



Report of the Cabinet Member for Corporate Services and Performance

Cabinet – 21 September 2023

Shared Cost AVC Pension Arrangement for LGPS Members

Purpose:	To seek Cabinet approval to introduce a shared cost AVC pension arrangement to LGPS members
Policy Framework:	Workforce Strategy
Consultation:	Access to Services, Finance, Legal.
Recommendation(s):	It is recommended that Cabinet: 1) Approve the introduction of a shared cost AVC pension arrangement for LGPS members 2) Approve that earnings related payments such as overtime, pay increases, contractual allowances, occupational maternity pay, occupational sickness pay and redundancy are calculated on the notional salary before applying the salary sacrifice reduction. 3) Approve the inclusion of a new discretion in the Council's LGPS Employer's Pension Discretionary Policy to permit LGPS members to participate in a Shared Cost AVC scheme 4) Approve partnering with an external provider to deliver a fully managed service covering Shared Cost AVCs
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1. Introduction

- 1.1 This report seeks approval to implement a salary sacrifice Shared Cost Additional Voluntary Contribution (Shared Cost AVC) pension arrangement for Local Government Pension Scheme (LGPS) members. Shared Cost

AVC schemes have been widely adopted across the LGPS in the UK with over 100 councils already delivering this key staff benefit.

- 1.2 LGPS members are currently permitted to contribute to a standard Additional Voluntary Contribution scheme (AVC) and receive income tax relief on their contributions through their payslip. AVCs are a long-term pension savings plan that runs alongside the main LGPS scheme that allows a member to build up a capital sum. On retirement, they can access the benefits through a range of options including the ability to receive the capital sum 100% tax free in most cases.
- 1.3 AVC contributions are paid across to a partnering responsible financial organisation who manage the plan and investments. Whilst Swansea Council is an employer within the LGPS, Swansea Council is also The LGPS Administering Authority of The City & County of Swansea Pension Fund which is responsible for appointing the external AVC provider (currently Prudential), and this arrangement would not change with the introduction of a salary sacrifice Shared Cost AVC scheme. The recommendations within this report apply to Swansea Council as an employer only.
- 1.4 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 received, they will in addition receive national insurance contribution relief too. The Council will also make savings, through a reduction in the employer national insurance contributions and the apprenticeship levy.
- 1.5 To ensure that the Shared Cost AVC arrangement is compliant with the LGPS/HMRC regulations, the scheme must be set up as a 'shared cost' scheme which requires both the employee and employer to contribute to the Shared Cost AVC. Although this suggests that the Council will pay a financial contribution towards the Shared Cost AVC plan, this is not the case. How it 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. Appendix 1 of this report provides an example of the comparative savings of the current AVC scheme and new Shared Cost AVC scheme.
- 1.6 Recommendation 2 above covers the treatment of earnings-related payments for staff who opt for Shared Cost AVCs. It is critical that the Shared Cost AVC scheme does not affect future earnings because of the salary sacrifice reduction, as this would be counter-productive to implementing a scheme. To ensure that the scheme is effective, any contractual earnings such as overtime, pay increases, contractual

allowances, occupational maternity pay, occupational sickness pay, and redundancy must continue to be calculated on the notional salary **before** the salary sacrifice is applied. If contractual pay is calculated on the salary after the salary sacrifice, this will result in a reduction in pay on earnings related payments. Without this approach there will be little incentive for staff to commence Shared Cost AVCs and we will not deliver either an improved pension outcome for staff and/or employer savings. This approach is consistent with all other public sector employers who have introduced Shared Cost AVCs.

2. Implications

- 2.1 Recommendation 3 above covers the requirement to make amendments to and publish the council's Employers Pensions Discretionary Policy, the current version of which is included as Appendix A. The Policy currently states:

Shared Cost Additional Voluntary Contributions		
Whether, how much and what circumstances to contribute to a Shared Cost AVC scheme	R17 (1) and R15 (1) (d)	The Council does not offer shared cost AVC arrangements

The proposed new discretion is shown in the table below:

Shared Cost Additional Voluntary Contributions		
Whether, how much and what circumstances to contribute to a Shared Cost AVC scheme	R17 (1) and R15 (1) (d)	Swansea 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.

