By:	Shellina Prendergast – Cabinet Member for Communications, Engagement and People Amanda Beer – Corporate Director People & Communications
To:	Personnel Committee **Date:** 12 November 2019
Subject:	Introduction of a Shared Cost Salary Sacrifice Additional Voluntary Contribution Scheme
Classification:	Unrestricted

Summary: This paper provides an overview of a shared cost AVC scheme and how it could provide savings to both employees and the County Council. In order to offer such a scheme a change is required to our current LGPS discretions.

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1. BACKGROUND

1.1 KCC currently utilises an Additional Voluntary Contribution Scheme (AVC) which is a feature of the Local Government Pension Scheme (LGPS). This enables scheme members to build up their pensions benefits for retirement by paying AVCs by way of tax-free deduction through payroll. This amount is invested separately from the main LGPS pension benefit.

1.2 The LGPS has a provision within its regulations to allow the employer to also contribute to an employee's AVC arrangement. This is known as a 'Shared Cost' AVC (SCAVC) which can be provided through a salary sacrifice arrangement.

1.3 Under such a 'shared' arrangement the Council will agree to pay an employee's chosen contribution amount to their AVC fund and, in return, the employee agrees to enter a salary sacrifice arrangement under which he/she accepts a reduction in their gross salary which equals the contribution amount. There is no direct additional cost to the employer. In addition, the employee is required to pay a fixed £1 a month as their individual contribution to the Shared Cost AVC arrangement.

1.4 Salary sacrifice schemes for AVCs are approved by the HMRC.

2. OVERVIEW OF THE SCHEME

2.1 In addition to the 'tax-free' deduction, participating employees would also benefit from a National Insurance Contribution (NIC) saving on their AVC. An example is given in Appendix 1. The employer would gain NIC savings on the total amount of salary sacrificed.

2.2 Advantages of implementing shared cost AVCs:

- It allows KCC to offer a new employee benefit.

- It helps staff make more of their salary.
- It offers a saving to the Council.
- Communications when launching such a benefit will generate an increased awareness about financial wellbeing.
- It provides an opportunity for managers to discuss wider wellbeing as part of our conversational practice expectation of managers with their staff.

3. LGPS Regulations

3.1 The authority is required to state how it chooses to utilise employer discretions allowed within the LGPS provisions. Currently, KCC has the provision: -

Regulation 17 (1) – Shared Cost Additional Voluntary Contributions (SCAVC)

'KCC will not operate a SCAVC for employees'

3.2 This provision would need to be amended in order to enable the salary sacrifice scheme to be introduced for the reasons outlined in 2.2 to positively enhance our employment offer and encourage staff to make provision for their retirement.

3.3 If Committee were to agree a change to the LGPS employer discretions the following provision could be used:

'The Council will pay SCAVC contributions where an employee has elected to pay AVCs by salary sacrifice. The amount of these employer SCAVC contributions will not exceed the amount of salary sacrificed by the employee. This is a Council discretion which is subject to the employee meeting the conditions for the acceptance into the salary sacrifice shared cost AVC scheme and may be withdrawn or changed at any time'.

4. POTENTIAL SAVINGS and COSTS

4.1. Currently 146 people contribute to AVCs, £460k through Prudential and £36k via Standard Life totalling £496k per year.

4.2. Compared to some other authorities, the percentage of participation in AVC's is low. There is an opportunity to promote the new and more beneficial scheme which could increase numbers significantly which would positively improve both employee engagement and financial wellbeing.

4.3. There is a cost for the communication, marketing and administration of the scheme which would be undertaken by the external provider, however this is taken from the employer NI savings. This is 4.5% of the contributions made by the employee. There is therefore a shared incentive as the more staff participating results in a greater saving for the council, more income for the provider and more saved by employees.

5. EQUALITY IMPACT ASSESSMENT

5.1 A high level Equality Impact Assessment has been undertaken and indicates that no further action is required. By the nature of this provision, it is seeking to enhance all LGPS member's ability to increase their pension benefits independent of any protected characteristic. A copy of which is attached at Appendix 2.

6. CONCLUSION

6.1 KCC has the opportunity to introduce an enhancement to a current employee benefit, which saves money for both employees and the council.

7. RECOMMENDATION

7.1 Personnel Committee note the value of introducing a shared cost salary sacrifice scheme as a worthwhile extension of the employee benefits provision.

7.2 Personnel Committee agree to amend the employer discretion in the pension regulations to enable the introduction of the scheme with the wording outlined in 3.3.

Paul Royel
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Appendix 1

The following illustration is intended to explain how the Shared Cost AVC scheme works:

If an employee is earning £25,000 a year and agrees to sacrifice £1,200 of their salary which the Council will pay into the employee's AVC fund, the employee saves an additional 12% (£144) as they do not pay NICs on the amount of the salary sacrifice. This saving can either be further invested into the AVC or taken as increased income.

The Council will also benefit by saving 14.3% (£171.60) as a result of not paying employer NICs (13.8%) and apprenticeship levy, (0.5%), 4.5% (£54) would be claimed by the external provider leaving a net saving of 9.8% (£117.60) to KCC.