

COVID-19

Impact on pension schemes

Checklist for trustees
and employers

16 March 2020

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01 Introduction

The COVID-19 pandemic is a once-in-a-generation global emergency. While most sufferers experience mild illness, the virus is dangerous to elderly and vulnerable people. It is estimated that, in the worst case, 20% of the UK workforce could be off work at any one time, causing immense disruption. Governments and central banks worldwide are introducing extraordinary measures as they attempt to limit the damage to health and the global economy.

The Pensions Regulator has issued a statement urging trustees to have appropriate monitoring and contingency planning in place and to be alive to risks that could have significant consequences for their schemes and members.

This checklist aims to help trustees and employers to understand risks specific to pension schemes and actions that should be taken to mitigate them. The risks and actions included in this checklist are generic and not intended to be client specific. Your Buck adviser will work with you to tailor a plan to your circumstances. Actions are prioritised as follows:

- 1** Immediate action required over the next month
- 2** Action recommended over the next three months
- 3** Action recommended after three months

The information in this document is correct as at 12:00 GMT on 16 March 2020.

Events are fast-moving and users should have regard to current public health and other government guidance.

02

Trustee/employer processes

There are a number of critical pension scheme processes that are handled by trustees and/or employers. These should be reviewed, and tested, to identify possible points of failure and mitigated where possible with alternative plans. For example, key person risk could be mitigated through agreed calling and decision trees.

Actions

- 1 Adequate cash balances** – consider increasing the float in the pension scheme bank account with additional funds to cover the equivalent of, for example, two extra payroll runs.
- 2 Banking** – request, and test, business continuity plans with bank account and pensioner payroll providers to ensure key activities are uninterrupted.
- 3 Signatures/decisions** – where service providers require “wet signatures” agree alternative procedures such as accepting instructions by email.
- 4 Employer payroll** – ensure contributions can continue to be paid in accordance with payment schedules and schedule of contributions.
- 5 HR and data interfaces** – ensure that the regular feeds of data and information to the administrators and other advisors can continue uninterrupted.

■ Immediate action required over the next month ■ Action recommended over the next three months ■ Action recommended after three months

03

Pension scheme administrator

The administrator is the key interface with the pension scheme members. In order to ensure the efficient operation of member benefits, business continuity plans should be requested to check that actions are being taken to manage and mitigate any key risks to the administration service.

Actions

- 1** **Ability to process daily payments** – ensure that all administrators/authorisers can access all of the payment/banking systems remotely (all laptops/cards/card readers are taken home on a daily basis).
- 2** **Ability to pay pensioners** – ensure that the payroll team can process the pensioner payrolls remotely, including submission of BACS files, stopping payments and, where necessary, cheque production.
- 3** **Helplines and e-Faxes** – ensure that all helplines can be diverted to laptops or mobile numbers. Where faxes are used for any key process, that these can be issued without access to a physical fax machine.
- 4** **Delivery teams** – check that key staff, working remotely, have secure laptops, access to VPN and have full access to the necessary applications, processes and scheme information.
- 5** **Live testing business continuity plans** – check that plans have been actively run to test procedures, peer review is still effective, and end-to-end processes work effectively.

■ Immediate action required over the next month ■ Action recommended over the next three months ■ Action recommended after three months

04 PPF and Scheme Return

Trustees have a legal obligation to submit Scheme Returns and these are usually required during March. The 2020/21 PPF Levy is primarily based on information provided by 31 March 2020. This information, such as certifying guarantees, can have a material impact on the PPF Levy.

Actions

- 1** **Submission** – ensure that advisors have contingency plans in place to gather information to enable the Scheme Return to be completed and submitted through The Pensions Regulator’s Exchange system on time.
- 2** **Checking** – ensure that the trustees and/or employer have contingency plans in place to enable checking of the Scheme Return as appropriate.
- 3** **Section 179** – ensure that the Scheme Actuary can complete any Section 179 certificates, if relevant, ahead of 31 March 2020 (the Scheme Actuary is the only person that can complete these certificates).
- 4** **Contingent assets** – ensure that the covenant advisor and legal advisors can complete the necessary documentation to ensure contingent assets are submitted by 31 March 2020.
- 5** **DRCs** – ensure that advisors, if relevant, can submit the Deficit Reduction Certificates ahead of 30 April 2020.

■ Immediate action required over the next month ■ Action recommended over the next three months ■ Action recommended after three months

05

Secretarial and governance

Changes in corporate policy and general concern about social distancing is leading to many meetings either being postponed or being held by teleconference rather than face to face. Consideration needs to be given to the practical implications of this.

