



Briefing note - 6 November 2020

Extension of the Furlough Scheme: how will it work?

In unexpected developments and as part of the announcement on 31 October that there will be a new four-week national lockdown in England from 5 November, the government initially confirmed that the Coronavirus Job Retention Scheme (CJRS) would be extended until December rather than closed on 31 October as originally planned. In a further announcement to Parliament on 5 November, Chancellor Rishi Sunak has confirmed that he will in fact extend the CJRS across the UK until the end of March 2021.

The new Job Support Scheme (JSS), which was set to launch on 1 November, has now been postponed and the Job Retention Bonus, designed to encourage employers to keep people in work until the end of January, will not be paid in February as planned. Instead, the Chancellor confirmed that the government will offer a retention incentive 'at the appropriate time'.

At the present time, we only have a summary of how the extended CJRS will work. Although detailed guidance is to be published shortly, many employers are going to need to take urgent and immediate decisions in relation to their workforces. Below we summarise the key aspects of the extended CJRS.

Key points

- Importantly, to access the extended scheme, there is no requirement for the employer to have used the CJRS previously, or for the employee to have been on furlough at any point prior to 30 October 2020. To be eligible, employees merely need to have been on an employer's PAYE payroll before midnight on 30 October and be included in an RTI submission made to HMRC between 20 March 2020 and 30 October 2020.
- Employees who were made redundant or stopped working since 23 September (the

day before the JSS announcement) can be re-employed and claimed for. The employer must have made an RTI submission to HMRC from 20 March 2020 to 23 September 2020 notifying a payment of earnings for those employees.

- The government will pay 80% of normal wages (capped at £2,500 pm). Given the previous scaling back of the CJRS (in October the government contribution was limited to 60% of normal pay), the extended CJRS is significantly more generous to employers for now. The Chancellor did confirm that the government will review the policy in January to decide whether economic circumstances are improving enough to ask employers to contribute more. As with the original CJRS, employers are still able to choose to top up employee wages above the scheme grant at their own expense if they wish.
- Employees will be expected to continue to meet their contractual or auto-enrolment pension contributions based on their actual pay during the furlough period. Please note, if contributions are being paid via salary sacrifice, the furlough pay cannot be sacrificed. The sacrificed contribution is effectively an employer contribution and so would still need to be paid by the employer unless the employee opts out of salary sacrifice for the period of furlough.
- Employer pension contributions will need to be met by the employer for both hours not worked and, if on partial furlough, hours worked. Contributions will be based on actual pay during furlough and employers will need to ensure that any salary sacrifice payments are based on a 'reference pay' equivalent (see examples below).

- The employer will need to continue to meet the cost of national insurance contributions.
- Flexible and full-time furloughing will be available so employees will be able to work some of their hours (and be paid for this by their employer) and receive furlough pay for unworked hours.
- The extended CJRS will operate as before, with businesses being able to claim either shortly before, during or after running payroll. Claims can be made from 11 November.

What does this mean for employers?

Many businesses will have been planning workforce changes to dovetail with the original 31 October end date for the CJRS and the introduction of the JSS from 1 November. Many employers will have to revise these plans and, consequently, urgent communications will be required with employees.

To be eligible for the grant, employers must have confirmed to their employee (or reached collective agreement with a trade union) in writing that they have been furloughed or flexibly furloughed. The government guidance makes it clear that employees do not have to provide a written response confirming their agreement. However, if there is any reduction in pay or benefits, this would constitute a change to terms and conditions and the employer would need to seek employee consent in the normal way.

Any flexible furlough or furlough agreement made retrospectively that takes effect from 1 November 2020 will need to be in place by 13 November.

Employers must keep a written record for at least five years of the agreed furlough arrangements and records of all claims and calculations must be kept for at least six years. Don't forget, HMRC intends to review employers' use of the CJRS and will expect clear records and any errors identified to be corrected. It has been challenging to interpret how to calculate furlough pay and pension contributions, particularly when employees participate in salary sacrifice. As a reminder, we have set out worked examples below. These are based on the level of support that will be in place from November, but could change once the review takes place in January.



