

COVID-19 DC Pensions

Employer considerations in
response to Coronavirus

March 20, 2020

Background

Since the first case of the COVID-19 virus was identified in Wuhan, China in late 2019, governments and public health leaders have escalated steps to contain the spread of the virus.

Employers are evolving their response to ensure business continuity, and minimise the disruption and financial consequences of the outbreak on their businesses. But despite significant intervention by central banks and governments, the global investment markets have experienced the biggest volatility in a generation.

This has significant potential consequences for employers and members of DC pension schemes. This document considers implications for employers with DC pension schemes such as Group Personal Pensions, Group Stakeholder Pensions and Master Trusts.

Executive summary

DC pension checklist

Serious consideration should be given to communicating with members to remind them of the context of long term investments and mitigate the risk of members making uninformed decisions.

Consideration should be given to whether targeted communication is appropriate for vulnerable groups.

Consideration should be given to signposting employees to financial education content, either from your own resources, Money Advice Service and other public sector bodies, Buck, or other third parties.

Consideration should be given to reminding members about the provider online self-service, and potentially signpost to the registration process for members who have not used this option to date.

Action – review provider business continuity plans, revisit action plans for projects underway and consider if an extraordinary governance meeting is appropriate.

Action – review all pension related processes, identify contingency plans for meeting statutory deadlines and secure external assistance where required.

Investment

DC pensions are a long-term investment and default investment strategies reflect this by investing in assets which are expected to provide attractive returns over the long-term. This generally includes investing in global stock markets, particularly when members are still some way from retirement.

As a result, the majority of members will experience significant volatility in relation to the value of their pension plan, and other investments held by them or their family, and this may cause distress. We know from behavioural finance research that people have a stronger negative reaction to financial loss than the positive reaction to a similar financial gain.

These natural behavioural traits mean there is a risk that investors choose to move their money to less volatile investments and turn paper losses into real losses. Historically, staying invested has generally led to a better outcome for investors who have a long investment time frame*. Members may also be more susceptible to scams at this time.

Serious consideration should be given to communicating with members to remind them of the context of long-term investments and mitigate the risk of members making uninformed decisions.

** past performance is not necessarily an indicator of future investment returns.*

There are some groups of members who may be particularly impacted by the investment implications of Coronavirus, including:

- Members close to retirement
- Members taking pension benefits
- Self-select members

Members close to retirement may have their pension fund in less volatile assets as a result of the default lifestyle or target date investment strategy. These members are still likely to have experienced a fall in fund value and so may now have a lower sustainable income in retirement from their pension funds. As a result they may need to review their retirement plans or may wish to consider working longer.

Members who take an income from their pension fund through Flexible Access Drawdown can exacerbate the impact of falls in their fund value and may wish to delay or reduce future withdrawals in order to protect the long-term sustainability of their fund.

Self-select members close to retirement who self-selected years ago and did not revisit their decisions may not have benefitted from a lifestyle strategy and therefore have a more extreme version of the issues facing similar members in the default fund. Self-select members may face other risks such as funds invested in illiquid assets, such as Property, which may face restrictions on selling these holdings.

Consideration should be given to whether targeted communication is appropriate for vulnerable groups.

Financial wellbeing

For many employees, day to day financial issues will be far more of a priority than their pension fund. This will be particularly acute for those with variable earnings themselves or within their family.

The current situation will be a catalyst for many people to review their financial circumstances and make sure they are doing what they can to protect themselves and their dependants.

Members over 55 have the option of drawing on their pension, even if they are not retiring. This may now be more prevalent due to financial pressures. If members take more than their 25% lump sum they may be subject to the Money Purchase Annual Allowance on future contributions, which will restrict them to £4,000 per annum and could have a detrimental impact on their long-term pension planning.

If you already have a financial wellbeing programme you may already have resources you can promote to employees to help them make better financial decisions. The Money Advice Service provides guidance to help people through the financial challenges now and ahead, via the following links:

- <https://www.moneyadviceservice.org.uk/en/articles/coronavirus-and-your-money>
- <https://www.moneyadviceservice.org.uk/en/articles/coronavirus-what-it-means-for-you>

Consideration should be given to signposting employees to financial education content, either from your own resources, Money Advice Service and other public sector bodies, Buck, or other third parties.

Service and administration

Pension providers face the same challenges as all businesses in respect of COVID-19 and this will invariably have an impact on the levels of service that they can provide to members, employers, and advisers.

If staffing levels reduce as a result of isolation or illness then providers will prioritise tasks such as investing contributions and other financial transactions. As a result, members may not always get a swift response from the provider customer service team, particularly telephone, email and webchat helplines. This may exacerbate any distress that members are feeling.

All leading providers offer comprehensive online self-service which would deal with the majority of questions or changes that members may wish to raise, without needing the support of a customer service representative.

Consideration should be given to reminding members about the provider online self-service, and potentially signpost to the registration process for members who have not used this option to date.

Employers will be evaluating their own business processes and this should include payroll and finance processes relating to the pension.

Currently there is no dispensation for ignoring automatic enrolment obligations or delaying the payment of pension contributions, therefore companies should ensure that they are able to meet their legislative requirements, identifying any key person risk in respect of knowledge or system access.

Employers should ensure that they have contingency plans for their core monthly processes, including uploading pension information to the provider and authorising contribution payments. If these processes usually require support from the customer services team at the provider then check this is still available. Buck can provide assistance in this area if required.

Ensure that any statutory dates are met, including any one-off or irregular events such as Cyclical Automatic Re-Enrolment.

Action – review all pension related processes, identify contingency plans for meeting statutory deadlines and secure external assistance where required.

Provider

Employers are ultimately responsible for the selection of their workplace pension scheme and it is good practice to monitor the ongoing performance of the selected provider.

In extreme circumstances, such as this, it is prudent to understand what business continuity plans the provider has in place to ensure the efficient operation of the scheme and ongoing security of member benefits.

If a new scheme is being put in place, or a large transfer of assets is being made between schemes, then all parties should revisit the project plan to identify any necessary changes to timelines, as well as identify contingency plans for obtaining decisions or signatures.

Many employers have a governance committee in place; if this is an effective forum to review any of these issues then consideration should be given to convening an extraordinary meeting.



Action – review provider business continuity plans, review action plans for projects underway and consider if an extraordinary governance meeting is appropriate.

Checklist

	Yes	No
Do we want to send member communications about the pension?		
• General investment update?		
• Targeted communications to vulnerable groups?		
• Signpost to online self-service?		
• Signpost financial wellbeing content?		
Do we want a tailored communication (specific to our employees, default and provider)?		
Have we got contingency administration plans to meet our ongoing obligations?		
• Do we need support from our provider?		
• Do we need support from Buck?		
• Do we need support from other third parties?		



Buck is a trading name in the UK for Buck Consultants Limited (registered number 1615055), Buck Consultants (Administration & Investment) Limited (registered number 1034719), and Buck Consultants (Healthcare) Limited (registered number 172919), which are private limited liability companies registered in England and Wales. All have their registered office at 160 Queen Victoria Street, London EC4V 4AN. Buck Consultants (Administration & Investment) Limited and Buck Consultants (Healthcare) Limited are authorised and regulated by the Financial Conduct Authority.

© 2020 Buck Consultants Limited. All rights reserved.