

The Local Government Pension Scheme

**Salary Sacrifice for Lease Car.
What effect does this have on
my pension benefits?**



Impact of Car Salary Sacrifice on your LGPS Benefits

Under a Car Salary Sacrifice scheme, you have the opportunity to lease a car through your employer, in exchange for reducing your pay.

By utilising a Car Salary Sacrifice scheme you will pay less tax and National Insurance. It can, however have an impact on your LGPS pension benefit.

A Car Salary Sacrifice scheme is not pensionable, so any amount of pay given up in exchange for leasing a car is not protected for your pension: we will use the lower pay after your Salary Sacrifice has been deducted to calculate your pension. This has an impact both on the current build up of your Career Average Revalued Earnings (CARE) pension and on any Final Salary benefits you may have (if you were a member of the scheme before 1 April 2014).

Effect on pension contributions

If you join the Car Salary Sacrifice scheme, the payment given up in exchange for leasing a car is taken from your pay before any other deductions are made.

Your pension contributions are then taken from the pay left after this deduction and the rate you pay will depend on the value of your pay after the deduction. LGPS contribution rates are banded and these bands are reviewed in April each year. The most recent contribution rate bands can be found on our website here: <https://www.staffspf.org.uk/Members/New-Members/Joining/How-much-will-it-cost-me.aspx>. The table below shows the rates at 1 April 2022:

Band	Pensionable Pay Range	Main Section Contribution Rate	50/50 Section Contribution Rate
1	Up to £15,000	5.5%	2.75%
2	£15,001 to £23,600	5.8%	2.9%
3	£23,601 to £38,300	6.5%	3.25%
4	£38,301 to £48,500	6.8%	3.4%
5	£48,501 to £67,900	8.5%	4.25%
6	£67,901 to £96,200	9.9%	4.95%
7	£96,201 to £113,400	10.5%	5.25%
8	£113,401 to £170,100	11.4%	5.7%
9	£170,101 or more	12.5%	6.25%

For example: if a member earns £25,000 per year, their pay is in the range for Band 3 and they will pay contributions to the pension scheme of 6.5% if they are in the Main Section of the Scheme. If they enter into a Car Salary Sacrifice scheme to give up £500 of pay each month (£6,000 per year) in exchange for leasing a car, then their annual pay will reduce to £19,000, which falls into the range for Band 2 and they will pay contributions to the pension scheme of 5.8%.

Effect on CARE Pension

Your LGPS pension builds up during each scheme year (from 1 April to 31 March) at a proportion of the pensionable earnings you have in that year. As the Car Salary Sacrifice scheme is not pensionable, your pensionable earnings will not include the amount given up in exchange for a car, so the pension build up will reflect this.

For a member in the Main Section of the scheme, their CARE pension builds up at the rate of 1/49 of their pensionable pay each year. For a member in the 50/50 Section of the scheme, their CARE pension builds up at the rate of 1/98 of their pensionable pay each year.

Using the example above: a Main Scheme member earns £25,000 per year then enters into a Car Salary Sacrifice scheme to give up £500 of pay each month (£6,000 per year) in exchange for leasing a car, so their annual pay will reduce to £19,000.

Before starting the Car Salary Sacrifice scheme their pension build up would have been as follows each year:

$$\text{Pension} = 1 / 49 \times £25,000 = £510.20$$

After starting the Car Salary Sacrifice scheme their pension build up would be as follows each year:

$$\text{Pension} = 1 / 49 \times £19,000 = £387.76$$

Effect on other benefits

A Death Grant would be due to your estate or to your nominated beneficiaries if you were to die while in service. The amount that would be due would be affected if you were to die while you are part of the Car Salary Sacrifice scheme.

The Death Grant is calculated at 3 times your assumed pensionable pay. This value will reduce by the amount of pay given up in exchange for a car.

Using the example above: a Main Scheme member earns £25,000 per year then enters into a Car Salary Sacrifice scheme to give up £500 of pay each month (£6,000 per year) in exchange for leasing a car, so their annual pay will reduce to £19,000.

Before starting the Car Salary Sacrifice scheme their Death In Service Lump Sum Grant would have been as follows:

$$\text{Death Grant} = 3 \times £25,000 = £75,000$$

After starting the Car Salary Sacrifice scheme their Death In Service Lump Sum Grant would have been as follows:

$$\text{Death Grant} = 3 \times £19,000 = £57,000$$

Effect on Final Salary Pension

If you were a member of the LGPS before 1 April 2014, you will have Final Salary pension for the part of your benefit that built up before 1 April 2014. This means that we use the average Whole Time Equivalent pay over the last 365 days of a member's service to calculate the pension build up for any membership before 1 April 2014. As the Car Salary Sacrifice scheme is not pensionable, the Final Salary used to calculate the pension will not include the amount given up in exchange for a car, if you are still part of the Car Salary Sacrifice scheme in the last year of your employment.

Using the example above: a member has a Whole Time Equivalent Salary of £25,000 per year then enters into a Car Salary Sacrifice scheme to give up £500 of pay each month (£6,000 per year) in exchange for leasing a car, so their annual pay will reduce to £19,000. This member joined the LGPS on 1 April 1999, so had 15 years of membership of the Final Salary scheme.

Before starting the Car Salary Sacrifice scheme their Final Salary pension build up would have been as follows:

Final Salary before Car Salary Sacrifice = £25,000

Membership of the Scheme: 1 April 1999 – 31 March 2008: 9 years
1 April 2008 – 31 March 2014: 6 years

Pension:

$1/80^{\text{th}}$ pension = $1 / 80 \times 9 \text{ years} \times £25,000 = £2,812.50$

$1/60^{\text{th}}$ pension = $1 / 60 \times 6 \text{ years} \times £25,000 = £2,500.00$

Total Final Salary Pension = £5,312.50

Automatic Lump Sum = $3 / 80 \times 9 \text{ years} \times £25,000 = £8,437.50$

After starting the Car Salary Sacrifice scheme their Final Salary pension build up would be as follows:

Final Salary after Car Salary Sacrifice = £19,000

Membership of the Scheme: 1 April 1999 – 31 March 2008: 9 years
1 April 2008 – 31 March 2014: 6 years

Pension:

$1/80^{\text{th}}$ pension = $1 / 80 \times 9 \text{ years} \times £19,000 = £2,137.50$

$1/60^{\text{th}}$ pension = $1 / 60 \times 6 \text{ years} \times £19,000 = £1,900.00$

Total Final Salary Pension = £4,037.50

Automatic Lump Sum = $3 / 80 \times 9 \text{ years} \times £19,000 = £6,412.50$

Further information

If you require further information about the areas covered by these notes, you can get in touch as follows:



www.staffspf.org.uk



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If you require this document in an alternative format please contact Pension Services, Staffordshire County Council, 2 Staffordshire Place, Tipping Street, Stafford ST16 2DH