Russia's invasion of Ukraine

Checklist for trustees and employers

4 March 2022

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1 Introduction

On 24 February 2022, the conflict that has simmered since Russia annexed Crimea in 2014 erupted into a full-scale invasion of Ukraine. Faced with the worst act of war in Europe for decades, western governments have responded with economic sanctions on Russia, its companies, and oligarchs. It is a moment of radical uncertainty. Whatever the outcome, and however long the current war lasts, there will be lasting economic impact. Russia is a major oil and gas producer, with pipelines crossing Ukraine. Both Russia and Ukraine are major exporters of grain and essential raw materials.

Oil and gas prices were already surging ahead of the invasion, leading to strong inflationary pressures and threatening economic recovery from the impacts of the pandemic. While social restrictions in the U.K. and elsewhere in Europe are being wound down, many countries remain largely unvaccinated, and the risk of resurgent vaccine-resistant variants has not gone away.

This checklist aims to help trustees and employers understand the specific risks in the current situation and actions that may be taken to mitigate them. The risks and actions included in this checklist are generic and not intended to be client specific.

The information in this document is correct as at 10:00 GMT on 4 March 2022.

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2 Pensions administration and governance

The administrator is the key interface with the pension scheme members. It is therefore important that the administrator can continue to communicate with members, providing specific information to those impacted by the conflict where required.

Actions

1. **Member communication** - identify all members potentially impacted by the conflict and consider whether communication methods should be reviewed and adapted.
2. **Ability to pay pensioners** - ensure that pensioners/those retiring shortly, who may be unable to receive pension payments, due to sanctions or the ongoing conflict, are identified, contacted, and monitored as the situation develops.
3. **Third party providers** - understand the exposure of third-party providers to and from Russia, Ukraine, and the region.

3 Cyber security risk

Pension schemes hold large amounts of personal data and assets which can make them a target for fraudsters and criminals. Russia's invasion of Ukraine could lead to an increase in cyber security attacks. The National Cyber Security Centre has called upon organisations in the U.K. to bolster their online defences.

Actions

1. **Business continuity plans** - engage with the employer and all third-party suppliers to fully understand the systems and controls in place.
2. **Good practice** - exercise caution, avoid personal email accounts, use encryption, and maintain anti-virus protection and firewalls.
3. **Training** - carry out scenario planning as part of trustee training.
4. **Risk register** - review the risk register to ensure it covers cyber security risk.
5. **Incident response** - prepare (or review) your incident response plan, ensuring all roles and responsibilities are clearly identified.

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4 Investment

Investment markets have been volatile recently due to rising inflation and changing expectations of interest rates around the world. We expect market volatility to significantly increase and be dominated by the implications of the events in Ukraine. Trustees need to understand their changing risk exposures and the impact on journey plans.

Actions

1. **Growth exposure** - understand the potential downside impact of exposure to Russia, Ukraine, and the region, including sanctions and organisations unwinding their positions. Avoid being a seller of assets at poor valuations.
2. **Liability hedging** - understand the impact of leverage, and the accuracy of hedging, due to changing inflation and interest rates.
3. **Cash flow policy for hedging arrangements** - ensure plans are in place to deploy assets received when gilt yields fall and to meet cash calls when gilt yields rise.
4. **Asset transfers** - consider phasing large trades across several tranches and minimise ‘out of market’ risk when structuring trades.
5. **Governance** - revisit the frequency of monitoring to ensure that decisions are made with the most up to date information.

5 Funding

Market uncertainty and volatility is leading to material changes in the funding level for defined benefit pension schemes. The impact on schemes will depend on the mix of assets and level of liability hedging. Where the employer covenant is strong, the trustees may be able to tolerate enhanced risks; but if weak (or if affected adversely by geo-political issues) then trustees may look to bolster funding by cash or other security.