- 2.2 It is important to note that Shared Cost AVCs will not affect the main LGPS scheme benefits provided that the employer specifies in the supporting documentation that the Shared Cost AVC contribution the employer makes to the Shared Cost AVC will be a pensionable emolument (in accordance with the LGPS regulations (Regulation 20(1)(b) of the 2013 Regulations). This will be included in the Shared Cost AVC scheme documentation.
- 2.3 Recommendation 4 above, advises that the council engages with an external provider to deliver Shared Cost AVCs for several important reasons, shown in the table below:

It provides a guarantee to the council that the scheme will be legislatively compliant with HMRC and LGPS Regulations.
It delivers an efficient automated processing platform with workflow to administer Shared Cost AVC applications and scheme amendments including National Living Wage/Minimum National Wage compliance checks.
It provides accurate calculators to help staff understand the benefits of saving towards their retirement.
It delivers a comprehensive range of pension webinars to enable staff to be better informed and educated about their LGPS pension and Shared Cost AVCs.
It provides the launch and ongoing communication collateral to make staff aware of the scheme.
It provides a full audit trail of all transactional activity including embedding electronic contractual change documentation to eliminate internal HR resource.
It provides several help options to support staff (telephone helplines, webchat, webinars, 1 to 1 meetings).
It improves the processing of Shared Cost AVCs through a direct link to the AVC providers
It includes a continual review process to ensure that all supporting scheme documentation is up to date and relevant (FAQs, videos, Knowledge Hub guidance, retirement projection calculators etc.)
It will deliver additional savings to the council through better communication of the Shared Cost AVC scheme

2.4 The main advantages of implementing a Shared Cost AVC scheme are:

- Staff will have access to a new financial well-being benefit that provides significantly improved retirement benefit outcomes
- Staff 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%
- Staff will continue to receive income tax relief on their Shared Cost AVC contributions
- The combined tax and NIC saving equates to a growth/yield rate of over 49% for basic rate taxpayers and over 76% for higher rate taxpayers through the payslip
- The introduction of a Shared Cost AVC will have no effect on the main LGPS benefits
- The council will make savings in employer NICs and Apprenticeship Levy of £80,223 in year 1. It is anticipated that savings could grow to £198,603 by year 3
- Staff will have access to a wide range of pension webinars and the option of individual pension meetings

3. Savings

The estimated savings are calculated using the following data but it must be noted that any savings are dependent upon LGPS members choosing to pay into a Shared Cost AVC which can alter at any time.

Assuming that 90% of the 510 current AVC scheme members will switch to the shared cost arrangement, the following table shows the expected amounts paid in contributions with anticipated growth of 1% per year:

	Year 1	Year 3
Total LGPS members	12643	12643
Estimated LGPS members paying into SCAVCs	510	885
Total estimated SCAVCs paid per month	£80,381	£221,250
Total estimated SCAVCs paid per year	£964,580	£1,673,712
Average AVC per month	£157.60	£250.00
% take up	3.96%	7%
Total Niable SCAVCs (i.e., less £1 personal contribution)	£958,460	£1,663,092

	Standard AVC Year 1	Standard AVC Year 3	Year 1 Shared Cost AVC	Year 3 Shared Cost AVC
Estimated gross employer NIC and apprenticeship levy savings (14.3%)	Nil	Nil	£123,354	£305,378
Less FMS fees (5%)	Nil	Nil	£43,131	£106,775
Estimated net savings (9.3%)	Nil	Nil	£80,223	£198,603

Whilst there are no savings to be made with the existing AVC arrangement, moving to a shared cost arrangement could generate an employer saving of up to £198,603 within a 3 year period.

