

COVID-19: TOP TIPS FOR DB PENSION SCHEMES AND LGPS FUNDS

Covid-19 has caused significant disruption to economies worldwide, with policymakers, businesses and individuals dealing with a wide variety of challenges brought about by the rapidly evolving situation.

DB pension schemes and LGPS funds face a number of tough challenges around covenant strength, funding, investment, governance and communications to members. As trustees or governance bodies you may have already taken some immediate steps to deal with the current situation.

This document is designed to support you both on additional near-term issues as well as in your longer-term thinking about what actions you need to take over the coming months.

TOP TIPS: AT A GLANCE

Administration:

- ▶ **Ask your administrator how many employees fulfil the definition of “key worker”**
- ▶ **Request regular updates from administrators regarding core financial transactions**
- ▶ **Ensure your administrator has a clear sense of your priorities**
- ▶ **Proactively engage with administrators on member queries**
- ▶ **Discuss transfer value process**
- ▶ **Check death benefits insurance policy**

Communications:

- ▶ **Review and update your communications policy**
- ▶ **Step up efforts to protect members from scams**
- ▶ **Consider financial advice offering**

Funding:

- ▶ **Check TPR guidance on DRC deferral requests**
- ▶ **Have regular two-way engagement with the sponsor**
- ▶ **Prioritise issues for discussion with scheme actuaries**
- ▶ **Consider impact on buy-in and buy-out pricing**

Governance:

- ▶ **Have a strategy in place for future trustee/committee and adviser meetings**
- ▶ **Prioritise actions to ensure board effectiveness is maintained**
- ▶ **Assess cybersecurity implications of changed working habits.**
- ▶ **Check PPF guidance on forthcoming deadlines**

Investment:

This document offers a high-level overview of complex legal, regulatory and investment issues and, being only a guide, PLSA accepts no liability for its use. This document is not intended as a substitute for formal advice.

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- ▶ **Consider longer-term impact including on liquidity and collateral position**
- ▶ **Start discussion around possible investment opportunities**
- ▶ **Check implications for AGM season and stewardship duties**

ADMINISTRATION

As an initial step, trustees/governance bodies may have already established a sense of their in-house or outsourced administrator's business continuity plans and how equipped they are for a shift to remote working and sickness and absenteeism of key personnel. In addition, trustees could:

- ▶ **Ask administrators how many of their employees fulfil the definition of “key worker”.** The government's [guidance](#) states that certain financial services workers are key workers. We understand that this also applies to essential staff in pension schemes. Your administrator must have a clear strategy for who in their organisation this applies to and how it impacts the quality and resilience of service you receive.
- ▶ **Request regular updates from their administrators regarding core financial transactions.** This should include metrics and trends regarding the accuracy and timeliness. Trustees/governance bodies should take a pragmatic approach to Service Level Agreements (SLAs) while also taking the necessary steps to protect member outcomes. The key question is whether current reporting gives you sight on an evolving situation, or whether frequency and metrics used need to be adjusted.
- ▶ **Ensure administrator has a clear sense of trustee priorities.** Covid-19 is throwing up challenges for every part of the pension system. Trustees/governance bodies should clearly communicate their priorities to the administrator, including that the scheme is fully equipped to pay benefits, process retirement and offer as complete a bereavement service as possible.
- ▶ **Proactively engage with administrators on member queries.** Although DB members' benefits are protected from market falls, there is still likely to be heightened concern around the health of many sponsors. Monitoring volume and content of member queries will be vital to ensuring targeted and effective communications to members.
- ▶ **Discuss transfer value process.** It is likely that your DB scheme will have a number of members requesting transfer values. You should make sure that it is still possible to process requests in a timely fashion whilst also carry out suitable due diligence.

▶ **Check death benefits insurance policy.** Make sure you and your administrators have a clear sense of the situation regarding death benefits insurance. It is worth check to see if the policy terms and conditions are written broadly enough to cover death from Covid-19.

