

Furlough or reduced hours? What happens to pensions?

May 2020



Contributions payable

Approach	Defined contribution (DC) pension schemes, occupational (with trustees) and Group Personal Pensions (GPPs)	Defined benefit (DB) pension schemes, all occupational schemes (with trustees)	Employer's extra contributions (if employee sacrifices salary for contributions)	Employee pays contributions (if no salary sacrifice)
Furloughed staff (with or without top up)	<p>The employer pays the percentage of pay set by the scheme rules and statutory payment schedule or (for GPPs) the employment contract.</p> <p>Where the employer pays more than the statutory minimum, or contributions are based on pay that is higher than just furlough pay or pay from the first £1, the rebate is insufficient.</p> <p>Occupational schemes may have flexibility in their rules to adjust contributions for reduced pay without amendment.</p> <p>Take legal advice, consult the trustees and check employment contracts do not contain any relevant restrictions.</p>	<p>The employer pays the contributions set by the scheme rules and the statutory schedule of contributions.</p> <p>For contributions based on pay that is higher than furlough pay or on pay from the first £1, the rebate is insufficient.</p> <p>Occupational schemes (temporary absence rules or definitions of Pensionable Salary or Pensionable Service) may give flexibility to reduce the contributions payable and/or benefit accrual to reflect reduced pay without amendment.</p> <p>Take legal advice and consult trustees.</p>	<p>Furlough pay is based on last full pay period before 19 March 2020 - after the sacrifice.</p> <p>The employer cannot deduct the employee's 'notional' contribution from the furlough pay and will usually need to meet the cost of this itself.</p> <p>Take legal advice.</p>	<p>The employee pays the percentage of pay set by the scheme rules or (for GPPs) the employment contract.</p> <p>Contributions are deducted from pay as normal.</p> <p>Occupational schemes may have flexibility in their rules to adjust contributions for reduced pay without amendment. Consult trustees and take legal advice.</p> <p>To help employees, it might be possible to vary employee contributions through the furlough agreement. Take legal advice.</p>
Staff still working but on reduced hours or pay	<p>The employer must pay the percentage of pay set by the scheme rules and statutory payment schedule or (for GPPs) the employment contract.</p>	<p>The employer must pay the contributions set by the scheme rules and the statutory schedule of contributions.</p> <p>The part-time rule, or the definitions of</p>	<p>The employer must still pay the employee's "notional" contribution, but the agreement with the employee can be amended to base the sacrifice on reduced pay.</p>	<p>The employee contributions should be deducted from pay as normal. The employee will pay the same percentage of reduced pay, except where the rules of the</p>

	<p>The employer pays the same percentage of reduced pay, except where the rules of the occupational scheme define pay differently.</p> <p>There may be flexibility in the rules to reduce contributions without amendment.</p> <p>Take legal advice and consult the trustees.</p>	<p>Pensionable Salary or Pensionable Service, may give flexibility within the occupational scheme rules to reduce the contributions payable and/or benefit accrual to reflect the reduced pay or hours without amendment.</p> <p>Take legal advice and consult the trustees.</p>		<p>occupational scheme define pay differently. There may be flexibility in the rules to reduce contributions without amendment to help employees. Take advice.</p> <p>For GPPs, the variation to the employment contract can include a change to contributions to help employees.</p>
Staff on unpaid leave (with or without cash bonus)	<p>For occupational schemes, the contributions the employer must pay will depend on the agreement reached with the employee and the rules of scheme. Check the rules, take legal advice and consult with the trustees: are active membership and contributions suspended?</p> <p>For GPPs, the employer will need to agree contributions with the employee (nil salary, nil contribution).</p>	<p>The contributions the employer must pay will depend on the agreement reached with the employee and the rules of the scheme. Check the rules and consult with the trustees: does active membership and benefit accrual continue or is there an option to suspend it (and contributions)?</p>	<p>Assuming that active membership is suspended, agree any changes needed to the salary sacrifice agreement to suspend the employer's obligation to pay the 'notional' employee contribution. Also agree whether any benefits will continue, for example insured benefits. Check that the employee will still be eligible under the terms of both the scheme and the underlying insurance policy.</p>	<p>For GPPs, agree with the employee that there will be no employee contribution (nil salary, nil contribution).</p> <p>For occupational schemes, check the rules and consult the trustees. Is active membership suspended? Will pensionable service be continuous on return to work and will there be an option to pay contributions voluntarily on return to work?</p> <p>If you want insured benefits to continue, check that the employee will still be eligible for them under the terms of both the scheme and the underlying insurance policy.</p>