



Frequently Asked Questions - New to Shared Cost Additional Voluntary Contribution (SCAVC)

The questions and answers below provide a basic guide for someone new to North Lanarkshire Councils SCAVC scheme.

Please note that neither North Lanarkshire Council, Prudential nor Strathclyde Pension Fund are able to provide advice on the suitability of SCAVCs.

Other options for saving for retirement are available. For details of other options for saving for retirement within the Local Government Pension Scheme (LGPS) please refer to Strathclyde Pension Fund website at <https://www.spfo.org.uk> or seek independent financial advice from your preferred advisor.

1. What are Shared Cost Additional Voluntary Contributions (SCAVCs)?

SCAVCs provide an opportunity for NLC employees who are members of Strathclyde Pension Fund 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). Please see question 6 for further information.

If you choose to pay SCAVCs, the additional contributions are invested separately in your choice of fund(s) which are managed by Prudential the SCAVC provider. 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.

Prudential: <https://www.pru.co.uk/pdf/LAVK10046.pdf>

2. How does SCAVC work?

North Lanarkshire Council will contribute the amount you have specified into your SCAVC fund and you will automatically be entered into a 'salary sacrifice' arrangement under which you formally agree to accept a reduction in your gross salary which is equal to SCAVC, less £1 per pay.

You will be required to make a contribution of £1 per pay from your pay as a contribution to the SCAVC. This £1 contribution will not be part of the salary sacrifice arrangement.

SCAVCs involve a commitment on your part to enter into an arrangement to reduce your gross salary for a minimum period of 12 months. This means that at the point of commencing your SCAVC arrangement, you must have an employment contract which runs for more than twelve months from the start date of your arrangement.

3. Am I still able to join or remain in the standard AVC arrangement as opposed to SCAVC?

The 'default position' will be SCAVC. However, providers will continue to offer a standard AVC arrangement where it is required. The differences between SCAVC and the standard AVC arrangement are explained in the table below:

SCAVC	Standard AVC arrangement
Your sacrifice salary which is paid into the AVC by North Lanarkshire Council and the amount sacrificed qualifies for both income tax and national insurance savings.	AVC contributions qualify for tax relief only. No NIC saving is available.
In addition to sacrificing salary you must pay a £1 contribution per pay towards your AVC and this qualifies for tax savings only.	N/A
Minimum commitment to reduce your salary for a period of 12 months	N/A
No tax saving is available if your taxable earnings are less than £11,500 (in 2017/18)	No tax saving is available if your taxable earnings are less than £11,500 (in 2017/18)
No NIC savings are available if you earn below the Primary NIC threshold of £8,164 (in 2017/18)	No NIC savings are available on your AVC contributions

4. Can I see an example of the savings?

Paul - Annual salary: £30,000 (basic rate tax payer)

Paul is considering paying £3,600 in SCAVCs. If Paul decides to join SCAVC, his annual salary will be reduced by £3,588, resulting in a monthly (with NLC 4 weekly or 2 weekly as per salary arrangements) reduction in his gross pay of £299. Paul won't have to pay any income tax or National Insurance Contributions on the £299 and this will save him £59.80 per month in income tax and £35.88 in National Insurance Contributions - a total saving of £95.68 per month or £1,148.16 a year.

In return for giving up £3,600 of his salary, North Lanarkshire Council will pay the same amount into his AVC fund and he will pay £1 per month as his contribution. To be clear, North Lanarkshire Council will not match the £3,588 reduction in salary, but will instead pay that amount into the SCAVC fund, so that the balance from the reduction has gone into Paul's pension. The £1 AVC contribution qualifies for tax relief but not any National Insurance Contributions reduction. For Paul this means his personal AVC contribution (£12 per year) will cost £9.60 after tax relief.

Therefore, by participating in SCAVC, the gross cost to Paul of investing £3,600 into his SCAVC plan will be reduced to a net cost of £2,449.44 and this is calculated as follows:

Salary sacrifice reduction	£3,588.00
Paul's personal shared cost contribution	£12.00
Total	£3,600.00
Less income tax saving on salary sacrifice	(£717.60)
Less NIC saving on salary sacrifice	(£430.56)
Less income tax relief on Paul's personal shared cost contribution	(£2.40)
Net cost of SCAVC	£2,449.44

Although Paul's SCAVC net costs are £2,449.44, his AVC fund will receive £3,600 (£3,588 from North Lanarkshire Council under the salary sacrifice arrangement and £12 contribution from Paul). The table below shows how the monthly (with NLC 4 weekly or 2 weekly as per salary arrangements) and annual tax and National Insurance Contributions 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	£59.80	£717.60
Plus tax saving on £1	£0.20	£2.40
Plus NIC saving	£35.88	£430.56
Total savings	£95.88	£1,150.66

The example above is based on tax and National Insurance Contributions rates for 2017/18. Please note that the tax saving is available through the current AVC scheme but the National Insurance Contributions saving is only available through SCAVC.

