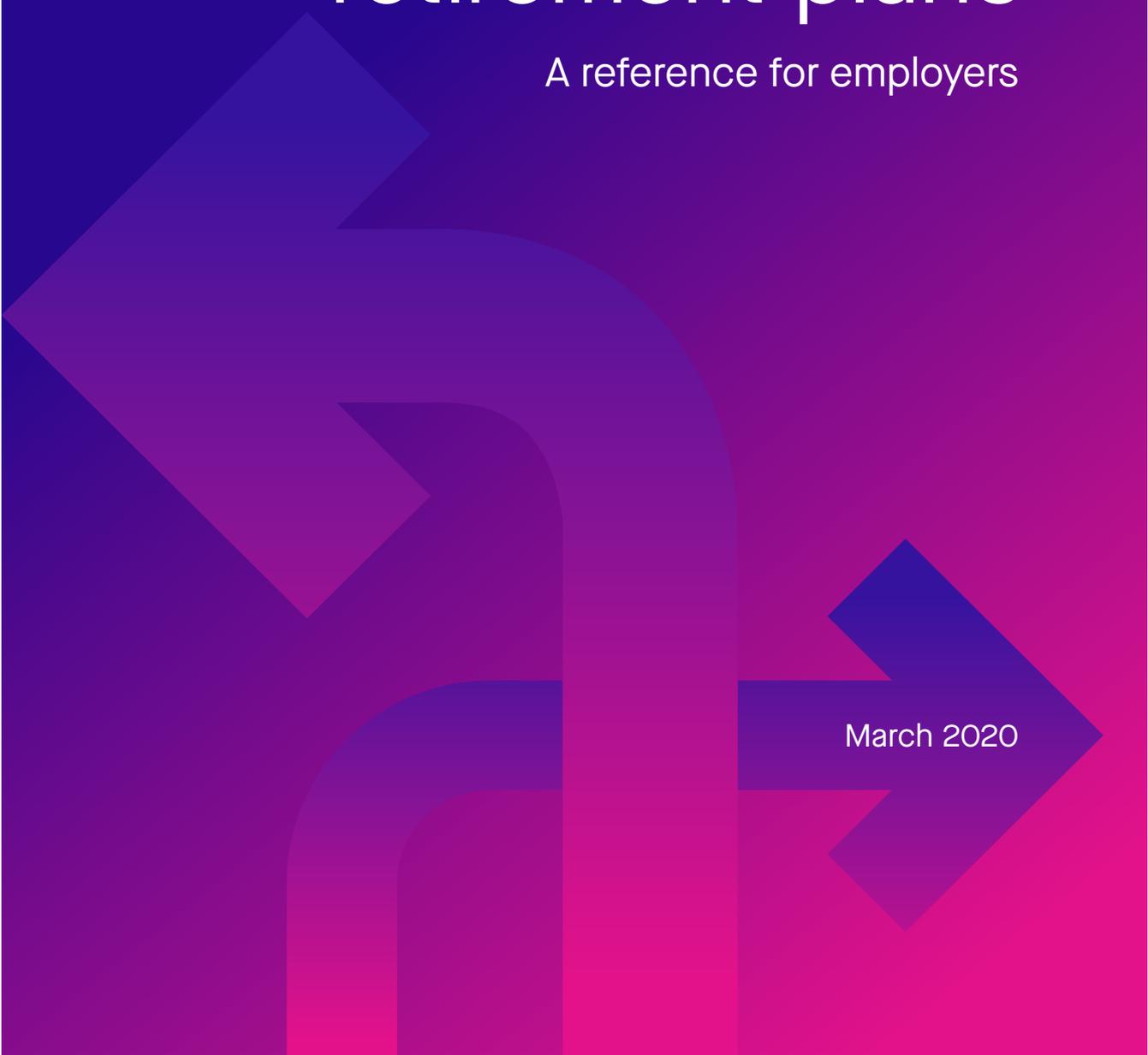


COVID-19

Impact on U.S. retirement plans

A reference for employers



March 2020

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Impact on U.S. retirement plans

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01 Introduction

The COVID-19 pandemic is a once-in-a-generation global emergency. The health and safety of all people around the world is our first and foremost priority. Governments, healthcare providers and employers are all struggling to adapt to the dramatic disruption affecting our lives. Retirement programs are not immune to these disruptions. At this time it is critical that these programs continue to function and fulfill their important role in society as many will depend on them to provide much needed financial security.

