Salary sacrifice Shared Cost AVC scheme

Frequently Asked Questions

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my money matters

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Education Authority

Salary sacrifice Shared Cost AVC scheme

Introduction

Under the Local Government Pension Scheme (LGPS), administered by the Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC), employees may opt to make Additional Voluntary Contributions (AVCs). In accordance with the terms of NILGOSC, an employer can also contribute to the employee's AVC arrangement. This is known as a Shared Cost Additional Voluntary Contribution (Shared Cost AVC) arrangement, and other than in exceptional circumstances (see FAQs) offers the same benefit options as a standard AVC arrangement.

Education Authority ('EA') is pleased to provide two AVC facilities for NILGOSC members.

1. A standard AVC that provides Income Tax relief.
2. A Shared Cost AVC scheme that provides Income Tax relief and National Insurance contribution (NIC) savings.

The Shared Cost AVC scheme is provided by using a salary sacrifice arrangement and is fully supported by EA on the basis that it will:

- Provide further flexible pension saving opportunities
- Result in an increase in take-home pay when compared to paying AVCs in the standard way

My Money Matters will manage and administrate this benefit for EA.

If you have any queries about the application process or the AVC schemes, you can contact the My Money Matters Customer Service Team to discuss. Telephone: 01252 959779 Email: support@my-money-matters.co.uk

Frequently Asked Questions ('FAQs')

The questions and answers set out below provide a basic guide to EA's salary sacrifice Shared Cost AVC (Shared Cost AVC) scheme. The FAQs apply equally to those who are not currently paying AVCs, but may be interested in doing so, and those currently paying standard AVCs.

Please note that neither EA nor Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC) can provide advice on the suitability of AVCs for members and that other options for saving for retirement are available. For details of other options for saving for retirement within NILGOSC, please refer to the https://nilgosc.org.uk/ website or seek independent financial advice from your preferred advisor.

If you choose to join the scheme, your Shared Cost AVC pot will be held and invested by EA's AVC provider, Prudential.

1. What are Additional Voluntary Contributions (AVCs)?

AVCs provide an opportunity for employees who are members of NILGOSC to pay additional contributions to increase their pension benefits at retirement.

AVCs are an efficient way to save for retirement because they attract full Income Tax relief through your payslip, provided your income is sufficient to pay tax, and you are also subject to certain overall limits set by HMRC. Please see Q11 for further information.

If you choose to pay AVCs, the additional contributions are invested separately in your choice of fund(s) which are managed by the 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 AVCs is free from tax while the money is invested in your plan. Prudential offers a wide range of funds with differing investment risks and you will need to look at the investment fund factsheets for further information to decide how you want to invest. Please go to https://www.pru.co.uk/rz/localgov/avcs/#investmentchoices for further information.

2. Why have we introduced the Shared Cost AVC scheme?

EA has introduced the scheme to provide members of NILGOSC with an opportunity to pay AVCs in a cost-effective way.

The main advantage over a standard AVC option is that, as well as receiving full Income Tax savings, you will not pay National Insurance contributions (NICs) on the amount of pay that you have sacrificed. As a result, the scheme allows you to save NICs in addition to Income Tax, therefore increasing your take-home pay when compared to paying AVCs in the standard way.

For example: If your salary is £25,000 per year and you pay £3,000 in standard AVCs per year, your Income Tax savings will be circa £600 per year. If you join the Shared Cost AVC scheme and still choose to pay £3,000 per year, you will benefit from the same Income Tax savings of £600, but in addition you will also benefit from NICs savings of circa £240 per year, giving you a Tax and NIC saving of £840 over 12 months, making the Scheme a lot more beneficial for you versus paying AVCs the standard way.

3. How does the Shared Cost AVC scheme work?

If you decide to take advantage of the scheme, EA will contribute all but £1 of the amount you have specified into your Shared Cost AVC fund, and in return you will agree to enter a 'salary sacrifice' arrangement under which you formally accept a reduction in your gross salary, which is equal to the contribution from EA.

As the scheme must be operated on a 'shared cost' basis, you will also be required to pay £1 per month as your contribution to the shared cost AVC arrangement. This tax-free contribution will be deducted from your salary and paid into your Shared Cost AVC fund, in addition to the contribution from EA under the salary sacrifice arrangement.

As an example, if you would like to pay £100 each month, your total Shared Cost AVC amount will be £100 with £99 being the salary sacrifice amount and £1 being your personal contribution.