Example 1 – operating salary sacrifice

- pensionable pay is basic salary
- employer contribution is 5% of pensionable pay
- employee has agreed to sacrifice 5% of pensionable pay

	Employee 1	Employee 2	Note
Employee basic salary pre-salary sacrifice (reference salary)	£25,000.00	£60,000.00	
Employee basic salary post-salary sacrifice	£23,750.00	£57,000.00	
Employee furlough salary	£19,000.00*	£30,000.00* (max payable under the CJRS)	Under the CJRS, the 80% of a furloughed employee's salary is calculated using their post-sacrifice salary. This must be paid in full to the employee so should be treated as post-sacrifice pay i.e. no further sacrifice can be made on that amount.
Employee notional pre-salary sacrifice pay	£20,000.00	£31,578.95	This is the employee's notional furloughed pay derived from the actual furlough pay plus the notional employee contribution.
Employer contribution	£1,000.00	£1,578.95	
Salary sacrifice contribution (to be paid by employer)	£1,000.00	£1,578.95	
Employer contribution reclaim through CJRS	£0.00	£0.00	No longer available
Pensions cost to employer	£2,000.00	£3,157.90	

* It is important to note that the furlough salary is for the purposes of making a claim under the CJRS. Any contractual obligations as part of the salary sacrifice arrangements and the obligation in the pension scheme rules continue to apply if not amended, so an employer must consider its contractual arrangements.

Example 2 – not operating salary sacrifice

- pensionable pay is basic salary
- employer contribution is 5% of pensionable pay
- employee contribution is 5% of pensionable pay

	Employee 1	Employee 2	Note
Employee basic salary	£25,000.00	£60,000.00	
Employee furlough salary	£20,000.00*	£30,000.00* (max payable under the CJRS)	
Employer contribution	£1,000.00	£1,500.00	
Employee contribution to be deducted from furlough pay	£1,000.00	£1,500.00	
Employer contribution reclaim through CJRS	£0.00	£0.00	No longer available
Pensions cost to employer	£1,000.00	£1,500.00	

* It is important to note that the furlough salary is for the purposes of making a claim under the CJRS. Any contractual obligations as part of the salary sacrifice arrangements and the obligation in the pension scheme rules continue to apply if not amended, so an employer must consider its contractual arrangements.

Pension scheme investments

At the start of the first lockdown and coronavirus wave, there was one of the largest shocks to investment markets in recent history. However, since then we have seen significant recovery in many markets. When thinking about pension investments we should keep in mind that these are typically long-term investments. However, the shorter market impacts are likely to cause real concerns for many investors, particularly those close to retirement.

Following the first market shock, we have learned that it is very difficult to predict how markets will react (particularly when you also throw the election in the USA into the mix). For employers and trustees providing defined contribution pension arrangements, we would strongly recommend keeping a close eye on investment markets and the performance of your formally designated default investment strategy. Should there be further negative market movements, you may wish to communicate with staff on this topic to help manage the risk of poor or knee jerk pension decisions.

As England embarks on its second full lockdown and regional restrictions are in place in other parts of the UK, many businesses again face the challenges of full and partial closure of operations.

If you would like any assistance with your furlough arrangement or communicating with your staff on the continued impact of COVID-19 on pension savings, please contact your normal PS Aspire consultant.

This note is based on our understanding of guidance provided by:

[Extension of the Coronavirus Job Retention Scheme¹](#)

[TPR's technical guidance for large employers²](#)

Source 1:

<https://www.gov.uk/government/publications/extension-to-the-coronavirus-job-retention-scheme/extension-of-the-coronavirus-job-retention-scheme#ref-pay>

Source 2:

<https://www.thepensionsregulator.gov.uk/en/covid-19-coronavirus-what-you-need-to-consider/automatic-enrolment-and-pension-contributions-covid-19-guidance-for-employers/covid-19-technical-guidance-for-large-employers>

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