

Moray Council Salary Sacrifice Shared Cost AVC Scheme

Frequently Asked Questions (FAQs)

The questions and answers below provide a basic guide to Moray Councils SCAVC.

Please note that neither Moray Council nor North East of Scotland Pension Fund (NESPF) are able to provide advice on the suitability of AVCs or SCAVCs for staff. Other options for saving for retirement are available. For details of other options for saving for retirement within the NESPF, please refer to the NESPF website or seek independent financial advice from your preferred advisor.

1. What are Shared Cost AVCs?

SCAVCs provide an opportunity for staff who are members of NESPF to pay additional contributions in order to increase their pension benefits at retirement. SCAVCs are an efficient way to save for retirement, because you will pay less tax and less national insurance, provided that your income is sufficient to pay tax and national insurance, subject also to certain overall limits set by Her Majesty's Revenue and Customs (HMRC).

If you choose to pay SCAVCs, the additional contributions are invested separately in your choice of fund(s) which are managed by our AVC provider 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 SCAVCs is free from tax while the money is invested in your plan. Prudential offer a range of funds with differing investment risks and you will need to look at their investment fund factsheets for further information.

2. How does the Shared Cost AVC Scheme Work?

You will be required to enter into a "salary sacrifice" arrangement. This means that you agree to reduce your salary every month by a fixed amount and Moray Council will pay that contribution into your AVC fund on your behalf.

The advantage is that, because you are reducing your gross salary, your tax and NICs will be made on a lower salary and you will make tax and NIC savings, thus increasing your take-home pay compared to paying standard AVCs.

LGPS Regulations determine that as SCAVCs must operate on a shared cost basis employees will also be required to pay a contribution to the SCAVC arrangement and this has been fixed at £1 per month. This contribution is made from your gross salary and paid into your AVC fund in addition to the contribution from Moray Council under the salary sacrifice arrangement; this £1 amount is not subject to NIC savings.

3. Can I see an example of the savings?

Lindsey - Annual salary: £30,000

Lindsey is considering paying £300 per month in AVCs (£3600 for the year). Under the SCAVC scheme, her annual salary will be reduced by £3,588, resulting in a monthly reduction in her gross pay of £299. Lindsey won't have to pay any income tax or NICs on the £299 and this will save her £62.79 per month in income tax, plus the tax saving of £0.21 on the £1 contribution and £35.88 in NICs - a total saving of £98.88 per month or £1,186.56 a year.

In return for giving up £3,588 of her salary, Moray Council will pay the same amount into her AVC fund and she will pay £1 per month as her contribution. The £1 AVC contribution qualifies for tax relief but not any NIC reduction.

Therefore, by participating in SCAVC, the gross cost to Lindsay of investing £3,600 into her SCAVC plan will be reduced to a net cost of £2,413.44 and this is calculated as follows:

Salary sacrifice reduction	£3,588.00
Lindsey's personal shared cost contribution	£12.00
Total	£3,600.00
Less income tax saving on salary sacrifice	(£753.48)
Less NIC saving on salary sacrifice	(£430.56)
Less income tax relief on Lindsey's personal shared cost contribution	(£2.52)
Net cost of SCAVC	£2,413.44

Although Lindsey's SCAVC net costs are £2,413.44, her AVC fund will receive £3,600 (£3,588 from Moray Council under the salary sacrifice arrangement and £12 contribution from Lindsay). 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 AVC contribution	£1.00	£12.00
Tax saving	£62.79	£753.48
Plus tax saving on £1	£0.21	£2.52
Plus NIC saving	£35.88	£430.56
Total savings	£98.88	£1,186.56

The example above is based on Scottish tax and NICs rates for 2019/20. Please note that the tax saving is available through the current AVC scheme but the NIC saving is only available through SCAVC.

On this example the Council would also save £41.26 per month in National Insurance, £495.14 per year.

4. Who is eligible to participate?

All Moray Council employees that are members of the NESPF are eligible to join SCAVC. This includes part-time employees. However, as SCAVCs require a commitment for a minimum of 12 months, you must have a contract of employment which runs for more than 12 months from the start date of your arrangement. If you have a contract with less than 12 months duration, you will not be able to have an SCAVC arrangement.

A salary sacrifice scheme cannot reduce your cash earnings below the National Minimum Wage. Where this may result from your participation in the SCAVC, you will be advised and asked to revise your request.

5. How much can I pay into an SCAVC?

Under pension rules, the amount you and your employer can pay into the AVC is up to 100% of your pay in any tax year but please note that Moray Council will ensure that you will have sufficient pay after any AVC deduction to meet all lawful deductions from pay, e.g. National Insurance, pension, etc. and your hourly rate does not drop below the National Minimum Wage.

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 and or SCAVCs paid by you and your employer; and
- contributions to other UK registered pension schemes in a tax year (between 6th April and the following 5th April).

The Annual Allowance for all individuals with income less than £150,000 a year is currently £40,000. You may be subject to a reduced (tapered) Annual Allowance if your total income exceeds £150,000. Moray 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 have informed you if this applies to you.

