

Employment Committee

Meeting to be held on Tuesday 11 September 2018

Electoral Division affected:
(All Divisions);

Shared cost salary sacrifice scheme for additional voluntary contributions (Appendices 'A' and 'B' refer)

Contact for further information:

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Executive Summary

This report seeks approval to introduce a salary sacrifice "Shared Cost" scheme for additional voluntary contributions as part of the Local Government Pension Scheme arrangements.

A change is required to Lancashire County Council's Discretionary Statement of Policy to allow for the implementation of a scheme for Local Government Pension Scheme members to contribute to a salary sacrifice shared cost scheme for additional voluntary contributions.

Recommendation

The Committee is asked to approve:

- (i) the commencement of a salary sacrifice shared cost scheme for additional voluntary contributions as part of the Local Government Pension Scheme, as set out in the report.
- (ii) the proposed amendments to the current Lancashire County Council Discretionary Statement of Policy, as set out at Appendix 'B', to allow for the implementation of the salary sacrifice shared cost scheme for additional voluntary contributions.
- (iii) that all existing additional voluntary contributing employees are entered into the new scheme and all new additional voluntary contributors are automatically opted-in, with the option for each employee to opt-out.

Background and Advice

Employees who join the Local Government Pension Scheme have the option to build up additional benefits by paying Additional Voluntary Contributions by way of a tax free deduction through payroll. If an employee chooses to pay additional voluntary contributions, these are invested separately from the main pension contributions and aim to provide additional income upon retirement. For the Lancashire Pension Fund

the additional voluntary contribution provider is Prudential, who administer the scheme on the Fund's behalf.

Within the Local Government Pension Scheme regulations there is provision to allow an employer to also contribute to an employee's additional voluntary contribution arrangement. This is known as a "Shared Cost" additional voluntary contribution. Currently Lancashire County Council's policy on this is that they will not contribute to an employee's additional voluntary contribution fund on a shared cost basis. However, the county council has recently identified that an option exists to implement a shared cost "salary sacrifice" additional voluntary contribution scheme. This can be facilitated by the Fund's current additional voluntary contribution provider, Prudential, and will result in a cost saving for both the employee and the county council.

To be compliant, the salary sacrifice shared cost additional voluntary contribution scheme must demonstrate that the employee and employer both contribute to the plan. Under the Prudential's terms, this means that the employee agrees to a contractual reduction in salary and the county council contributes this amount into the salary sacrifice shared cost additional voluntary contribution plan on their behalf. The employee also has to pay a nominal £1 a month into the salary sacrifice shared cost additional voluntary contribution fund via a payroll deduction.

By adopting a salary sacrifice shared cost additional voluntary contribution the advantages to the employee are that, in addition to the tax relief that is currently received, the employee will pay a lower national insurance contribution. The county council will also benefit as it will reduce the cost of the employer's national insurance contributions and also their apprenticeship levy.

An example of how those cost savings might be achieved are shown in the example at Appendix 'A'.

Currently Lancashire County Council employees contribute just under £175k per month to the Local Government Pension Scheme additional voluntary contributions scheme with Prudential (approximately £2.1 million per annum). It is possible, therefore, for the county council to make a significant saving as a result of not paying employer national insurance contributions of 13.8% together with the apprenticeship levy of 0.5% on this amount of additional voluntary contribution contributions, on the assumption that it is paid through the salary sacrifice scheme.

Under the proposed scheme, the employee would see the same amount invested in their additional voluntary contribution fund, but by using the salary sacrifice scheme the member pays less national insurance and therefore increases their net pay.

If approved it is proposed that the salary sacrifice shared cost additional voluntary contribution scheme will be designed with an automatic opt-in for existing and new additional voluntary contributors. An appropriate communication exercise will be undertaken highlighting the advantages of the scheme however, the option to opt-out of the new salary sacrifice scheme will also be made available.

It is anticipated that the proposed salary sacrifice shared cost additional voluntary contribution scheme will act as an incentive for staff to make additional voluntary contributions. This is likely to lead to an increase in the number of new additional voluntary contributors and existing additional voluntary contributors potentially increasing the amount they pay. As such greater national insurance savings for both employees and the county council would be achieved.

In order to allow the county council to implement a salary sacrifice shared cost additional voluntary contribution scheme the current Local Government Pension Scheme Discretions Policy approved in October 2014 is required to be changed. The proposed changes in relation to this specific policy area are set out in Appendix 'B'.

To ensure that any adopted scheme is compliant with Her Majesty's Revenue and Customs regulations, a tax specialist will be engaged. The selection of an appropriate tax specialist will form part of the implementation process with the potential for commissioning a fully-managed service. This may incorporate an administration facility to manage employee applications and the provision of support for the county council in terms of staff communications. Typically the fee for such a service would be based on a percentage of the amount of salary sacrificed.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Financial

On the assumption that 90% of the current additional voluntary contributions members transfer to the new salary sacrifice shared cost additional voluntary contribution scheme, the county council can expect to achieve an annual saving of around £270k per annum, based on a 14.3% employer saving (employer national insurance contributions of 13.8% plus apprenticeship levy of 0.5%).

With a potential annual fee for a managed service, typically in the region of 3.5% of the amount of salary sacrificed, a net saving for the council of around £204k per annum could be achieved.

Legal

The compliance with legal requirements in relation to the recommendations in this report relate largely to taxation. This would be addressed by appointing an appropriate tax advisor and confirming Her Majesty's Revenue and Customs approval before implementing the scheme.

The county council will specify in the contract of employment that the contribution the employer makes to the salary sacrifice shared cost additional voluntary contribution will be a pensionable emolument.

Risk management

No significant risks have been identified.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Tel
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