4. What is salary sacrifice?

A salary sacrifice is an arrangement between you and your employer where you formally agree to a reduction in your salary and in return you receive a benefit (**in this case the benefit is contributions, paid by your employer, into your Shared Cost AVC fund**).

Further guidance about salary sacrifice is available at https://www.gov.uk/guidance/salary-sacrifice-and-the-effects-on-paye

5. Who is eligible to participate?

All employees of EA that are members of NILGOSC are eligible to join the scheme. This includes part-time employees.

If you have more than one contract of employment with EA, you can apply to join the scheme under each contract of employment.

Please note that, if at any point your employment income is insufficient to support the salary sacrifice arrangement or if by sacrificing salary, your earnings should fall below the National Minimum/Living Wage or the Lower Earnings Limit, you will be unable to participate in the scheme. However, it may still be possible to participate in the scheme by reducing the salary sacrifice amount to a level that maintains your salary above the required limit.

6. Am I still able to join or remain in the standard AVC arrangement as opposed to the Shared Cost AVC scheme?

EA will continue to offer a standard AVC arrangement where it is required, however by choosing to do this you will not receive the NIC benefits as per the Shared Cost AVC scheme.

The differences between the Shared Cost AVC scheme and the standard AVC arrangement are explained in the table below:

Shared Cost AVC scheme	Standard AVC arrangement
The salary sacrifice amount qualifies for both Income Tax and National Insurance savings.	AVC contributions qualify for Income Tax relief only. No NIC saving is available.
In addition to sacrificing salary you must pay a £1 contribution each month to make it a Shared Cost AVC. This £1 qualifies for Income Tax savings only.	N/A

No Income Tax saving is available if your taxable earnings are less than the Personal Allowance. See link below for current allowance.	No Income Tax saving is available if your taxable earnings are less than the Personal Allowance.
No NIC savings are available if you earn below the Primary NIC threshold. See link below for current threshold.	No NIC savings are available on AVCs.
Personal Allowance https://www.gov.uk/income-tax-rates **National Insurance Contribution Thresholds** https://www.gov.uk/government/publications/rates-and-allowances-national-insurance-contributions	

7. I'm already paying AVCs or I have an inactive NILGOSC AVC plan which is linked to my employment with EA. If I move to the Shared Cost AVC scheme, what impact does this have on my existing AVC plan?

When you move to the Shared Cost AVC scheme, a new Shared Cost AVC plan will be set-up, and both your contributions and the contributions EA pays for you through salary sacrifice will be paid into your new Shared Cost AVC plan. The contributions will be invested according to your existing instructions at the date your participation is approved. You can of course change these instructions at any time.

Please note, moving to the Shared Cost AVC scheme will not impact on any other AVC pots you may have related to another job you have or with another pension fund.

Additionally, the value of your standard AVC will automatically move to the Shared Cost AVC plan. These existing funds will be invested in the same funds and proportions as your standard AVC and will not affect your plan value but will save you money (NIC savings) on EA contribution via salary sacrifice. Prudential will not charge you for this. You can change the funds your money is invested in at any time by contacting Prudential.

Please note: your standard AVC plan will automatically be combined with the Shared Cost AVC plan unless you choose to keep them as separate plans.

The implications of combining or not on the terms which apply are as follows:

Existing AVC Plan Start Date	Member combines plans	Impact
Prior to 1st April 2015	Yes	Member has one plan - new terms apply to combined value and future contributions. Please see Q8 for further information.
Prior to 1st April 2015	No	Member has two plans - new terms apply to future contributions to new Shared Cost AVC plan only
On, or after, 1st April 2015	Yes	Member has one plan - no impact as new terms applied to old plan and continue to apply to combined new plan and future contributions
On, or after, 1st April 2015	No	Member has two plans – no change to terms as new terms apply to both old and new plans

Depending on when your standard AVC plan originally started, there may be some changes to the way your Shared Cost AVC plan is administered in line with NILGOSC scheme rules. See Q8 below for further details.

8. Will my Shared Cost AVC plan be administered on the same terms as a standard AVC?

Your Shared Cost AVC plan will continue to be administered under the same terms as a standard AVC and there will be no change to the annual management charges you currently pay as a result of your participation in this scheme.

However, depending on when your standard AVC plan started there may be some changes to the way the Administering Authority is required to administer your Shared Cost AVC plan in line with NILGOSC scheme rules.