This reference document addresses the potential disruptions to employer sponsored retirement programs. The information contained here is general in nature and not intended to be company specific. We hope that this document is useful as you think through and anticipate potential retirement program challenges ahead. Our team stands ready to help you ensure that your retirement programs remain operational throughout this crisis.

We recognize the pandemic presents a rapidly evolving situation and encourage you to visit our [COVID-19 website](#) where we are collecting our latest thinking to help you navigate through this challenging time.

Be well and stay safe.



02

Plan sponsor processes

In the normal course, plan administration and operations generally run smoothly and efficiently, but these are not ordinary times. Here are general guidelines for what a plan sponsor should be monitoring to ensure efficient operation of their retirement plans, mitigate risk, and most importantly, reassure employees that their employer is looking out for them.

Actions

- 1 Processing payments** – confirm that plan administrators, payroll providers, and trustees have sufficient resources to continue payments to participants in pay status without interruption. Ensure that providers are coordinated to accommodate any administrative and payment services for remote access.
- 2 Commencing benefits** – ensure distribution processes are fully coordinated with sufficient training to process applications for benefits, including in-service withdrawals and loans. Anticipate an increase in requests from terminated participants to commence payments, and from active participants for in-service distributions.
- 3 Communications** – make sure plan representatives and call centers are prepared to handle calls from participants who may be stressed for health and/or economic reasons, including processes that help participants comply with any plan requirements, e.g., plans that require spousal consent may accept scanned, email or faxed copies of consent.
- 4 Internal teams** – check that staff members working remotely have secure laptops and access to VPN, along with other necessary resources and tools. Teams should meet regularly to keep each other informed, particularly if team members are having issues, personal or business.
- 5 Business continuity plans** – check regularly with all administrators, payroll, and other service providers on staffing and other needs. Reconfirm that plans are aligned with employment and other corporate policies. Maintain one, unified communication on policies and practices.

03

Pension plan administration

Administrative service providers are key intermediaries to plan participants. To ensure the efficient operation of participant benefits, business continuity plans should be requested to check that actions are being taken to manage and mitigate any key risks to administrative services.

Actions

- 1 Ability to process daily payments** – ensure that all administrative service providers/authorizers working remotely have continued access, as permitted, to all payment/banking systems, including the ability to institute new payments upon receipt of paperwork.
- 2 Ability to maintain pay status** – ensure that benefit payment teams, as permitted, can process participant and beneficiary distributions remotely, including submission of ACH files, stop payments and, where necessary, check production. If necessary, be prepared to change from physical checks to direct deposit, due to bank closures.
- 3 Ability to provide future benefit packets** – ensure that all fulfillment structures are in place and, where they are absent, make plans to provide and receive pension packages through electronic means (e.g., secure email, web portal). For participants with required benefit election forms, provide direction on resources for a notary public. For example, shippers such as UPS can support this requirement through many of their store sites: <https://www.theupsstore.com/store-services/notary-services>.
- 4 Helplines and e-faxes** – ensure that all helplines can be diverted to laptops or mobile numbers. If faxes are used for any key process, make sure these documents can be issued without access to physical fax machines.
- 5 Delivery teams** – check that key staff working remotely have secure laptops, access to VPN, and have full access to the necessary applications, processes, and plan information, through appropriately secured channels.
- 6 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.
- 7 Document changes in administrative processes** – document updates for purposes of future audit if any administrative processes are changed.



04 Governance

Changes in corporate policy and general concern about social distancing are 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 new protocol.

