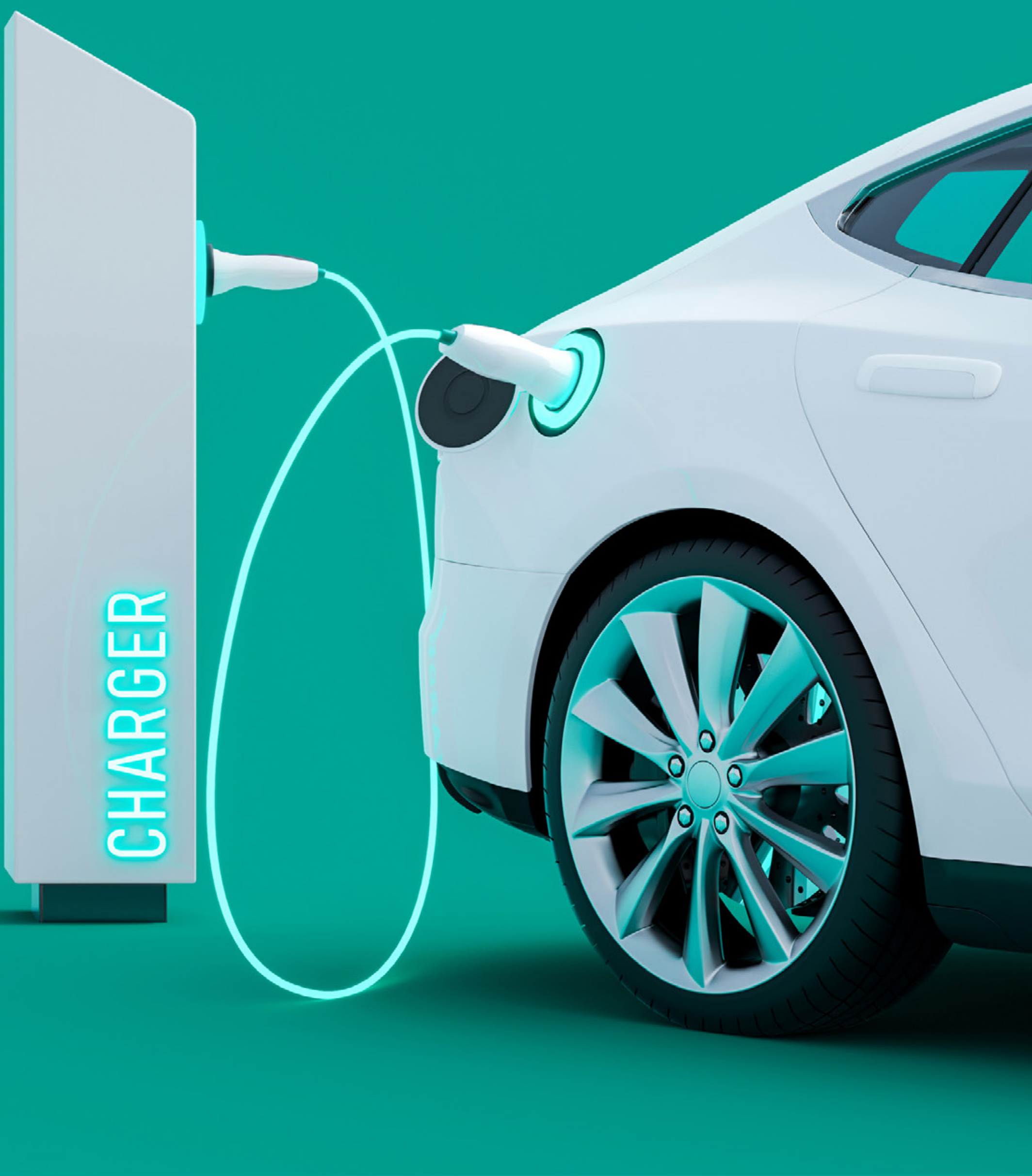
ELECTRIC CAR SALARY SACRIFICE SCHEME

Dealing with early termination



Overview

One of the most common concerns regarding salary sacrifice is how the employer should fund the costs associated with the early termination of the contract hire lease that underpins the salary sacrifice. Some providers offer a bundled solution, by charging an increased rental to provide early termination/lifestyle protection, but [Leaseco/broker] believes that customers should fund their own protection using their National Insurance Contribution (NIC) and Health and Social Care Levy (HSCL) savings because it is a more cost-effective option.

By considering the most common objections likely to be raised by customers and prospects, and using our **Early termination and Lifestyle Protection Calculator**, the reasoning behind our advice to self-fund is clear, simple and straightforward.

