

# COVID-19: PRESSURE POINTS: WORKPLACE PENSIONS - 4 COST SAVING STEPS FOR EMPLOYERS (UK)

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Legal Briefings - By **Alison Brown, Samantha Brown and Rachel Pinto**

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As the economic impact of Covid-19 and the measures introduced to restrict its spread continues to be felt, many employers are inevitably looking for ways to reduce costs and preserve cash. As far as pensions are concerned, the primary focus to date has been on the scope for employers with defined benefit (DB) pension schemes to defer their deficit recovery contributions and expenses payments to such schemes. So far, [around 10% of DB scheme sponsors have sought to do this](#).

However, there are other steps that employers with DB and defined contribution (DC) schemes are taking to reduce their pension spend.

## **1. REDUCING EMPLOYER PENSION CONTRIBUTIONS FOR EMPLOYEES ON FURLOUGH**

Employer and member pension contributions must continue to be paid for employees who are put on furlough under the Coronavirus Job Retention Scheme (CJRS). However, employers can reduce the pension contributions that they are required to pay on behalf of furloughed employees to the automatic enrolment minimum contribution level, without having to go through the 60 day consultation process that would normally apply. Any change in the normal rate of employer contributions would need to be reflected in the furlough agreement entered into by an employee.

Where an employer chooses to pay more than the auto-enrolment minimum employer contribution rate during furlough they will still be able recover part of the cost of these contributions (up to the auto-enrolment minimum level) under the CJRS. In any event, it is likely that the pounds and pence amount of the employer's contribution will fall in most cases where a furloughed employee is paid a lower salary.

Where an employee ordinarily pays their pension contribution via a salary sacrifice arrangement their employer may be required to cover the cost of that contribution during furlough. Where this is the case, the employer may want to take steps to prevent an individual from increasing their contribution rate while they are furloughed.

For more information on the pension issues that need to be considered in relation to furloughed employees check out our [briefing](#) on the pensions aspects of the CJRS.

## **2. REDUCING FUTURE SERVICE PENSION CONTRIBUTIONS**

As well as reducing contributions for furloughed employees, some employers are also taking steps to reduce the rate of employer pension contributions for all staff, either temporarily (for example, for the next 12 months) or permanently.

If employers plan to reduce their pension contributions for non-furloughed staff they will need to consult with affected employees and employee representatives for a period of at least 60 days and they will need to make any necessary changes to individuals' contracts of employment. Employers will also need to notify their scheme's trustees or provider and confirm that contributions can be paid on the reduced basis. For example, an amendment may need to be made to their scheme's rules to enable this.

## **3. CLOSING DB SCHEMES TO FUTURE ACCRUAL**

Most DB schemes are now closed to future accrual. However, where this is not the case, employers may see the Covid-19 crisis as the final straw. Once again, any employer considering this will need to conduct a 60 day consultation exercise with affected employees and employee representatives. The scheme's trustees will need to be notified and the scheme's rules may need to be amended. Trustee agreement may also be required. Employers will also need to take legal advice on whether or not members' final salary link will need to be retained even where the scheme is closed to future accrual. This will depend on the nature of any restrictions on the use of the scheme's amendment power.

## **4. POSTPONING AUTOMATIC ENROLMENT AND RE-ENROLMENT**

An employer's automatic enrolment and re-enrolment obligations continue to apply at the current time and even where staff have been put on furlough. However, employers can postpone the obligation to automatically enrol an individual who becomes eligible for up to three months. Employers can also defer their triennial automatic re-enrolment date by up to three months after the third anniversary of their previous re-enrolment date. Where an employer takes these steps it would not be required to pay the employer pension contributions that would otherwise need to be paid during the period of postponement or deferral on behalf of the relevant workers. This is subject to those workers exercising their right to opt-in to the pension scheme during this period.

## DON'T FORGET ABOUT YOUR WORKERS

As well as considering the actions that could be taken to reduce their own pension costs, employers should also consider the scope for introducing greater flexibility for individuals to reduce their pension contributions at this time. For example, where an employer is planning to reduce the employer pension contribution rate it could also reduce the minimum amount that workers need to contribute. This would enable individuals to reduce their monthly outgoings whilst continuing to build up their retirement savings.

Individuals do not have the option of temporarily suspending their pension contributions. In any event, contributions made during this crisis could prove to be particularly valuable over the long-term given that they will be invested while markets are low. Therefore, any steps that an employer can take to ease the financial strain on individuals whilst enabling them to continue saving something for their retirement (rather than opting-out altogether) is worth considering.

Finally, the Pensions Regulator and the FCA have [highlighted](#) the heightened risk of pensions and investment scams at this time. Employers should discuss with their scheme's trustees or provider what steps are being taken to alert individuals to this risk and to help individuals make considered choices about how and when to access their pension benefits and savings.

Please contact us if you would like to discuss any of these cost saving options or if you have any particular concerns about your organisation or pension scheme at this time.

## KEY CONTACTS

If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.



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