Actions

1. **Funding updates** - if regular funding updates are not provided, consider commissioning an ad-hoc update.
2. **Contingency plans** - check whether any funding triggers have been met, for example, triggering contingent funding contributions or de-risking trades.
3. **Transfer values** - keep transfer value bases, and other member options, under review to ensure fair treatment of all members.
4. **Pension increases** - consider implications of increases in inflation, which could lead to higher than expected pension increases or requests for discretionary increases where the increases are limited by caps.
5. **Funding methodology** - ensure that the approach to monitoring funding levels remains robust throughout any periods of market uncertainty, reviewing both ongoing funding and long-term funding objectives.

6 Covenant

Wholesale energy costs increased sharply in recent months. Destruction in Ukraine and sanctions on Russia are likely to impact supplies of gas and grain, further increasing prices. Higher energy and food costs will likely reduce consumer spending power worldwide. Reduced supply of critical minerals may affect manufacturers. Reduced demand and increased costs could impact cash flow in multiple sectors.

Actions

1. **Business continuity plans** - ask the employer about any operations in Russia, Ukraine, and the region and, if relevant, contingency plans.
2. **Business impact** - ask the employer for an initial assessment of direct and indirect supply chain impacts and energy costs on trade and finances.
3. **Cash flow** - where covenant is materially impacted by the crisis, consider whether the employer can continue to meet its schedule of contributions.
4. **Covenant assessment** - consider obtaining an independent covenant assessment update or monitoring report.

7 Defined contribution and AVCs

DC considerations are mostly in relation to the potential impact of investment volatility, particularly any planned movement of large amounts of money. Other considerations centre on general and targeted communication.

Actions

1. **Disinvestments** - consider impact on pending disinvestments, particularly bulk transfers as a result of scheme wind-ups and consolidations, but also individual transfers, retirements, and death claims.
2. **Lifestyling** - consider impact of planned disinvestments and rebalancing. This is particularly relevant to schemes with infrequent lifestyle switches where a large proportion of members' assets are due to be de-risked.
3. **General communication** - consider a general member communication to explain to members the position on investment markets, the purpose of lifestyle, or target date fund investment strategies.
4. **Members close to retirement** - consider those members close to retirement and any special communication that may be appropriate.

8 Employee benefits

Economic and banking sanctions can have an impact on an insurance provider's ability to pay claims to employees or service providers. In extreme cases, local providers may not be able to provide coverage at all.

Policy exclusions and travel restrictions may also have an impact on insurance coverage.

Actions

1. **International private medical insurance** - insurers may have a standard war and terrorism exclusion in place, but the application of this may differ. Engage with the provider if appropriate.
2. **International private medical insurance** - there may be difficulties making claim payments for internationally mobile employees or local employees covered by international policies. Engage with the provider if appropriate.
3. **Travel insurance policies** - these often have a general exclusion that they are void if individuals travel against the advice of the FCO. Consider implications of employee travel in affected regions.
4. **International risk benefits** - insurance companies in countries impacted by sanctions may cease operations or may not be able to effectively underwrite risks. Review and source alternative arrangements as required.
5. **U.K. risk benefits** - existing arrangements may not be affected, but some providers may not provide cover if employees travel against the advice of the FCO. Consider implications of employee travel in affected regions.

9 Employee wellbeing

Current financial and political circumstances may have an impact on employee wellbeing. Employees could be experiencing stress and anxiety, particularly those who have friends or family in Ukraine or surrounding areas.

The impact of the Ukraine crisis on the cost of energy and other commodities is likely to cause further inflationary shocks at a time when the increase in National Insurance contributions in April 2022 will also be reducing take home pay.

Actions

1. **Employee assistance programme (EAP)** - relevant and timely information could provide some level of support in these difficult times. Signpost the EAP which can provide practical advice and counselling to employees and their partners/immediate family, and is available 24 hours a day.

2. **Cost of living** - financial education can help employees make sense of what's going on and provide some practical tips on what they can do to ease financial pressures. This can signpost where employees can go for additional support and reinforce any specific resources available through the workplace.