

**ITEM No ...9.....**

**REPORT TO: POLICY AND RESOURCES COMMITTEE – 31 OCTOBER 2016**

**REPORT ON: INTRODUCTION OF A SHARED COST AVC SCHEME**

**REPORT BY: EXECUTIVE DIRECTOR – CORPORATE SERVICES**

**REPORT NO: 329-2016**

**1 PURPOSE OF REPORT**

1.1 To seek approval for the proposed Shared Cost Additional Voluntary Contribution (AVC) Scheme for Local Government Pension Scheme members.

**2 RECOMMENDATIONS**

2.1 It is recommended that the Committee approves the proposal to exercise its discretion under Regulation 17 of the Local Government Pension Scheme (Scotland) Regulations 2014, to approve the introduction of a Shared Cost AVC Scheme for Local Government Pension Scheme members. The scheme will initially be with Prudential and will be implemented through salary sacrifice via payroll.

2.2 Notes that there is no provision within the Scottish Teachers' Superannuation Scheme to allow the introduction of a Shared Cost AVC Scheme, so this salary sacrifice scheme will not be available to Teaching Staff.

2.3 Notes that any Salary Sacrifice Scheme is subject to HMRC approval and also that any changes in regulations in the future may directly impact on the scheme

**3 FINANCIAL IMPLICATIONS**

3.1 If all employees currently paying regular AVCs to Prudential transferred to the Shared Cost arrangement there would be a saving to the Council of £84,000 in a full financial year. There would also be savings to each individual. An illustration of the savings for the employee and the employer is attached as Appendix 1.

3.2 The Council saving would increase if more employees joined because of the savings from this arrangement, or those currently contributing to Standard Life switched or transferred.

**4 MAIN TEXT**

4.1 Our People Strategy states our ambition to be a world class city and ensure positive outcomes for the people of Dundee, and recognises that it is through our people that these ambitions will be realised. Under the theme of Managing Our People, the Council's aspiration to be an employer of choice will be achieved by reviewing our health and wellbeing policy to promote enhanced employee benefits.

4.2 A working group comprising of officers and trade union representatives was set up in 2015 to look at all aspects of Employee Health and Wellbeing, including reviewing the benefits available to employees via salary sacrifice schemes. At present the Council offers its employees Childcare Vouchers and a Cycle to Work Scheme through salary sacrifice.

4.3 AVCs are already an established employee benefit for Council employees. AVCs are a tax efficient way to save for retirement because they attract tax relief. The LGPS have appointed the Prudential and Standard Life as their nominated AVC providers. Discussions have taken place with Prudential, and Prudential has confirmed its willingness to participate in a shared cost AVC scheme. Standard Life have been less proactive in promoting the current AVC scheme and it is considered unlikely they would participate at this stage. This can be revisited once revised scheme is put in place.

- 4.4 A salary sacrifice scheme is a tax efficient vehicle that enables employees to purchase or lease assets, or enhance certain pension benefits, through an agreement between HMRC, the employer and a third party provider. Employees can choose to “sacrifice” part of their annual pay in order to fund whatever benefit is included in the salary sacrifice scheme.
- 4.5 This sacrificed pay is deducted from the employee’s gross pay before the calculation of PAYE income tax and National Insurance Contributions (NIC), thereby generating savings for the employee. To comply with HMRC regulations, the employee’s contract of employment must be amended to reflect the new reduced rate of pay. The employee’s hourly rate of pay must not fall below the national minimum wage.
- 4.6 As well as savings for the employee, the employer also benefits through a reduction in employer’s NICs payable on the sacrificed part of pay.
- 4.7 At present, the number of staff, by salary band, who participate in the AVC schemes is as follows:

	<b>Number of employees</b>
<b>LGE</b>	
10,000 – 20,000	46
20,000 – 30,000	55
30,000 – 40,000	87
40,000 – 50,000	24
Over 50,000	28
<b>Total</b>	<b>240</b>

- 4.8 Under the current arrangements, the employee and the Council continue to pay NI contributions on the full salary. With the recommended introduction of a Shared Cost AVC Scheme, the employee’s AVC payment will be paid direct to Prudential by the Council, and the employee’s gross salary will be reduced by the same amount, thus reducing the NI contributions made by both parties.
- 4.9 As there is a requirement for the cost of the AVC to be shared, the employee will also be required to contribute to the scheme, and so employees will be required to pay £1 per month into their AVC fund. This contribution will be deducted from the gross salary and paid into the employee’s AVC fund in addition to the contribution from the Council via the salary sacrifice arrangement.
- 4.10 The employee’s occupational pension will not be affected by the arrangement as the Council is permitted to treat the payment into the employee’s AVC fund as part of the pensionable pay.
- 4.11 In order to implement a Shared Cost AVC Scheme the Council must exercise its discretion under Regulation 17 of the Local Government Pension Scheme (Scotland) Regulations 2014.

## **5 POLICY IMPLICATIONS**

- 5.1 This report has been screened for any policy implications in respect of sustainability, strategic environmental assessment, anti-poverty, equality impact assessment and risk management. There are no major issues.

## **6 CONSULTATION**

- 6.1 The Chief Executive, Executive Director of Corporate Services, Head of Democratic & Legal Services and Trade Unions have been consulted on the contents of this report.

- 7 /...

7 **BACKGROUND PAPERS**

7.1 None.

Marjory M Stewart  
Executive Director – Corporate Services

20 October 2016



**APPENDIX 1**AVCs Savings Example**Savings for Employee:**

Anne's salary is £25,000 per year and she wishes to pay £3,000 in AVCs per year.

Normal AVCs

By choosing to pay the £3,000 by monthly deductions from her pay, she would get tax relief on the AVC payments of around £600 per year.

Shared Cost AVC Scheme

If she joins the Council's SCAVC Scheme, she would continue to benefit from the tax savings, but would also benefit from NICs savings of around £360 per year.

As part of the Shared Cost arrangement, she would be required to pay £1 a month in AVCs (£12 for the year).

Therefore, by participating in the Scheme, she would save around £948 per year (£600 + £360 - £12) compared to £600 per year under present arrangements.

**Savings for Employer:**

Employer National Insurance Contributions

13.8% of £3,000 = £414 per year

