

Group Pension Schemes: The Coronavirus Job Retention Scheme & Pension Contributions

2nd April 2020

Introduction

On the 20th March the Chancellor of the Exchequer, Rishi Sunak, announced a new package of measures to help UK employers retain workers during the on-going coronavirus pandemic. In his speech Sunak said;

“Today I can announce that, for the first time in our history, the government is going to step in and help to pay people’s wages. We’re setting up a new Coronavirus Job Retention Scheme.

Any employer in the country – small or large, charitable or non-profit - will be eligible for the scheme. Employers will be able to contact HMRC for a grant to cover most of the wages of people who are not working but are furloughed and kept on payroll, rather than being laid off.

Government grants will cover 80% of the salary of retained workers up to a total of £2,500 a month – that’s above the median income. And, of course, employers can top up salaries further if they choose to. That means workers in any part of the UK can retain their job, even if their employer cannot afford to pay them, and be paid at least 80% of their salary. The Coronavirus Job Retention Scheme will cover the cost of wages backdated to March 1st and will be open initially for at least three months - and I will extend the scheme for longer if necessary.”

Rishi Sunak, Chancellor of the Exchequer

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What about other payroll costs?

Generous as it undoubtedly is, the new scheme did present many points that required clarification. Chief among these was the actual definition of “furlough” (a term not much in use in the United Kingdom), and how long it would take for employers to apply for and receive the financial support.

Another major point of concern for many organisations is the associated payroll costs of employer’s national insurance contributions and employer’s Auto-Enrolment pension contributions. These are significant additional financial commitments at a time when many businesses have little or no income as a result of the UK coronavirus lockdown. With this in mind a further update and extension of the scheme was announced by HM Treasury on the [27th March](#):

“In a move that could save businesses an extra £300 a month for each employee under the scheme, the government will now cover the employer national insurance and minimum auto-enrolment pension scheme contributions employers pay on the wages they must pay their furloughed staff – on top of the wages covered under the scheme.”

This improvement has been widely welcomed by employers and the pensions industry.

Possible Limitations*

The above is of course a huge relief for many employers, and will go a long way towards mitigating another employer cost and concern connected to the coronavirus shut-down in the United Kingdom.

But it is important to emphasise that the Job Retention Scheme only offers a limited amount of pension contribution support.

More recent guidance (which can be viewed [here](#)) states:

“You will receive a grant from HMRC to cover the lower of 80% of an employee’s regular wage or £2,500 per month, plus the associated Employer National Insurance contributions and minimum automatic enrolment employer pension contributions on that subsidised wage. Fees, commission and bonuses should not be included.

At a minimum, employers must pay their employee the lower of 80% of their regular wage or £2,500 per month. An employer can also choose to top up an employee’s salary beyond this but is not obliged to under this scheme.

We will issue more guidance on how employers should calculate their claims for Employer National Insurance Contributions and minimum automatic enrolment employer pension contributions, before the scheme becomes live.”

Howden would particularly like to highlight the following points in relation to the pension contribution part of any Job Retention Scheme pay claim:

- The support on offer is a maximum per employee of 3% of [Qualifying Earnings](#).
- The amount will be further limited by the maximum salary grant per employee, per month of £2,500.
- The 3% contribution is based on earnings in excess of the [lower Automatic Enrolment contribution threshold](#).
- Where employees have been paying pension contributions via the widely used Salary Sacrifice** mechanism, the amount received by the employer from the Job Retention Scheme might be less

than expected. The lower payments might reflect the actual salary after sacrifice, as opposed to the “notional” salary which is usually used by good employers for all other employment benefits.

- It is worth reinforcing that state support for employer pension contributions is only available alongside applications to the Job Retention Scheme for workers who have been placed on furlough.

What should employers do now?

For many employers the pension contribution support from the Job Retention Scheme might only be a partial replacement of the employer pension contribution costs.

It follows that this may present some new and unexpected challenges for employers to consider. In particular employers will need to ensure that they maintain their commitments in the area of pension contributions, allowing for Auto-Enrolment requirements, contractual issues, or salary sacrifice commitments (or in some cases a combination of all three issues). We would therefore urge employers to seek early guidance from Howden or their pension provider in this respect. We would also encourage employers to take legal advice where necessary.

It is also worth highlighting that The Pensions Regulator has recently issued some useful guidance for employers during this period of uncertainty. Our thoughts and appropriate links to that guidance are available [here](#).

Further information

For full details of the coronavirus Job Retention Scheme, please visit:

<https://www.gov.uk/guidance/claim-for-wage-costs-through-the-coronavirus-job-retention-scheme>

Please Note: This document reflects Howden Employee Benefits & Wellbeing’s understanding of the UK Government’s Coronavirus Job Retention Scheme (as at 02/04/20), and may be subject to change as more details become available. For the very latest information published by .Gov please visit the above link.

[Click here for more detailed and specific questions and to contact one of Howden’s team of pension experts.](#)

*Please note: All details are based on Howden Employee Benefits & Wellbeing’s understanding of the proposals as at 2nd April 2020.

** There are likely to be many other implications of using the Job Retention Scheme alongside Salary Sacrifice pension arrangements, which employers may need to carefully consider. Howden will aim to publish further information on this area shortly.

About us

Howden Employee Benefits & Wellbeing work with clients of all sizes – both in the UK and globally - to provide dedicated employee benefits & wellbeing consultancy. We've won many industry awards for our work and are widely recognised for our innovative and creative approach to benefit design.

We remain committed to supporting clients and the wider HR community during these challenging times. If you want to know more or simply to have a chat about ways you can support your employees, please get in touch with your consultant or contact us.

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The information contained in this document is of our best understanding as at 2nd April 2020