

The Impact of Car Salary Sacrifice on your LGPS Benefits

Under a Car Salary Sacrifice scheme, you as an employee, and a member of the Local Government Pension Scheme (LGPS), have the opportunity to lease a car through your employer, in exchange for reducing your entitlement to cash pay.

There are advantages to using this scheme, as you will pay less tax and National Insurance contributions as a result of earning less in take home pay.

There are considerations to take into account however, when it comes to thinking about your LGPS pension benefits.

As the Car Salary Sacrifice scheme is non-pensionable, which means that any pay you reduce in exchange for the leasing of a car will not be protected from a pensions point of view, you will stand to lose value on your pension account as a result of using this scheme.

This is because the lower pay (post salary sacrifice) will be used to calculate the value of your eventual pension benefits. This could have an impact on both your final salary benefits (benefits accrued prior to 1st April 2014), and the current build up of your CARE benefits.



This factsheet aims to provide information to you about how you could be affected, and any steps you can take to protect the value of your pension.

So if I'm earning less, do I pay less contributions towards my pension?

If you join the Car Salary Sacrifice scheme, then the relevant payment in respect of your non-cash benefit will be taken from your monthly pay before any other deductions are made.

Therefore, the monthly pay left after that deduction has been made will be what is used to base your contribution rate for the LGPS upon. As an example, if you had a salary of £17,000, your standard contribution rate would be 5.80% of your pay. If you then joined the Car Salary Sacrifice Scheme, and substituted £3,000 from your annual salary in return for the lease of a car, then your new annual pay figure would be £14,000, and your contribution rate would change to 5.50%.



Band	Actual pensionable pay for an employment	Contribution rate for that employment	
		Main Section	50/50 section
1	Up to £16,500	5.5%	2.75%
2	£16,501 to £25,900	5.8%	2.9%
3	£25,901 to £42,100	6.5%	3.25%
4	£42,101 to £53,300	6.8%	3.4%
5	£53,301 to £74,700	8.5%	4.25%
6	£74,701 to £105,900	9.9%	4.95%
7	£105,901 to £124,800	10.5%	5.25%
8	£124,801 to £187,200	11.4%	5.7%
9	£187,201 or more	12.5%	6.25%

Contribution rate for 2023/24

Will I build up less pension?

With the implementation of the new Career Average Revalued Earnings (CARE) scheme from 1st April 2014, you now build up a pension based on your pensionable earnings during each scheme year (1st April - 31st March).

Therefore, if you begin a Salary Sacrifice scheme which isn't 'pensionable', such as the Car Salary Sacrifice scheme, your pensionable pay will not include the amount sacrificed in exchange for the non-cash benefit received, for the duration agreed with your employer.

For example, if your earnings prior to beginning the Salary Sacrifice scheme were £17,000, and you lose £3,000 for the provision of a car, then this will take your pensionable earnings down to £14,000, which would then be used to calculate your pension build up for that year. Please note all figures used in this factsheet are for demonstrative purposes.

CARE Pension Accrual with Salary Sacrifice

Annual Salary:	£17,000
Less sacrificed amount:	-£3,000
Pensionable Pay:	£14,000

**Pension accrual for Scheme year: £14,000 x
1/49th:
£285.71 - annual pension accrued**

CARE Pension Accrual without Salary Sacrifice

Annual Salary / Pensionable Pay:	£17,000
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**Pension accrual for scheme year: £17,000 x
1/49th:
£346.94 - annual pension accrued**

What about my pension benefits accrued prior to the introduction of the CARE scheme? (Final Salary Benefits)

All benefits accrued before 1st April 2014 are calculated using your membership (prior to April 14), and pay at date of leaving (final salary).

Therefore, if you join a Car Salary Sacrifice scheme, your final pay at date of leaving will be affected by the deduction to your salary, and will result in your pension benefits being reduced in comparison to your full final pay figure prior to Salary Sacrifice.

Please see the next page for a working example of the detrimental impact a Car Salary Sacrifice scheme may have on your pre April 2014 pension.

Are there any other affects to my pension that I should be concerned about?

If you die in service while a member of the LGPS, a lump sum death grant equal to three times your assumed pensionable pay will be payable your chosen beneficiaries or next of kin.

If you have taken a drop in pay as a result of a Car Salary Sacrifice scheme, this amount would be reduced accordingly.

Death grant without Salary Sacrifice:

$$£17,000 \times 3 = £51,000$$

Death grant with Salary Sacrifice of £3,000:

$$£14,000 \times 3 = £42,000$$

The Impact of Salary Sacrifice on your Final Salary Pension Benefits

John is due to retire on 1st September 2020 at his normal retirement date. Prior to the implementation to the CARE scheme on 1st April 2014, he has built up 25 years worth of service, and has an annual salary of £30,000.

John is interested in taking out a salary sacrifice scheme, which would mean he has to give up £5,000 in exchange for the lease on his brand new car. Before accepting this offer, John would like to know what impact that would have to his final salary (pre April 2014) pension. He receives the below comparison, and realises he needs to think carefully about whether this sacrifice scheme would suit him.

Final Salary before Salary Sacrifice: **£30,000**

Membership Accrued in Scheme: 01/04/1989 - 31/03/2008: **19 years based on 1 x 1/80th accrual rate**
01/04/2008 - 31/03/2014: **6 years based on 1 x 1/60th accrual rate**

Final Salary Pension Benefits without Salary Sacrifice

Total 1/80ths Membership - 19/000 x 1/80th of £30,000	=	£7,125.00
Total 1/60ths Membership - 06/000 x 1/60th of £30,000	=	£3,000.00
Total Pension	=	£10,125.00

Final Salary Pension Benefits with Salary Sacrifice of £5,000

Total 1/80ths Membership - 19/000 x 1/80th of £25,000	=	£5,937.50
Total 1/60ths Membership - 06/000 x 1/60th of £25,000	=	£2,500.00
Total Pension	=	£8,437.50

As you can see, John's projected final salary pension benefits would be reduced by £1,687.50 per year if he was to agree to the Car Salary Sacrifice scheme. This means that even benefits that he accrued at the start of his employment with Local Government, as far back as 1989, would be reduced on account of accepting this offer.

AUTUMN STATEMENT 2016 - CHANGES TO SALARY SACRIFICE SCHEMES

From April 2017, most salary sacrifice schemes will be subject to the same tax as cash income. Car Salary Sacrifice schemes, however, will remain in place for ultra-low emission cars (cars with CO2 emissions of up to 75 grams per kilometre). Cars which do not fit into the 'ultra-low emissions' banding will not be supported by salary sacrifice in the future, but any arrangement in place prior to April 2017 will be protected for up to 4 years.

DISCLAIMER

This document is based on the LGPS Regulations 2013 as they stand in October 2016. The information contained in this factsheet cannot overrule any future changes to the LGPS, and Dorset County Pension Fund will accept no responsibility for any direct or consequential loss, financial or otherwise, incurred by readers relying on the information contained herein - *updated April 2019*