

Coronavirus Job Retention Scheme

Processing Salary Sacrifice

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Pension Contributions and Salary Sacrifice

This document aims to give you guidance on processing salary sacrifice pension contributions in association with the Coronavirus Job Retentions Scheme and employees' furlough payments.

What the Pension Regulator States

When calculating the pension contribution due for a furloughed worker who has agreed a salary sacrifice arrangement for pension contributions, any contractual obligations you have entered into, and the obligation in the pension scheme rules, continue to apply as normal.

However, as all of the grant claimed must be paid to a furloughed worker in the form of money this may mean that, where a salary sacrifice arrangement is in place for pensions, an employer will need to amend their payroll processes to calculate the pension contribution to be paid to the pension scheme under the pension scheme rules.

If as a result of your contractual arrangements, you cannot reduce pay, then you will continue to pay your furloughed workers their full pay and calculate pension contributions and the salary sacrifice element as usual on this pay. If this is the case, you can only claim a grant under the Coronavirus Job Retention Scheme to cover the lower of 80% of your furloughed workers pay or £2,500 a month, plus the associated employer's national insurance contribution costs and the employer's pension contribution up to the level of the AE statutory minimum employer contribution.

If you have agreed a reduction in pay with your furloughed worker, you may need to make some changes to your payroll processes. The changes include:

- Usually you know your worker's notional pre-sacrifice pay, and the pension contributions due under the pension scheme rules or governing documentation are calculated by your payroll system based on this amount. In these circumstances you will know the post sacrifice furlough pay. You will need to work out the notional pre-sacrifice pay in a pay period, based on treating the furlough pay as your worker's post-sacrifice amount. You can then calculate the total employer pension contribution as normal
- You cannot deduct the amount your furloughed worker would normally sacrifice in their wage for pension contribution from the furlough pay, as this will mean that the amount you have claimed under the Coronavirus Job Retention Scheme will not have all been paid as money. This means that you will pay the total contribution due under the pension scheme. As part of the grant, you can claim the AE statutory minimum employer contribution on the pay included in the grant
- If your contractual arrangements with your furloughed worker specify that a set amount will be sacrificed and paid to the pension scheme each pay period, (e.g. £100) you will continue to pay this amount across as part of the employer contribution. This applies even if this amount is greater than the amount due under the pension scheme rules or governing documentation

Further information can be found [here](#).

Example

Employee's annual salary is £24,000. The employee has a salary sacrifice arrangement where they sacrifice 5% of salary each month. The employer contribution is an additional 5% to the pension scheme.

Normal monthly payslip shows notional pay of £2,000 with 5% sacrifice, meaning the normal payment is £1,900 per month.

What payment can be claimed for furlough payment?

The amount of salary that can be claimed under the Coronavirus Job Retention Scheme is 80% of £1,900.00 = **£1,520.00**.

How do we calculate the pension contribution?

The notional pre-sacrifice pensionable pay, based on treating £1,520 as the post sacrifice pay, is £1,600. Formula = Furlough Pay / (100% – Sacrifice as a % of pay).

In this case this is £1,520 / (100% – 5%) = £1,600.

What is the pension contribution?

The pension scheme rules require a total contribution from the employer of 10% of this notional pre-sacrifice pay. Therefore, the employer contribution to be paid under the pension scheme rules is **£160** a month during the furlough period

What can be reclaimed by the employer?

Under the Coronavirus Job Retention Scheme, the employer may claim a grant to cover the AE statutory minimum employer contribution on the furlough pay of £1,520.00. The employer may claim £30.00 for each month in 2020/2021 (3% of (£1,520.00 - £520 (the lower qualifying earnings threshold for 2020/2021)) during the furlough period.

How to process in payroll using the example

Normal processing before furlough

You may have entered the notional pre-sacrifice pay into your payroll calculation e.g. £2,000.00 and then deducted the salary sacrifice as a pre-tax and NI deduction. The employee contribution or salary sacrifice amount may have been configured as 5% of salary resulting in a deduction of £100.00, leaving £1900.00 pay.

Processing the furlough payment

The pension contribution being calculated as a percentage of the furlough pay will not work unless you increase the pensionable pay before applying the 5% calculation.

Increase the pensionable pay

Normal pre-sacrifice pay = £2,000.00. Normal sacrifice at 5% = £100.00.

Furlough pay that can be claimed is $£1,900 * 80\% = £1,520.00$

Step 1 – Calculate notional pre-sacrifice pensionable pay $£1,520 / (100\% - 5\%) = £1,600$.

Step 2 – Set normal pre-sacrifice pay to (Result of Step 1 – furlough pay) = £80.00

Step 3 – Set furlough pay to £1520.00

Furlough pay + normal pay will both be subject to pension contribution therefore salary sacrifice pension deduction and employer contribution will be the same as they were when processing normally i.e. 5%. $(£1,520 + £80) * 5\% = £80$. The employer will also contribute £80 making the total contribution £160.00.