It is important to consider the implications of the regulation differences if you entered your active standard AVC before 1st April 2015 and you decide to join the Shared Cost AVC scheme. The key differences and impacts, which include example scenarios, are explained in the section at the end of the FAQs (Appendix A). The information reflects EA's understanding of the NILGOSC Scheme rules that currently apply to different groups of AVC members. The rules may change in the future.

Please ensure you read the information in Appendix A as it contains important information to help you decide if the Shared Cost AVC scheme is right for you.

9. Can I see an example of the savings?

The amount you save will depend on the amount of salary sacrificed and the rate at which you pay Income Tax and NICs.

On joining the scheme, your basic gross salary will be reduced by the salary sacrifice amount you have specified, and EA will pay the equivalent sum to your AVC fund.

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

EXAMPLE

Paul, Annual Salary: £25,000 (basic rate tax payer)

Paul is considering paying £300 a month (£3,600 per year) into his Shared Cost AVC.

If Paul decides to join the scheme, his annual salary will be reduced by £3,588, resulting in a monthly reduction in his gross pay of £299. Paul won't have to pay any Income Tax or NICs on the £299 and this will save him £59.80 per month in Income Tax and £23.92 in NICs - a total saving of £83.72 per month or £1,004.64 a year.

In return for sacrificing £3,588 of his salary, EA will pay this amount into his Shared Cost AVC fund, and he will pay £1 per month as his contribution. The £1 contribution qualifies for Income Tax relief but not any NIC reduction. For Paul this means his personal contribution (£12 per year) will cost £9.60 after Income Tax relief.

Therefore, by participating in the scheme, the gross cost to Paul of investing £3,600 into his Shared Cost AVC plan will be reduced to a net cost of £2,592.96 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	(£287.04)
Less Income Tax relief on Paul's personal shared cost contribution	(£2.40)
Net cost of Shared Cost AVC scheme	**£2,592.96**

Although Paul's net costs are £2,592.96, his Shared Cost AVC fund will receive £3,600 (£3,588 from EA under the salary sacrifice arrangement and £12 contribution from Paul). The table below shows how the monthly and annual tax and NIC savings arise.

	Monthly	**Yearly**
Gross salary (before Income Tax)	£2,083.33	£25,000
Salary Reduction	£299.00	£3,588.00
Personal AVC contribution	£1.00	£12.00
Income Tax saving	£59.80	£717.60
Plus Income Tax saving on £1	£0.20	£2.40
Plus NIC saving	£23.92	£287.04
Total savings	**£83.92**	**£1,007.04**

The example above is based on current Income Tax and NICs rates. Please note that the Income Tax saving is available through the standard AVC scheme but the NIC saving is only available through EA's Shared Cost AVC scheme.

10. When can I join the Shared Cost AVC scheme?

You may join the scheme at any time.

11. How do I decide the contribution amount to be paid by the Education Authority?

You will be required to specify the total Shared Cost AVC contribution amount. This is the total amount EA will contribute (the amount salary sacrificed) and your contribution (£1 deduction from gross pay) amount per payroll period.

In deciding the amount to contribute, you will need to consider your pension objectives and annual limits to determine your monthly/annual contribution amount. In addition, you will need to consider the National Minimum/Living wage requirements.

Please note that EA will ensure that you will have sufficient pay after any reduction to meet all lawful deductions from pay, e.g. student loans, season ticket 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 NILGOSC benefits
- any AVCs paid by you and your employer
- contributions to other UK registered pension schemes in a tax year (between 6th April and the following 5th April).

You may be subject to a reduced (tapered) Annual Allowance if your total income exceeds the defined amount. EA 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 inform you if this applies to you.

Individuals who flexibly access pension benefits from money purchase arrangements are subject to a reduced Money Purchase Annual Allowance (MPAA). The MPAA limits the amount of contributions to money purchase arrangements on which tax relief is available.

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

12. Can I change the contribution amount?

Yes, you may change the employer contribution amount (the amount salary sacrificed) but you cannot change your £1 contribution amount. This is a fixed amount and cannot be changed at any time during your participation in the scheme.

If you wish to change the contribution amount, you must sign in to My Money Matters and complete the Amendment amount process, please contact support@my-money-matters.co.uk for the full detail on this process.

Please note. When deciding the contribution amount you will need to consider the National Minimum wage, National Living wage and Lower Earning Limit requirements. Please see Q5 and Q24 for further details. In addition, if you wish to increase the contribution amount, you must also consider the annual pension limits - please see Q11 for further details.