COMMUNICATIONS

Scheme members will look to their plans and employers as a trusted, expert source of guidance on the impact of Covid-19 on their savings. Trustees/governance bodies may have already taken some initial steps to acknowledging member concerns and providing reassurance where possible. They should also:

▶ **Review your communications policy.** Once initial crisis communications have been issued, trustees need to work with their advisers to consider their next steps. This requires:

- Accurate and up to date information on requests for transfer values
- An understanding of the content of member queries
- A clear and recent assessment of the sponsor covenant in both the near-, medium- and long-term
- Consideration of how best to prioritise, target and tailor your communications
- Assess the impact and plan your response to cope with further disruption to scheme communications with members

▶ **Step up efforts to protect members from scams.** TPR has noted the risk of scammers capitalising on the uncertainty caused by Covid-19. Trustees should ensure their communications remind members:

- To be alert to the danger of scams in the current environment and checks they should be undertaking
- Of the cold-calling ban on pension scams
- To ring their pension scheme or access other sources of help or guidance, Money and Pensions Service (MaPS), if any concerns
- MaPS have a dedicated page that members can be signposted to [here](#)

▶ **Consider financial advice offering.** Given the increased likelihood of scams in the current environment, trustees should discuss their approach to offering financial advice near retirement with sponsors and advisers.

FUNDING

The market turmoil in the wake of Covid-19 has a number of implications for funding, from its impact on both the assets and liabilities side of the balance sheet to the financial health of the scheme sponsor. Trustees/governance bodies should have already opened communications with their sponsor/participating employers on their covenant, as well as with actuaries and investment advisers. Trustees/governance bodies should also:

- ▶ **Check TPR guidance on DRC deferral requests.** Many DB schemes will be receiving requests from their sponsoring employer in the current circumstances. Trustees/governance bodies should check the recent [guidance from TPR](#) and ensure that:
 - They have a clear sense of the true level of corporate stress of the sponsor and assess this against the sponsor's planned payments out – for instance around payment of dividends
 - There is a clear expectation around when contributions would be re-started
 - They seek legal advice from experts on corporate distress including assessing the impact of insolvency, and transferring to the PPF
 - They balance flexibility of approach with protection of member outcomes

- ▶ **Have regular two-way engagement with the sponsor.** This will be vital to get the data necessary for a re-assessment of the strength of the covenant over both the near- and the longer-term. Trustees/governance bodies should also ensure they receive communication from the sponsor on issues such as the company's progress on payment holidays from creditors, the approach to health and safety of their employees and any issues regarding implementation of business continuity plans.

- ▶ **Prioritise issues for discussion with scheme actuaries.** Key issues for consideration by the scheme actuary should now include the likely medium- and long-term impact of Covid-19 on the scheme's or fund's longevity risk and liabilities, as well as liquidity requirements. Trustees/governance bodies should ensure they have a clear understanding of the assumptions used by actuaries, including that these are based on the latest statistics and update from policymakers.

- ▶ **Consider impact on buy-in and buy-out pricing.** Many schemes will have been considering a buy-in or buy-out in recent months. Now is a good time to reassess the situation, given the impact of widening credit spreads on pricing. Those schemes already in low risk assets or seeing a significant reduction in liabilities could find pricing more attractive.

GOVERNANCE

Trustees/governance bodies should already have robust governance arrangements in place, with access to the required expertise and effective processes. The trustee board or governance body should have already undertaken an initial assessment of how its operation will be affected and have plans to hold an emergency meeting. They should also:

- ▶ **Have a strategy in place for future meetings.** Trustees should work with their legal advisers and check the Trust Deed and Rules to understand implications for quorum and decision-making in the absence of face-to-face meetings. Trustees should also work to agree what extra information is needed from service providers and how often. The approach taken should be flexible and pragmatic– recognising the increased demand placed on service providers at this time. LGPS funds should similarly consider the impact on Pension Committee and Board meetings.
- ▶ **Ensure trustee board/governance body’s effectiveness is maintained.** This should include the creation of an effective continuity plan, as well as testing any video or other conference technology or virtual board documents system so that the trustees/governance body can continue to communicate with each other. Decisions should be made around delegation of authority to ensure urgent decision-making can take place. This could also include the appointment of a Deputy Chair.
 - For LGPS funds, it will be particularly key to ensure clear lines of accountability between the funds, Pools, Pension Committees and Pension Boards, to avoid duplication of efforts and ensure swift decisions.
- ▶ **Assess cybersecurity implications of changed working habits.** With the shift to remote working, trustees and governance bodies should ensure they carefully assess the additional cybersecurity risks and work with their advisers to ensure suitable policies and procedures are in place, take any additional preventative measures and monitor accordingly.
- ▶ **Check PPF guidance on forthcoming deadlines.** (PPF [Guidance](#)) Trustees must ensure they have clear sight of upcoming PPF deadlines, including around certifying or re-certifying contingent assets. Trustees should be aware that the PPF has said that no hard document should be sent and that electronic documents are ok. Documents can be submitted late but should include an explanation of the reasons for the delay.

INVESTMENT

Covid-19 has unleashed significant volatility in global markets and a sharp fall in every major stock market. An initial assessment of the immediate impact of Covid-19 on investment performance and volatility should have already taken place. Trustees should also:

- ▶ **Consider longer-term impact.** This will be particularly important for schemes with lower interest rate hedging or significant allocations to listed equity, including many LGPS funds. Key items for consideration include:
 - *Liquidity implications from property fund closures.* Trustees should also check whether non-cash assets are sufficiently liquid and their policy on, and requirements for, cashflow.
 - *Impact on the non-equity assets within the portfolio.* Schemes should consider all the asset classes to which they have an allocation, beyond the equity portion for their portfolio and impact on dividend income. For instance, trustees/governance bodies should also prioritise an assessment of the impact on their corporate bond allocations and any private assets.
 - *The impact on asset allocation.* Trustees should ask fund managers whether they have automatically rebalanced and come to a pragmatic arrangement which ensures allocation does not drift too much away from initial target.
 - *Their collateral position.* Given the level of volatility in the markets, trustees need to assess whether they therefore need to retain higher cash buffers.
 - *The value offered.* Although it is always important to monitor costs closely, when returns have diminished the relative importance of measuring, disclosing and managing the impacts of costs and charges increases.

- ▶ **Consider possible investment opportunities.** A consideration of the investment risks is vital, but so is an understanding of where longer-term opportunities might be found. Trustees/governance bodies should start the conversation with their investment advisers and consider which assets or approaches may be a good value option for future growth and diversification over both the short- and the longer-term.

- ▶ **Check implications for AGM season and voting approach.** Covid-19 has caused significant disruption for the many companies which hold their AGMs in April and May. Some are shifting their AGMs to be held virtually while others are pushing back the dates as far as legally possible, usually in June. Trustees/governance bodies need to check with their asset managers, proxy advisers and custodians the practical and policy implications for their equity holdings – particularly given new duties on disclosure around voting and shareholder engagement activity.

FURTHER GUIDANCE

The Pensions Regulator (TPR) Covid-19 Guidance:

www.thepensionsregulator.gov.uk/en/covid-19-coronavirus-what-you-need-to-consider

The Pension Protection Fund's (PPF) Covid-19 Guidance: <https://ppf.co.uk/news/our-coronavirus-covid-19-preparation>

The government's Covid-19 guidance for local government:

www.gov.uk/guidance/coronavirus-covid-19-guidance-for-local-government

The Financial Reporting Council (FRC) and ICSA guidance "AGMs and the Impact of Covid-19": [www.frc.org.uk/news/march-2020-\(1\)/agms-and-impact-of-covid-19-guidance-note-publishe](http://www.frc.org.uk/news/march-2020-(1)/agms-and-impact-of-covid-19-guidance-note-publishe)

The LGPS Advisory Board (E&W) Coronavirus and LGPS information and update guidance: <https://lgpsboard.org/index.php/structure-reform/covid19>

The PLSA will continue to support its members as effectively as possible during what are extraordinary circumstances. Should you wish to discuss further any issues raised in this document, or regarding Covid-19 more generally, please contact the PLSA's Head of Membership Engagement james.walsh@plsa.co.uk