Actions

- 1** **Meeting coordination** – consider whether advisors have suitable business continuity plans in place to coordinate delivery of meeting papers.
- 2** **Quorum** – review governing documentation to understand the quorum position, and whether decisions will be valid if they are not made at face-to-face trustee meetings.
- 3** **Future meetings** – agree an approach to future (short- and medium-term) meetings in terms of attendees and format.
- 4** **Discretionary decisions** – agree a process for approving member discretionary decisions outside of trustee meetings.
- 5** **Signatory lists** – ensure all trustee signatory lists are up to date and contingency plans are put in place to deal with any time-sensitive data breach reporting issues.
- 6** **Online access to papers** – validate trustee, employer and advisor access to Global Vision.

■ Immediate action required over the next month ■ Action recommended over the next three months ■ Action recommended after three months

06

Investment

Investment markets are experiencing considerable turmoil due to the challenges posed by COVID-19 and the implications for businesses around the globe. In general we advise taking a medium- to long-term view in making investment decisions, which means looking through periods of short-term volatility.

Actions

- 1** **Cashflow planning** – ensure a plan is in place to meet cashflow needs arising over the next few months, where possible avoiding making disinvestments from assets which may have fallen in value.
- 2** **LDI portfolios** – be aware of the potential for re-leveraging events due to falls in gilt yields and consider how any assets realised may be most usefully redeployed.
- 3** **Transfer implementation** – consider delaying, or phasing, asset transition exercises particularly where these may result in crystallising losses, or periods of ‘out of market’ risk.
- 4** **Provider arrangements** – investigate investment providers’ business continuity plans to ensure investment decisions are taken where appropriate and operational aspects can continue as usual.
- 5** **Member communications** – consider member communications, particularly for DC investors, to provide information on the effects of recent market turmoil.
- 6** **Placing trades** – where trading is required, such as for cashflow purposes, ensure procedures are sufficient allowing for additional restrictions and delays.

■ Immediate action required over the next month ■ Action recommended over the next three months ■ Action recommended after three months

07

Defined contribution and AVCs

DC considerations are mostly around communication. As DC members bear the investment risk, the trustees may wish to consider targeted messaging. Consideration of potential operational and investment risks is recommended.

Actions

- 1** **General communication** – consider a general member communication to explain to members the position on investment markets, and the purpose of lifestyle or target date fund investment strategies.
- 2** **Members close to retirement** – consider those members close to retirement and any special communication that may be appropriate.
- 3** **Statutory deadlines** – ensure statutory deadlines are met, such as the Chair’s statement, including availability of key people.
- 4** **Disinvestments** – consider impact on pending disinvestments such as transfers, retirements, and death claims.
- 5** **Expression of wishes** – consider a member communication encouraging updating of nomination of beneficiaries and promoting use of online self service rather than call centre or post.

■ Immediate action required over the next month ■ Action recommended over the next three months ■ Action recommended after three months

08 Funding

The impact of market movements on defined benefit pension schemes is mixed depending on equity and LDI holdings. Where the employer covenant is strong then the trustees may be able to weather the storm, but if weak (or if affected adversely by COVID-19 effects) then trustees may look to bolster funding by cash or other security.

Actions

- 1** **Funding updates** – where tools are unavailable to provide the instant position, commission an ad-hoc funding estimate.
- 2** **Statutory deadlines** – ensure all statutory deadlines can be met, such as triennial valuations, and availability of relevant signatories.
- 3** **Contingency funding plans** – check whether any contingent funding plans have been triggered.
- 4** **Transfer values** – review transfer value reductions, and other member options, to ensure fair treatment of all members.
- 5** **Additional funding** – alert employer to potentially budget for additional contributions.
- 6** **Contingent security** – investigate use of contingent assets, asset backed funding as security and as an alternative to additional cash contributions.

■ Immediate action required over the next month ■ Action recommended over the next three months ■ Action recommended after three months

09 Covenant

The impact on business performance in 2020 could be significant. Businesses may experience a perfect storm of reduced demand, staff shortages and loss of supply. Delayed sales and increased costs could impact cash flow. Sales of time-critical services would be permanently lost but some industries may see increased demand.

Actions

- 1** **Business impact** – write to the employer to ask how an extended period of business interruption could impact its trade and finances.
- 2** **Business continuity plans** – ask what contingency plans are in place.
- 3** **Cash flow** – consider whether the employer can meet amounts due under the schedule of contributions.
- 4** **Covenant assessment** – obtain an independent covenant assessment update or monitoring report.
- 5** **Lesson learned** – consider lessons learned for the future and update risk management procedures.

■ Immediate action required over the next month ■ Action recommended over the next three months ■ Action recommended after three months

10 Life assurance

Life assurance claim processes will be unchanged although there is some potential risk of delayed processing times if insurers are working at reduced capacity, albeit we would expect death claims to continue to be treated as high priority work.

Actions



Catastrophe limits – consider implications of catastrophe limits.



Discretionary decisions – review process for discretionary decision making.

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