13. When can I take the Shared Cost AVC benefits from this arrangement?

The benefits can be taken at the same time as the main NILGOSC benefits and additionally you can take one or more cash withdrawals from your Shared Cost AVC before or after retirement/taking your main scheme benefits. Alternatively, you can transfer your Shared Cost AVC plan to another Registered Pension Scheme.

Please note that in cases of flexible retirement you may continue to make Shared Cost AVC payments if you wish. This is in accordance with changes to the NILGOSC rules that took effect from 1 April 2015. The Government currently allows you to start taking your benefits from the age of 55, even if you are still working. You may be able to start taking your benefits early if you're in ill health. The minimum age from which you can access your personal or occupational pension is expected to increase from 55 to 57 in 2028 and remain at 10 years below the State Pension age. The maximum age from which you must take your Shared Cost AVC benefits is currently 75.

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

Employees should not be worried; EA will track your original salary which we will now be calling 'notional salary'. Please also see Q15 to Q23 below.

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

Any future pay awards, increments or promotions will be based on your original salary, prior to your participation in the Shared Cost AVC scheme. This original salary is known as 'notional salary'. If you opt-out of the scheme your actual salary will revert to the level of your notional salary.

16. What happens to earnings related payments such as overtime?

Participation in the Shared Cost AVC scheme will not affect payments such as overtime, additional hours' payments and shift allowances. These will continue to be calculated on your notional salary prior to participation in the scheme.

17. Will my NILGOSC pension be affected?

EA is permitted to treat the Shared Cost AVC amount as part of your pensionable pay and, therefore, the contributions that both you and EA make into NILGOSC will continue as though your salary had not been reduced. Consequently, your main NILGOSC benefits will be unaffected by your joining the Shared Cost AVC scheme including any benefits due to your dependants in the event of your death.

18. Will participating in the Shared Cost AVC scheme impact on any salary-related payments?

Your participation in the scheme may have an impact on the following earnings-related statutory benefits:

Statutory Maternity Pay (SMP)
Statutory Paternity Pay (SPP)
Statutory Adoption Pay (SAP)
Statutory Sick Pay (SSP)
Statutory Redundancy Pay (SRP)
Statutory Shared Parental Pay (ShPP)

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 the scheme, 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 the scheme will be worthwhile. Please talk to Payroll for advice as to how this may affect you individually and the options available to you.

19. What happens if I am eligible for any occupational related benefits e.g. occupational maternity pay?

Occupational payments are not affected by the Shared Cost AVC scheme and will be calculated on your notional salary.

20. If I am made redundant or take voluntary redundancy, will participation in the scheme affect my redundancy payment?

Statutory earnings-related payments such as Statutory Redundancy Pay will be calculated on your reduced salary. However, whilst such payments must be based on your reduced salary, employers can make payments over and above any statutory entitlement and can choose to base those additional payments on notional salary (occupational redundancy pay). EA's policy is to calculate redundancy payments on notional salary.

Therefore, participation in the Shared Cost AVC scheme will not affect redundancy payments.

21. What happens if I am absent from work or on unpaid leave?

The salary sacrifice and benefit arrangements will continue during any period of maternity, paternity, adoption, parental or sick leave as long as your employment income is sufficient to support the salary sacrifice arrangement. If at any point your employment income is insufficient or should your entitlement to paid leave cease, you will not be eligible to participate in the scheme and the contributions paid into your Shared Cost AVC fund will cease.

Once your employment income is sufficient to support the salary sacrifice arrangement, you can apply to resume your participation in the scheme.

Please note that statutory payments must be made in full and cannot be reduced by the terms of a salary sacrifice arrangement. However, since any reduction in your gross pay will adversely affect your statutory entitlement to benefits such as SSP and SMP, it may be in your interest to terminate the arrangement before the absence period and return to your original gross salary. Please see Q26 for further details.

22. 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 the Shared Cost AVC scheme 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 for an additional time period.

23. Will participating in the scheme impact on mortgage or loan applications?

This will depend on the mortgage provider. The 'Notional Salary' will continue to be shown on the employee's payslip and therefore should not affect applications for loans and mortgages. However, it is important to note that different lenders take their own approach and some may choose to base the affordability criteria on the reduced salary.

24. I currently receive tax credits. Will joining the Shared Cost AVC scheme affect my entitlement to tax credits?

The tax credit calculation is based on your taxable (P60) income. By signing up to the Shared Cost AVC scheme, 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 0345 300 3900.