5. Who is eligible to participate?

All North Lanarkshire Council employees that are members of the Strathclyde Pension Fund LGPS 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.

6. When can I join SCAVC?

You may join SCAVC at any time by completing the appropriate application form with our SCAVC provider Prudential. You will then be required to sign acceptance of the terms before deductions can commence. SCAVC will then normally begin in the pay period following receipt of your application.

7. 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. Please note that North Lanarkshire Council will ensure that you will have sufficient pay after any AVC reductions to meet all lawful deductions from pay, e.g. student loans, etc.

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 Strathclyde Pension Fund 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).

For tax year 2017/18, the Annual Allowance for all individuals with income less than £150,000 a year is £40,000. You may be subject to a reduced (tapered) Annual Allowance if your total income exceeds £110,000. North Lanarkshire 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>

8. How much will I save?

The amount you save will depend on the amount of salary sacrificed and the rate at which you pay tax and National Insurance Contributions (Basic Rate or Higher Rate).

On joining SCAVC, your basic gross salary will be reduced by the amount you have specified and North Lanarkshire Council will pay the equivalent sum to your SCAVC fund.

The advantage is that you do not pay tax or National Insurance Contributions on the amount that you have sacrificed.

Please see FAQ number 4 above for an example of the savings.

9. Should I be worried by the fact that you are reducing my gross pay?

North Lanarkshire Council will track your original salary which we will now be calling 'notional salary'. Please also see questions 11 to 16 below.

10. 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'.

11. What happens to earnings related payments such as allowances or on call?

Participation in SCAVC will not affect payments such as on call and shift allowances. These will continue to be calculated on your notional salary prior to participation in the scheme.

12. Will my normal Strathclyde Pension Fund LGPS pension be affected?

North Lanarkshire Council is permitted to treat SCAVCs as part of your pensionable pay and, therefore, the contributions that both you and North Lanarkshire Council make into the Strathclyde Pension Fund LGPS will continue as though your salary had not been reduced. Consequently, your main Strathclyde Pension Fund LGPS benefits will be unaffected by your joining the SCAVC Scheme including any benefits due to your dependants in the event of your death.

13. 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 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 is likely to be lower.

If you are likely to receive these benefits, you should first consider carefully whether your participation in SCAVC will be worthwhile

14. I currently receive tax credits. Will joining SCAVC affect my entitlement to tax credits?

The tax credit calculation is based on your taxable (P60) income. By signing up to 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.

15. 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 National Insurance Contributions. Under SCAVC your total gross salary on which National Insurance Contributions 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.

16. 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 National Insurance Contributions, 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 £113 per week, or £5,876 per annum in 2017/18 (these thresholds vary each year), you should first consider carefully the possible impact before joining SCAVC.

17. Can I participate in any other salary sacrifice arrangements provided by North Lanarkshire Council?

North Lanarkshire Council currently provides an opportunity for staff to participate in other salary sacrifice arrangements. You may participate in more than one, but, if by increasing your salary sacrifice amount, your earnings fall below the National Minimum Wage, you will need to consider which scheme(s) to join.

18. 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', North Lanarkshire 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 is absent for the remainder of the leave year

A request to opt out from the scheme should be made in writing to the Employee Service Centre, providing the reasons for this and the date you wish to withdraw. A decision will be made by the Employee Service Centre.

If North Lanarkshire Council agrees to an early termination of the agreement, you would not normally be 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 appropriate Prudential form.

19. What happens if I leave my employment with North Lanarkshire Council?

If your employment with North Lanarkshire Council ends for whatever reason, your entitlement to participate in SCAVC will cease immediately. If you have Strathclyde Pension Fund 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 your 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 Strathclyde Pension Fund LGPS membership on leaving employment with North Lanarkshire 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.

20. How do I vary my 4 weekly or 2 weekly contribution?

Under the terms of SCAVC, you are permitted to vary the level of contributions on a 4 weekly or 2 weekly basis as per your salary arrangements. Where you do wish to vary your contributions, you will need to complete a Prudential AVC form.

Please see <https://www.pru.co.uk/localgov> or phone the Prudential on 0800 731 0466 open 9am to 6pm weekdays.

21. Where can I get more information about my pension and SCAVCs?

- Your specific AVC, please see <https://www.pru.co.uk/localgov> or phone the Prudential on 0800 731 0466 open 9am to 6pm weekdays.

- You can contact Strathclyde Pension Fund through their website at <https://www.spfo.org.uk> or seek independent financial advice from your preferred advisor.

- Prudential information sessions specifically for North Lanarkshire Council employees. These sessions take place at points throughout the year and are advertised once arranged.