

Briefing note

Coronavirus and occupational pensions: What Trustees need to do now

Executive summary

For the UK at large the past few months have been uncertain and concerning.

Although they may not yet be top of everyone's list, concern over pension savings can add to stress levels and members' financial worries.

For Trustees of a defined contribution (DC) scheme there are steps you should be considering both as part of your governance oversight and, importantly, to support your scheme members.

Key actions we recommend Trustees undertake include:

- Consider the need to hold an 'out of cycle' Trustee meeting to address the current issues faced by the Scheme.
- Seek guidance from the scheme investment adviser on the performance of the default investment strategy against its objectives in these uncertain times, with particular focus on its short-term response to market conditions weighed against the long-term nature of the investments. Consider whether any immediate actions are required to protect members.











- Consider communicating with members. A proactive communication may help members with financial stress and support them in making informed decisions rather than taking a 'knee jerk' action on their investments and instigating a fund switch.
- Check that the employer can still carry out the usual interactions with the scheme in a timely manner.
- Keep an open dialogue with the sponsoring employer to understand any cashflow challenges or changes in the contribution structure (for example for furloughed staff).

We believe taking these steps will benefit the sponsoring employer and scheme members whilst negotiating these strange times. Please speak to your Punter Southall Aspire consultant if you would like to discuss these or any of the other topics within this briefing note.

Investment monitoring and strategy

Following a very challenging time for the investment market, we have seen significant falls in market values across nearly all assets classes, as can be seen from our market snapshot below:

Market snapshot – 1 year performance to 31 March 2020

UK EQUITIES	EUROPEAN EQUITIES	NORTH AMERICA EQUITIES	JAPAN EQUITIES	GLOBAL EQUITIES	EMERGING MARKET EQUITIES	INVESTMENT GRADE CORPORATE CREDIT	HIGH YIELD CORPORATE CREDIT	INDEX LINKED BONDS	COMMODITIES
-18.5%	-7.5%	-2.2%	-2.5%	-5.3%	-13.2%	0.0%	-1.5%	4.2%	-18.4%
									

Source: Thompson Reuters, based on information available as at 10 April 2020.

Please note that the value of investments may fall (as well as rise) and individuals may get back less than they invested. Past performance is not a guide to future performance.

This is a time where diversification should prove its merit through mitigating members' exposure to risk. For Trustees, now is an important time to make sure you closely monitor the performance of the chosen investment fund(s) and investment managers utilised within the default investment strategy to ensure that the strategy has met its designated objective. It is, of course, important to consider investments over a long-term period for most members.

However, particular care should be paid to those members close to retirement.

In the majority of cases the default investment strategy is to lifestyle members into lower-risk investments as they approach retirement. A common question raised is whether this should continue as it could potentially crystallise members' loss. This is a valid point: although for most members a slow transition will continue to support their retirement needs you may wish to consider the duration of your lifestyle strategy and the frequency of fund switching/rebalancing to ensure it isn't imposing additional risk on members.

Employer contributions

It is a duty of the Trustees to ensure that contributions are paid to the Scheme accurately, and within the timescales expected by The Pensions Regulator. In the current market many employers may face uncertainty over their cashflows and employee benefits provision. With some or the majority of staff going into furlough arrangements or opting out of the pension scheme, there can be unintended consequences to the Scheme and members. Therefore, we recommend that Trustees have an open dialogue with the employer to:

- monitor any risk to member contributions not being paid within statutory timeframes and engaging with the employer (and potentially The Pensions Regulator) where there is a risk of no payment
- understand any changes by the employer to the contributions being made, for example if the employer is looking to suspend salary sacrifice or reduce contributions to a statutory level
- consider if any changes made to contributions by the employer contradict the Scheme Rules. If the contribution structure is explicitly set out there may be a need for a Deed of Amendment alongside the potential update to the contribution schedule.
- ensure continued support for the scheme, for example if the employer meets some of the costs of running the scheme.

Member communication

It's tempting for members to look at current events, as well as the year ahead, and to feel a sense of worry. How will my pension investments perform? Is there anything I can do to brace myself in case things get even worse? How can I ensure I benefit if things go better than I might expect?



We would strongly recommend that Trustees engage with both active and deferred members on this to help them navigate the current climate. Often in these cases doing nothing (and therefore not crystallising your loss) will be beneficial. The need for communication is particularly important for those looking to retire over the coming weeks, months and years. You should:

- review your retirement communications to ensure these are robust and add additional risk warnings if appropriate
- engage with all members to ensure they are aware of their investment options and have guidance on making decisions.
- be vigilant to the additional risk of pension scams as members may be under financial pressures. Consider adding additional warnings to retirement and transfer communications. You may wish to direct members to the FCA's ScamSmart website:
<https://www.fca.org.uk/scamsmart>

Increased Trustee governance measures needed

As the COVID-19 situation continues to develop it will be important to continually assess the impact and implications on your scheme and so it would make sense to increase the frequency of Trustee monitoring and contact through the coming weeks and months. However, Trustees need to be conscious of the cost implications of additional work on potentially fragile sponsoring employers.

Please contact your Punter Southall Aspire consultant if you would like to discuss how we can support you through these times in a pragmatic and effective manner.

+44 (0)20 3327 5500
sayhello@psaspire.com
www.psaspire.com

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