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

6. When can I take the SCAVC benefits from this arrangement?

The benefits must be taken at the same time as the attached main scheme benefit and cannot be deferred to a date later than when the main scheme benefits are taken.

However, please note that in cases of flexible retirement you may continue making SCAVC payments if you wish. This is in accordance with changes to the LGPS rules that took effect from 1 April 2015.

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

Any future pay awards and increments will be based on your original salary, prior to your participation in SCAVC. This original salary is known as 'notional salary'.

8. Will my normal LGPS pension be affected?

Moray Council is permitted to treat SCAVCs as part of your pensionable pay and, therefore, the contributions that both you and Moray Council make into the LGPS will continue as though your salary had not been reduced.

9. Will participating in SCAVC impact on any salary related payments?

Your participation in the SCAVC Scheme may have an impact on the following earnings-related statutory benefits such as:

- Statutory Maternity Pay
- Statutory Paternity Pay
- Statutory Adoption Pay
- Statutory Sick Pay

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

10. I currently receive tax credits. Will participating in the SCAVC affect my entitlement to tax credits?

The tax credit calculation is based on your taxable (P60) income. Under the SCAVC, 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 0845 300 3900.

11. 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 SCAVC 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 your student loan for an additional time period.

12. Will participating in SCAVC impact on any contribution-based benefits?

If entering SCAVC 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 of £512 per month in 2019/20 (these thresholds vary each year), you should first consider carefully the possible impact before joining SCAVC.

13. Can I withdraw from SCAVC?

Normally, under the terms of a salary sacrifice agreement, once you enter, cancellation will not be permitted for a minimum 12 month period. This is the case with SCAVC. In exceptional circumstances however, where there has been an unforeseen 'lifestyle change', Moray Council may permit cancellation within the 12 month period. Exceptional circumstances are ones that would mean the SCAVC arrangements are no longer suitable. Examples of exceptional circumstances would include redundancy of a partner, pregnancy of member of staff or their partner, separation or divorce of a member of staff or long term absence due to ill-health where the member of staff reverts to half pay or their exhausted sick pay entitlement.

A request to withdraw from the scheme should be made by completing Salary Sacrifice SCAVC Scheme Terminate Agreement and forwarding to payroll.

If Moray Council agrees to an early termination of the agreement, you would be un-able to re-join SCAVC for a minimum period of three months.

A variation of the SCAVC contribution will be permitted at any time, subject to completion of the Salary Sacrifice SCAVC Scheme Amend Monthly Contribution Form

14. What happens if I leave my employment with Moray Council?

If your employment with Moray Council ends for whatever reason, your entitlement to participate in SCAVC will cease immediately. If you have LGPS membership of two years or more, your SCAVC plan will remain invested and will be available to provide you with additional benefits on retirement. Please note that Prudential may continue to deduct charges to cover the cost of managing your plan in the intervening period. Alternatively, you are able to transfer all your local government SCAVC 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 Moray Council, you can choose to receive a refund equal to the realisable value of your SCAVC plan. Please note that the value of the SCAVC fund will reduce to take into account the tax relief you will have benefitted from during the period that contributions were made.

15. Where can I get more information?

Moray Council are unable to provide advice on the suitability of AVCs or SCAVC and employees are advised to seek independent financial advice.

Payroll can provide information on the impact of the SCAVC to your pay and can be contacted on 01343 563100 or by email to payroll@moray.gov.uk

Prudential can be contacted through their website <https://www.pru.co.uk/contact-us/call-us/>

16. How do I vary my monthly contribution?

Under the terms of SCAVC, you are permitted to vary the level of contributions on a monthly basis. Where you do wish to vary your contributions, you will need to complete a Salary Sacrifice Shared Cost AVC Scheme Amend Monthly Contribution form.

17. How do I join the scheme?

LGPS members who wish to join this Salary Sacrifice scheme should:

- 1 Ensure you have fully read this Shared Cost AVC Scheme FAQs document.
- 2 Go online to <https://www.pru.co.uk/rz/localgov/> select North East Scotland Pension Fund

Select Moray Council as the employer name and click Proceed

Follow the instructions and then select Salary Shared Cost AVC plan option

Alternatively you can call the Prudential Retirement Specialist Team on 0800 032 6674 and they will help you set it up over the phone. Lines are open Monday to Friday 9am to 5pm

3 Complete the Salary Sacrifice Agreement form and send this to payroll@moray.gov.uk

This constitutes your formal agreement to a reduction of your salary for a minimum of 12 months. Your participation in the scheme will begin on the next available payroll date, following receipt and acceptance of your Salary Sacrifice Agreement and notification is received from Prudential that everything has been set up.

Once you have joined the SCAVC scheme and your first deductions have been made, your payslip will show your specified Salary Sacrifice SCAVC amount before your tax and NICs are calculated and your £1 AVC contribution after tax and NICs. Moray Council will then pay over both of these amounts to your AVC provider