Actions

- 1 Meeting coordination** – consider whether advisors have suitable business continuity plans in place to coordinate delivery of meeting materials.
- 2 Quorum** – review governing documentation to understand the quorum position, availability of key decision makers, and whether decisions will be valid if they are not made at face to face administrative or investment committee meetings.
- 3 Future meetings** – agree on an approach to future (short- and medium-term) meetings in terms of attendees and format.
- 4 Discretionary decisions** – agree on process for approving discretionary decisions outside of more formal administrative or investment committee meetings.
- 5 Signatory lists** – ensure all signatory lists are current and contingency plans are put in place to deal with any time-sensitive data breach reporting issues.
- 6 Online access to materials** – validate custodian/trustee, plan sponsor, and advisor electronic access, as applicable.

05

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 may mean looking through periods of short-term volatility.

Actions

- 1 Liquidity** – ensure there is enough liquidity to meet benefits payments for the foreseeable future. History tells us that investors who have the ability to stay invested throughout market regimes are rewarded.
- 2 Cash flow planning** – manage cash flow and balance sheets and prepare for a multi-quarter recession and closely monitoring plan funded percentage to quantify the potential size of required contributions if discount rates stay low and assets levels stay depressed.
- 3 LDI portfolios** – make sure the interest rate hedge ratio does not need to be rebalanced as convexity may cause liabilities to further outpace assets. As interest rates decline, durations – interest rate sensitivities – of assets and liabilities increase due to convexity.
- 4 Transfer implementation** – consider delaying or phasing asset transitions particularly where these may result in realized losses or periods of “out of market” risk.
- 5 Provider arrangements** – affirm investment providers’ business continuity plans to ensure that their investment thesis is still valid, investment decisions are taken where appropriate, and operational aspects can continue as usual.
- 6 Placing trades** – confirm where trading is required, such as for cash flow purposes, to ensure procedures sufficiently allow for additional restrictions and delays.

06 Defined contribution plans

The industry is entering a time of fundamental pressure with regard to investment fund menus, participant communication, and the capacity of administrative systems as the COVID-19 inflicts chaos on financial markets. Ultimately, DC participants bear the investment risk, so plan sponsors may wish to issue additional targeted messaging. Consideration of potential operational and investment risks is also recommended.

Actions

- 1** **General communication** – consider a general communication to explain to participants the importance of maintaining a diversified investment portfolio even in times of market volatility, highlighting the purpose of target date or target risk investment strategies and the resources available to help with investment decisions.
- 2** **Documentation** – consider participant communications encouraging verification of beneficiary data and promoting access to key sources of planning, advice, and other online tools available through plan recordkeepers.
- 3** **Planning** – review steps needed to suspend or reduce employer contributions if needed, particularly for plans with ADP/ACP safe-harbor design that require participant notification 30 days in advance.
- 4** **Loans, withdrawals or distributions** – review plan document and administrative capabilities to determine what relief is available for participants struggling with participant loan payments, including temporary cure periods, reamortization of remaining loan balances, or allowing payments from personal assets during a period of reduced compensation.
- 5** **Participants close to retirement** – consider those participants close to retirement and any special communication that may be appropriate.

07 Funding

Defined benefit funding rules are exceedingly complex, regardless of market turmoil. The impact of market movements is mixed, depending on the proportions and characteristics of equity vs. LDI holdings, and upon which aspect of the funding rules are considered.

Actions

- 1 Critical measures** – discuss with your plan’s actuary which funding measures are most likely to cross critical thresholds, and request estimates for those consequences that pose the greatest risks.
- 2 Required contributions** – minimum required contribution rules contain several smoothing options – such as asset averaging, stabilized interest rates, and 7-year amortizations – that partially mitigate the impact of market disruptions. Unfortunately, the interest rate corridor for stabilization starts to widen in 2021, unless Congress extends relief.
- 3 Benefit restrictions** – even though benefit restrictions are regulated by the same smoothed assets and liabilities as minimum funding requirements, the threshold for lump sum payments and plan amendments is 80% funded status, without amortization, and significant declines in assets could mean large contributions to avoid restrictions.
- 4 PBGC measures** – other funding criteria are less stable, such as PBGC variable rate premiums and 4010 filing requirements. These do not utilize stabilized interest rates and, in the case of premiums, reference the market value of assets without the availability of averaging.
- 5 Additional funding** – plan sponsors should begin to plan for potential budget impacts due to additional contributions. Consider noncash contributions or borrowing to fund, if desirable.

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