The table below shows the savings that an average employee would make by opting into a shared cost AVC arrangement:

The average AVC contribution that LGPS members pay in the UK amounts to £250 per month. The savings illustration below is based on this monthly contribution		
<u>Basic Rate Taxpayer</u>	<u>Standard AVC</u>	<u>Shared Cost AVC</u>
Monthly contribution	£250.00	£250.00
Tax saving	£50.00	£50.00
National Insurance Saving	NIL	£32.99
Total Tax/NIC Saving	£50.00	£82.99
Net Cost to employee	£200.00	£167.01
% yield/growth on every £1 saved	25%	49%
AVC saved after 12 months	£3,000.00	£3,000.00
Net cost to save £3,000.00	£2,400.00	£2,004.12
Tax/NIC saving after 12 months	£600.00	£995.88

4. Implementation considerations

- 4.1 The recommendation to deliver the service through an external provider will require the procurement options to be considered. A detailed requirements specification has been drawn up to ensure that the service provider delivers a comprehensive inclusive service that requires minimal support from council officers. This specification includes requirements to deliver a platform to process AVCs for new and existing AVC payers, a range of calculators to help staff understand the financial cost of AVCs, full communication collateral to support the roll out and ongoing scheme publicity, employee helplines, the option for staff to book individual meetings and a comprehensive range of staff webinars covering a wide range of LGPS topics.
- 4.2 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.

5. Integrated Assessment Implications

- 5.1 The Council is subject to the Equality Act (Public Sector Equality Duty and the socio-economic duty), the Well-being of Future Generations (Wales) Act 2015 and the Welsh Language (Wales) Measure, and must in the exercise of their functions, have due regard to the need to:
- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Acts.
 - Advance equality of opportunity between people who share a protected characteristic and those who do not.
 - Foster good relations between people who share a protected characteristic and those who do not.
 - Deliver better outcomes for those people who experience socio-economic disadvantage
 - Consider opportunities for people to use the Welsh language
 - Treat the Welsh language no less favourably than English.
 - Ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs
- 5.2 The Well-being of Future Generations (Wales) Act 2015 mandates that public bodies in Wales must carry out sustainable development. Sustainable development means the process of improving the economic, social, environmental and cultural well-being of Wales by taking action, in

accordance with the sustainable development principle, aimed at achieving the 'well-being goals'.

- 5.3 Our Integrated Impact Assessment (IIA) process ensures we have paid due regard to the above. It also takes into account other key issues and priorities, such as poverty and social exclusion, community cohesion, carers, the United Nations Convention on the Rights of the Child (UNCRC) and Welsh language.
- 5.4 An IIA Screening Form has been completed with the outcome that a full IIA report is not required: The summary of impacts has been categorised as low, but with a positive impact as opposed to a negative.

6. Financial Implications

The estimated employer NIC savings based on the estimated take up of staff that transfer from the existing AVC arrangement to a Shared Cost AVC is expected to be £80,223 in Year 1. This saving could grow to £198,603 by Year 3 because of widespread communication of this new staff pension benefit facilitated by the external provider. The procurement of an external provider, who has a track record of delivering Shared Cost AVC services to councils will provide the necessary safeguards that the scheme is compliant with employment and tax law. It also removes the risk of the council having to fund back-office resource to deliver a skilled complex service. The external providers who deliver this type of service normally charge fees based on the member take up of AVCs. This is commonly around 5% of the employer NIC savings and there are normally no set up fees.

7. Legal Implications

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.
- The council's Pension Discretions 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.

The report clearly identifies and addresses the risks and makes the appropriate recommendations to avoid any potential loss to contributors regarding the LGPS and seeks to maximise tax efficiencies to be delivered to both the employee and employer. This comment is set against the additional reassurance that all current AVC holders will receive a full briefing on Shared Cost AVCs and that the scheme will be approved by HMRC before implementation.

The procurement of an external provider of the managed service will need to comply with the Public Contracts Regulations 2015 and any other relevant legislation.

Background Papers: None

Appendices

Appendix A: Pension Discretions Policy

Appendix B: IIA Screening