

AMENDMENT TO PENSION DISCRETIONS POLICY - SHARED COST AVCs

1.0 EXECUTIVE SUMMARY

- 1.1 On 11 April the Strategic Management Team (SMT) approved the implementation of Shared Cost Additional Voluntary Contributions (AVCs) via AVC Wise. This will enhance our financial wellbeing offering to eligible employees further developing the employee benefit scheme which was successfully launched in 2021.
- 1.2 The Council already offers Additional Voluntary Contributions (AVCs) via Prudential. AVCs are a way to save for retirement. They provide an opportunity to supplement your Local Government Pension Scheme (LGPS) and build up an additional retirement fund. Employees can take this as a tax free lump sum or it can be helped to use them to retire early by increasing their monthly pension income.
- 1.3 The LGPS and HMRC regulations provide the necessary authority for employers to introduce a Shared Cost AVC scheme. The advantages of implementing this new Shared Cost AVC arrangement over the current standard AVC scheme is that in addition to the Income Tax relief that staff currently receive, they and the employer will also receive National Insurance contribution relief.
- 1.4 The Shared Cost Additional Voluntary Contributions are paid to the Council's current AVC provider – Prudential, so for employees who already pay AVCs that will not change.
- 1.5 As part of the implementation of Shared Cost Additional Voluntary Contributions, SMT approved the proposal to include a new discretion in the Council's LGPS Discretionary Pension Policy Statement to permit Local Government Pension Scheme (LGPS) members to participate in a Shared Cost AVC scheme.
- 1.6 Regulation 17(1) & Definition of SCAVC in RSch 1 of the Council's existing Pension Discretion Policy requires to be updated.
- 1.7 It is recommended that the Policy and Resources Committee approve the amendment to the Council's Pensions Discretion Policy to allow employees to

access this financial benefit if they so choose.

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2.0 INTRODUCTION

- 2.1 On 11 April SMT approved the implementation of Shared Cost Additional Voluntary Contributions (AVCs) via AVC Wise. This will enhance our financial wellbeing offering to eligible employees further developing the employee benefit scheme which was successfully launched in 2021.
- 2.2 As part of the implementation of Shared Cost Additional Voluntary Contributions SMT approved the proposal to include a new discretion in the Council's LGPS Discretionary Pension Policy Statement to permit Local Government Pension Scheme (LGPS) members to participate in a Shared Cost AVC scheme.
- 2.3 To enable the SCAVC's to be implemented Regulation 17(1) & Definition of SCAVC in RSch 1 of the Council's existing Pension Discretion Policy requires to be updated.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that the Policy and Resources Committee approve the amendment to the Council's Pensions Discretion Policy to allow employees to access this financial benefit if they so choose.

4.0 DETAIL

- 4.1 The Council already offers Additional Voluntary Contributions (AVCs) via Prudential. AVCs are a way to save for retirement. They provide an opportunity to supplement your Local Government Pension Scheme (LGPS) and build up an additional retirement fund. Employee can take this as a tax free lump sum or it can be helped to use them to retire early by increasing their monthly pension income.
- 4.2 The advantages of implementing this new Shared Cost AVC arrangement over the current standard AVC scheme is that in addition to the Income Tax relief that staff currently receive, they and their employer will also receive National Insurance contribution relief. Employees who contribute to a Shared Cost AVC scheme will pay lower National Insurance contributions (NICs) and this saving

will automatically be passed into the AVC. For most staff this will result in a saving of 13.25%.

- 4.3 The employees currently paying AVCs will be asked if they wish to transfer to the new scheme via a number of presentations which explain the benefits of a Salary Sacrifice scheme.
- 4.4 If 90% those employees who currently have AVCs transfer to the salary sacrifice Shared Cost AVC arrangement the Council can expect to achieve immediate annual savings of around £24,538 immediately. It is expected (based on previous business experience) that the expected take up could be increased to an estimated 7.5% of LGPS members utilising the scheme saving £300 per month then the Council will make projected *gross* NI savings of £129,206 - the Council's *net* savings would be £88,547. The AVC Wise fee would amount to £40,659 on that basis. Argyll & Bute Council can also claim back the VAT.
- 4.5 How the scheme works in practice is that the employee accepts a contractual reduction in remuneration (a salary sacrifice), equivalent to the amount they would like to pay into the scheme, and the employer pays this amount into the Shared Cost AVC plan on their behalf. To meet the 'shared cost' arrangement the employee is then required to pay a nominal £1 each month into the Shared Cost AVC through a payslip deduction.
- 4.6 Any contractual earnings such as overtime, pay increases, contractual allowances, occupational maternity pay, occupational sickness pay, and redundancy will continue to be calculated on the notional salary before the salary sacrifice is applied.
- 4.7 The LGPS and HMRC regulations provide the necessary authority for employers to introduce a Shared Cost AVC scheme. As part of the implementation of Shared Cost Additional Voluntary Contributions, SMT approved the proposal to include a new discretion in the Council's LGPS Discretionary Pension Policy Statement to permit Local Government Pension Scheme (LGPS) members to participate in a Shared Cost AVC scheme.
- 4.8 The existing discretion reads as follows:

Regulation	Discretion	Argyll & Bute Council policy on the exercise of this discretion
R17 (1) and R15 (1) (d)	Whether, and in what circumstances to contribute to a shared cost AVC scheme	Argyll & Bute Council will not exercise this discretion but will keep under review

4.9 The discretion would be amended to:

Regulation	Discretion	Argyll & Bute Council policy on the exercise of this discretion
R17 (1) and R15 (1) (d)	Whether, how much and what circumstances to contribute to a Shared Cost AVC scheme	Argyll & Bute Council will pay shared cost AVCs where an employee has elected to pay AVCs by salary sacrifice. The amount of these employer Shared Cost AVCs will not exceed the amount of salary sacrificed by the employee. This discretion is subject to the employee meeting the conditions for acceptance into the salary sacrifice Shared Cost AVC scheme and may be withdrawn or changed at any time.

5.0 CONCLUSION

- 5.1 Shared cost AVCs have benefits for both employees and employers. This improves the financial wellbeing benefits available to the employee in a way that allows them to save for the future and allows the Council to make savings.
- 5.2 In order to implement the scheme a change is needed to the Council's Pensions Discretion Policy.

6.0 IMPLICATIONS

- 6.1 Policy – The council's discretionary pensions policy will need to be amended and published to provide the authority to enable staff to pay into Shared Cost AVCs as one of our discretions. The scheme documentation will need to state that the Shared Cost AVCs are to be treated as a pensionable emolument in accordance with the LGPS regulations (Regulation 20(1)(b) of the 2013 Regulations), to ensure that a member's main scheme benefits are not reduced.
- 6.2 Financial – This will lead to employer NIC savings. Payroll assistance will be required and support around implementation.
- 6.3 Legal – There are a number of legal issues that require action prior to the implementation of a Shared Cost AVC scheme. The Shared Cost AVC scheme information pack and frequently asked questions must explain the scheme in sufficient depth to enable staff to understand the implications of becoming a Shared Cost AVC member. The employee will be required to sign a salary sacrifice agreement to vary the contract of employment to accept the contractual reduction in remuneration. The Shared Cost AVC scheme will need to be approved by HMRC.
- 6.4 HR – Will lead on implementation and maintain the ongoing relationship with the suppliers involved.
- 6.5.1 Fairer Scotland Duty – These benefits will provide an opportunity to address inequalities of outcome caused by socio-economic disadvantage.

- 6.5.2 Equalities – Protected Characteristics – benefits will be made available to all permanent employees who meet the appropriate qualifying conditions.
- 6.5.3 Socio Economic Duty – Strategic decision making in relation to enhancing and modernising employee benefits has taken into account how these changes and additions will benefit those who experience socio-economic disadvantage.
- 6.5.4 Islands – The provision of financial products and educational tools to employees on Islands will seek to ensure that they have access to a wide range of benefits via online provision.
- 6.6 Climate Change – The utilisation of online mediums for employee benefits has assisted in the reduction of postage and travel to access products and services.
- 6.7 Risk – Risks SS AVC's are manageable and the key will be to ensure employees are aware of their responsibilities through clear, effective and ongoing communication. To safeguard any future compliance issues, the Shared Cost AVC scheme will require HMRC approval prior to launch. Other councils have achieved this requirement and this work is included in the specification to be delivered by the successful external provider. In addition, the council will be required to carry out some routine checks to ensure that any applications comply with the National Living Wage/National Minimum Wage rules and again this has been included in the requirements to ensure that the checks can be made within the external provider platform.
- 6.8 Customer Service – This will serve our internal customers, our employees across all services and grades well. They will have the opportunity to access a wide range of financial benefits at preferential rates or in the case of those able to purchase AVC's with a saving in national insurance.

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