Why doesn't CVSL offer early termination or lifestyle protection?

To fund early termination and lifestyle protection, many other salary sacrifice providers require employers to share most, or all, of their savings with their employees, because they charge the employees a percentage of the contract hire finance rental, and the protection offered usually has restrictions and exceptions.

CVSL advocates a different approach. Using the NIC, and HSCL, savings to protect against the costs of early termination or lifestyle changes enables customers to retain some, possibly all, of the savings available without increasing their risk, whilst also keeping the cost down for employees.

CVSL's self-funding solution is based on a common approach often used when larger fleets insure their company cars and commercial vehicles, because it has been proven to be cost effective and to deliver increased savings, where the minimum level of insurance is taken from an insurer and the fleet accepts the remaining risk.

And, as CVSL works proactively with customers to avoid early terminations, it will be working with customers to maximise the savings available from salary sacrifice.

Case study

DreamWorks Limited wishes to introduce a salary sacrifice car scheme but the Finance Director is concerned that in the current economic climate employees may seek other jobs, crystallising an early termination charge if they resign.

The Finance Director thinks a bundled solution is required to protect DreamWorks from additional costs, but the HR Director wants to retain staff because recruiting and training replacements is itself costly. As she argues that employees shouldn't be protected if they resign CVSL's unbundled solution would be more appropriate because any employee required to fund the early termination charge will be less inclined to leave the company.
And, as the company will not have to pay the early termination charge it has money it could use to boost retention by improving other benefits.

We don't want to be exposed to early termination charges.

A bundled solution that includes early termination and lifestyle protection cannot guarantee zero exposure; there are always exclusions and limitations, which mean they don't cover every event that could lead to an early termination.

CVSL's solution offers greater protection and flexibility because the liability for any early termination charge can either be passed on to the employee, or the customer can choose to pay it in certain circumstances, such as redundancy or ill-health retirement.

Case study

ACME Limited is considering whether to allow those who have previously opted out of the company car scheme whether to simply opt back in to a company car, or to offer them the opportunity to benefit from the greater flexibility and choice available by joining the salary sacrifice scheme?

If ACME Limited simply allowed cash allowance takers to switch back to a company car, because a new electric company car would save them tax, it should be aware that it would actually increase its own risk significantly because ACME Limited would then be liable for early termination charges, and the costs associated with lifestyle event charges.

Salary sacrifice, however, would enable ACME Limited to greatly reduce its risk because the cost of early termination can be passed on to employees, and by self-funding the early termination/lifestyle protection ACME Limited would be able to retain some, or perhaps, all of its savings too.

We want to provide an employee benefit without increasing our costs.

By paying for bundled early termination and lifestyle protection most, and sometimes all, or your customer's NIC and HSCL savings generated by the salary sacrifice would have to be given up and your customer won't get any money back from the provider if the protection isn't needed.

However, if they self-fund your customers could retain savings and, if they wished, use the savings left after any early terminations and lifestyle events to provide a range of other benefits to employees.

We don't want the hassle of managing early terminations.

There's no more hassle associated with the CVSL solution than with any other provider.

Using a bundled solution, your customer will gather, then pass on information regarding the early termination or lifestyle event to the provider, who will then decide, per their policy, whether the event qualifies and protection will be provided.

Using the CVSL approach simply means gathering the same information then deciding inhouse whether it meets the employer's criteria and that the employer will pay. To help facilitate this we provide a comprehensive payroll guide which clearly sets out what needs to be done, thereby making the administration simple and practical.

The NIC savings might not be enough to cover our costs.

You can quickly show customers that NIC, and HSCL, savings should be more than adequate to cover early termination and lifestyle protection by using our Early Termination and Lifestyle Protection Calculator. But if they're still concerned it also allows you to calculate the monthly employee contribution that could be added to the employees' gross salary sacrifice to cover any additional risk they perceive.

Any such contribution should be significantly less than the cost of a bundled solution. And, if it eventually transpires that the savings and additional contributions were too great, some or all of the funds could be used to provide additional benefits to employees.

Please see the attached output from the Early Termination and Lifestyle Protection Calculator which you could use to help your customers to understand the savings they could make by self-funding and whether a contribution from employees would be advisable.

You just need a little information from your customer:-

1. A sample fleet of battery electric cars.
2. The finance and maintenance rentals for each car based on the contract term and mileage.
3. An insurance premium for each car based on a sample employee's date of birth and postcode.
4. An estimate of the number of average terminations each year.
5. The average number of employees expected to take 12 months parental leave per annum.