Therefore, if your weekly pay is less than the LEL you will be unable to participate in the scheme. Please see link in Q6 for confirmation of the thresholds.

26. Can I participate in any other salary sacrifice arrangements provided by the Council?

The Council currently provides an opportunity for employees to participate in other salary sacrifice arrangements. You may participate in more than one, but, if by increasing your salary sacrifice amount, your earnings fall below the National Living/Minimum Wage or Lower Earnings Limit, you will need to consider which scheme(s) to join.

27. Can I withdraw from the scheme?

Yes, to end your participation in the Shared Cost AVC scheme, you must sign in to the AVC Wise platform and complete the Cancellation process. As mentioned in Q12, an amendment of the Shared Cost AVC will be permitted at any time. If you opt-out of the scheme, the contributions paid into your Shared Cost AVC fund by the Council and your monthly £1 contribution will cease. In this event, your Shared Cost AVC fund will remain invested by the fund provider.

If you opt-out of the scheme, you can choose to pay AVCs through a standard AVC arrangement. In this situation, you must contact AVC Wise to confirm your request to pay Standard AVCs.

Email: support@AVCWise.co.uk **Telephone:** 01252 959779

28. What happens if I leave my employment with the Council or I leave the main LGPS?

If your employment with the Council terminates for whatever reason, your entitlement to participate in the Shared Cost AVC scheme will cease immediately and all contributions will cease.

If you have LGPS membership of two years or more, your Shared Cost AVC pot will remain invested and will be available to provide you with additional benefits on retirement. Please note that charges may continue to be deducted to cover the cost of managing your plan in the intervening period.

Alternatively, you can transfer all your local government AVC benefits, including any local government AVCs held with other employers, to any other pension scheme of your choice that will accept the transfer.

If you have less than two years LGPS membership on leaving employment with the Council, you can choose to receive a refund equal to the realisable value of your AVC plan. Please note that the value of the AVC fund will reduce to take in to account the tax relief you will have benefitted from during the period that contributions were made.

29. Where can I get more information about AVCs?

For more details about AVCs please go to:

Prudential:

<https://www.pru.co.uk/rz/localgov/sal-sac-avcs> or contact Prudential directly by telephone 0345 600 343.

These FAQs and other information provided by the Council explain how AVCs and contributions paid under the SCAVC Scheme are treated for tax and national insurance purposes. It is important that you read the Key Facts literature provided by Prudential to ensure you understand ALL the features and terms before deciding whether additional voluntary contributions, including SCAVC is right for you.

Prudential: The Key Facts document is available at <https://www.pru.co.uk/pdf/LAVK0846.pdf>

Appendix A.

KEY DIFFERENCES AND IMPACTS OF MOVING FROM STANDARD AVC TO SHARED COST AVC SCHEME

Subject	AVC plan commenced prior to 30 th June 2005	AVC Plan commenced on, or after, 30 th June 2005 and prior to 1 st April 2015	AVC Plan commenced on, or after, 1 st April 2015
With Profits (MVR free guarantee date)	65/death	65/death	State Pension Age (subject to minimum of age 65)/death
Lifestyle Option (target date for taking benefits)	Selected Retirement Date Or 65 (if no age selected)	Selected Retirement Date Or 65 (if no age selected)	Selected Retirement Date Or Higher of age 65 and State Pension Age (if no age selected)
Life Cover (age cover ceases)	65	65	State Pension Age (subject to minimum of age 65)
Scheme Regulations			
Normal Pension Age for AVC purposes	65	65	State Pension Age (subject to minimum of age 65)
Use of AVC to purchase additional LGPS service	Member has right to buy additional membership in certain circumstances (flexible or ill health retirement and ceasing payment of AVCs before retirement)	No right to buy additional scheme membership	No right to buy additional scheme membership
AVC Benefits on flexible retirement	Member must take AVC benefits on flexible retirement	All, or none, of the AVC plan must be taken on flexible retirement	All, or none, of the AVC plan must be taken on flexible retirement.
AVC Death Benefits	Regulations silent on treatment	Regulations silent on treatment	Administering Authorities have full discretion
Aggregation	AVC must be aggregated where main scheme benefits are aggregated	AVC must be aggregated where main scheme benefits are aggregated	AVC automatically aggregated where main scheme benefits are aggregated but members who were in the scheme on both 31/03/2015 and 01/04/2015, and who have no continuous break in service in a public service pension scheme of more than 5 years, can elect that their AVC benefits are NOT automatically aggregated

If you have any queries about any of the key differences and how this may impact you, or anything else about the Shared Cost AVC scheme, please contact support@AVCWise.co.uk