

Car Salary Sacrifice

The effect on your LGPS Benefits

Introduction

Under a Car Salary Sacrifice scheme, your Employer will allow you to lease a brand-new car for a period of, for example, 24 or 36 months, by making payments from your salary, with the opportunity to buy the car at the end of the lease period.

In accordance with this arrangement, your monthly gross salary will be reduced to reflect the cost of leasing the car, which means you will pay less income tax and National Insurance. However, if you are a member of the Local Government Pension Scheme (LGPS), there will be implications to your pension. This factsheet therefore sets out the affect to your LGPS benefits.

Will I pay less pension contributions?

If you join the Car Salary Sacrifice scheme, the payment in respect of your new car will be taken from your monthly gross salary before any other deduction is made, therefore your taxable pay will be less, which means you will pay less pension contributions.

Your main scheme contribution rate may also change, as the rate payable will be re-assessed against your annual pensionable pay **LESS** the sacrificed amount. The contribution banding arrangement can be seen below:

Your Actual Pensionable Pay	Contribution Rate for the Main Section	Contribution Rate for the 50/50 Section
Up to £16,500	5.50%	2.75%
£16,501 to £25,900	5.80%	2.90%
£25,901 to £42,100	6.50%	3.25%
£42,101 to £53,300	5.80%	3.40%
£53,301 to £74,700	8.50%	4.25%
£74,701 to £105,900	9.90%	4.95%
£105,901 to £124,800	10.50%	5.25%
£124,801 to £187,200	11.40%	5.70%
More than £187,201	12.50%	6.25%

What about any additional contributions?

Any additional pension contributions that you are making in respect of Additional Voluntary Contributions (AVC), Additional Pension Contributions (APC), Additional Regular Contributions (ARC) or towards purchasing 'added years' will continue be taken from your gross monthly salary, after the deduction of the sacrificed amount, but before income tax. However, be mindful that if your AVC is currently expressed as a percentage of your pensionable pay, your AVC will be less due to the deduction of the sacrificed amount.

Will I build up less pension under the CARE scheme?

Since 1st April 2014, your pension under the Career Average Revalued Earnings scheme (CARE) is based on the pensionable pay that you have earned during each scheme year (1st April to 31st March). Therefore, for the duration of the car salary sacrifice agreement, your pension build up will be less as your pensionable pay will **NOT** include the sacrificed amount.

For example:

Annual Salary:	£18,000
LESS Sacrificed Amount for car lease:	<u>£ 3,000</u>
Pensionable Pay used to calculate pension:	£15,000

Pensions build up for Scheme Year: £15,000 x 1/49th = **£306.12**

In contrast, the full pension build up for a LGPS member NOT contributing to the Car Salary Sacrifice scheme would be; £18,000 x 1/49th = **£367.35** (which means an annual pension loss of **£61.23**).

Can I 'make up' this loss to my annual pension?

You have the option to pay APC to purchase an additional annual pension amount, which would then cover the loss to your annual pension. On 1 April 2014, a cap of £6,500 per annum was put in place to limit the amount of annual pension that you can purchase in the LGPS. This cap has been inflation proofed every year since then

To purchase additional pension, you will need to establish how much annual pension you have lost due to the agreement, which will then enable you to access the online **APC Modeller** to calculate the cost of purchasing the additional annual pension amount:

<https://www.lgpsmember.org/more/apc/extra.php>

Should you wish to proceed, you must return the **Application Form** from to the Payroll department. You will have the option to purchase the additional annual pension amount as a one-off lump sum or monthly over a minimum period of 12 months. However, if you wish to pay monthly, you will have to certify that you are in 'reasonably good health'.

Will my pre 1st April 2014 Final Salary benefits also be less?

Yes, as your final salary benefits in respect of your membership to 31st March 2014 will be based on your pensionable pay **LESS** the deduction of the sacrificed amount in the applicable final pay period (under the 2008 definition of pensionable pay i.e., without non-contractual overtime).

Is there any other affect to my LGPS benefits?

Yes, as the lump sum death grant payable in the event of your death would be based on your assumed pensionable pay after the sacrificed amount has been deducted.

Where can you find more Information?

This factsheet gives general guidance only, if you need further information, please contact the Pension Fund.

Disclaimer

The Pension Fund is unable to provide any financial advice. After reading this factsheet, you may want to seek independent financial advice to make an informed decision.

These bodies may be able to help you:

Unbiased: <https://unbiased.co.uk/>

Money Advice Service:

<https://www.moneyadvice.service.org.uk/en/articles/choosing-a-financial-adviser>