25. Will participating in the scheme impact on any contribution-based benefits?

If entering the Shared Cost AVC scheme 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 you will be unable to participate in the scheme. Please see link for confirmation of the thresholds.

https://www.gov.uk/government/publications/rates-and-allowances-national-insurance-contributions

26. Can I participate in any other salary sacrifice arrangements provided by EA?

EA currently provides an opportunity for employees 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 Living/Minimum Wage or Lower Earnings Limit, you will need to consider which scheme(s) to join.

27. Can I withdraw from the scheme?

Yes, to end your participation in the Shared Cost AVC scheme, you must sign in to the My Money Matters platform and complete the Cancellation process. As mentioned in Q12, an amendment of the Shared Cost AVC will be permitted at any time. If you opt-out of the scheme, your salary will revert to your notional salary and the contributions paid into your Shared Cost AVC fund will cease. In this event, your Shared Cost AVC fund will remain invested by the fund provider.

If you opt-out of the scheme, you can choose to pay AVCs through a standard AVC arrangement. In this situation, you must contact My Money Matters to confirm your request to pay Standard AVCs. **Email:** support@my-money-matters.co.uk **Telephone:** 01252 959779

28. What happens if I leave my employment with the Education Authority or I leave the main NILGOSC?

If your employment with EA terminates for whatever reason, your entitlement to participate in the Shared Cost AVC scheme will cease immediately and all contributions will cease.

If you have NILGOSC membership of two years or more, your Shared Cost AVC pot will remain invested and will be available to provide you with additional benefits on retirement. Please note that charges may continue to be deducted to cover the cost of managing your plan in the intervening period. Alternatively, you can transfer all your local government AVC 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 NILGOSC membership on leaving employment with EA, you can choose to receive a refund equal to the realisable value of your AVC plan. Please note that the value of the AVC fund will reduce to take in to account the tax relief you will have benefitted from during the period that contributions were made. Please note if you leave the NILGOSC before the two year period and you get a refund you will pay a significant tax charges on the part of the refund under the Shared Cost AVC arrangement.

29. Where can I get more information about AVCs and the investment options?

For more details about AVCs please go to: https://www.pru.co.uk/rz/localgov/sal-sac-avcs or contact Prudential directly by telephone 0345 600 343.

These FAQs and other information provided by EA explain how AVCs and contributions paid under the Shared Cost AVC Scheme are treated for tax and national insurance purposes. It is important that you read the Key Facts literature provided by Prudential to ensure you understand ALL the features and terms before deciding whether Shared Cost AVCs is right for you. The Key Facts document is available at **https://www.pru.co.uk/pdf/LAVK0846.pdf**

Appendix A : KEY DIFFERENCES AND IMPACTS OF MOVING FROM STANDARD AVC TO SHARED COST AVC SCHEME

Subject	AVC plan commenced prior to 1st February 2003	AVC Plan commenced on/after 1st February 2003 and prior to 1st April 2015	AVC Plan commenced on, or after, 1st April 2015
With Profits (MVR free guarantee date)	65/death	65/death	State Pension Age (subject to minimum of age 65/death)
Lifestyle Option (target date for taking benefits)	Selected Retirement Age Or 65 (if no age selected)	Selected Retirement Age Or 65 (if no age selected)	Selected Retirement date Or Higher of age 65 and State Pension Age (if no age selected)
Life Cover (age cover ceases)	65	65	State Pension Age (subject to minimum of age 65)
Scheme Regulations			
Normal Pension Age for AVC purposes	65	65	State Pension Age (subject to minimum of age 65)
AVC Death Benefits	Regulations silent on treatment	Regulations silent on treatment	NILGOSC has full discretion
AVC Benefits on flexible retirement	Member must take AVC benefits on flexible retirement	All, or none, of the AVC plan must be taken on flexible retirement	All, or none, of the AVC plan must be taken on flexible retirement.
AVC Life Cover contributions where member is on reduced pay	Right to pay by cheque	Right to pay by cheque	No right to pay by cheque
Aggregation	AVC must be aggregated where main benefits are aggregated	AVC must be aggregated where main benefits are aggregated	AVC automatically aggregated where main scheme benefits are aggregated but members who were in the scheme on both 31/03/2015 and 01/04/2015, and who have no continuous break in service in a public service pension scheme longer than 5 years, can elect that their AVC benefits are NOT automatically aggregated

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Contact Us

If you have any queries about any of the key differences and how this may impact you, or anything else about the Shared Cost AVC scheme, please contact support@my-money-matters.co.uk