

# COVID-19 Coronavirus Job Retention Scheme Update

1st June 2020

On 29th May the Chancellor announced changes to the Coronavirus Job Retention Scheme (CJRS) which is being used by 1 million employers, to protect around 8.4 million jobs.

## What changes were announced?

From 1st July, businesses will be given the flexibility to bring furloughed employees back part-time. A practice that will be called flexible furlough. This is a month earlier than previously announced and is designed to help more employees to return to work gradually and safely.

We also heard the detail of the cost sharing that will happen from 1st August. Employees will continue to receive at least 80% of their salary while unable to work, but after the end of July businesses will be asked to meet a proportion of this cost.

The changes announced aim to ensure the scheme stays effective as we enter a period of cautious recovery.

## Flexible furlough

From 1 July, employers can bring employees back to work who have previously been furloughed, for any amount of time and any shift pattern. They will be able to claim CJRS grant for the normal hours not worked.

Employers will need to report and claim for a minimum period of a week, but most employers are expected to claim on a pay period basis.

Employers can claim the grant for the hours their employees are not working calculated by reference to their usual hours worked in a claim period. Further details will be included in future guidance to be published on 12 June.

Employers will need to:

- Communicate and agree any new flexible furloughing arrangement with their employee and confirm that agreement in writing.
- Report hours worked and the usual hours an employee would be expected to work in a claim period.
- Pay their employees in full for any hours worked, based on their employment contract – employers will pick up the full employer NICs, pension contributions etc on this payment
- Claim from the CJRS in respect of the difference between hours worked and hours the employee would be expected to work normally.

We could encourage employers to wait for the new guidance promised by 12 June wherever possible before making any changes.

## **No new claims past 1st July**

The CJRS will close to new entrants from 30 June. From this point onwards, employers will only be able to furlough employees that they have furloughed for a full three-week period prior to 30 June.

This means that **the final date by which an employer can furlough an employee for the first time will be the 10<sup>th</sup> June**, in order for the current three-week furlough period to be completed by 30 June.

Employers will have until 31<sup>st</sup> July to make any claims in respect of the period to 30<sup>th</sup> June.

Employers can continue to make claims in anticipation of an imminent payroll run, at the point payroll is run or after payroll has been run. They're still able to choose to top up employee wages above the scheme grant at their own expense if they wish.

Employers will be able to make their first claim under the new scheme from 1 July.

## **Employer responsibility to meet furlough costs**

From August 2020, the CJRS grant will be slowly tapered to reflect that people are expected to be returning to work:

### **From 1<sup>st</sup> July**

- Employers will pay employees for the hours they work.
- The government will pay 80% of wages up to a cap of £2,500 as well as Employer National Insurance Contributions (NICs) and pension contributions for the hours the employee doesn't work.

### From 1st August

- Employers will pay employees for the hours they work.
- The government will pay 80% of wages up to a cap of £2,500.
- Employers will pay Employer NICs and pension contributions due on all pay.

### From 1st September

- Employers will pay employees for the hours they work.
- The government will pay 70% of wages up to a cap of £2,187.50 for the hours the employee does not work.
- Employers will pay Employer NICs and pension contributions, and;
- 10% of wages for the hours not worked, to make up 80% total up to a cap of £2,500.

### From 1st October

- Employers will pay employees for the hours they work.
- The government will pay 60% of wages up to a cap of £1,875 for the hours the employee does not work.
- Employers will pay Employer NICs and pension contributions, and;
- 20% of wages for the hours not worked, to make up 80% total up to a cap of £2,500.

### The cap on the CJRS grant will be proportional to the hours not worked.

While its yet to be confirmed, we presume that the cap on CJRS for employee pay will be - (Hours not worked / usual contracted hours) x £2500

e.g. someone working 21 hours of a 35 hour week and earning £40,000 per year would be paid the following in wages in July

- 21 hours at their full hourly rate = £2000
- 14 hours at 80% of pay subject to cap of £1000 ( $14/35 * £2500$ )
- **Total Pay £3,000 gross**

For this employee, using the example above the employer would receive:

	July	August	September	October
CJRS paid to employer	£1,000 plus pension contributions and NICs due on that £1,000*	£1,000	£875	£750
Employer must pay	All costs for hours worked	All costs for hours worked, plus; Employer NICs and pension contributions on all pay	All costs for hours worked, plus; Employer NICs and pension contributions on all pay, plus; £125 toward furlough hours wage	All costs for hours worked, plus; Employer NICs and pension contributions on all pay, plus; £250 toward furlough hours wage

\*It's not clear how government will calculate the NICs and pension contributions due in July as they are both based on banded earnings and the total salary paid.

In reality the example employee may be working full time before November and so the full employment costs could already be being met by the employer.

## How will this impact pension contributions?

There's no change to how ordinary pension contributions should be calculated. Furlough pay, plus pay paid for hours worked should be combined. Pension contributions should be calculated based on the definition of pensionable pay and the % contribution agreed in pension scheme documentation, the employee's contract of employment, or their flexible furlough agreement, as applicable.

### Salary sacrifice

This is likely to further complicated and should be tackled as two separate calculations. Deductions for salary sacrifice can be made from the salary paid for hours worked, however we would anticipate this will only be for the % of salary sacrificed e.g.

- Employee has sacrificed 5% of pay
- They normally earn £2000 per month for a 35 hour week
- Their furlough pay was £1600 per month
- Salary sacrifice contribution during furlough was £80.00

They now come back to work for 3 days per week and are paid

- £1,200 in respect of their hours worked, plus;
- $£1900 \times 14/35 \times 80\% = £608$  in flexible furlough pay

Pensionable pay will be:

- £1200 plus
- Either furlough pay grossed up by the % sacrifice =  $£608/(1-0.05) = £640$
- Or original reference pay  $£2000 \times 80\% \times 14/35 = £640$

Total pensionable pay is therefore £1,840

- Pension contribution is £92.00 ( $£1840 \times 5\%$ ), of which £60.00 could be deducted from employee gross pay as it's in respect of hours worked.

Where pension contributions are paid as % of qualifying earnings there are different ways in which pensionable pay could be calculated. We therefore recommend that you await further guidance from the Pensions Regulator on this to ensure consistency with the current calculation you're using.

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