

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.

DC schemes face a number of tough questions on issues around administration, member communications, investment, governance and support on decumulation options. As trustees 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.

*Please note that although this guidance is primarily aimed at trustees, many of these steps will be pertinent to members of Independent Governance Committees (IGCs) and other governance bodies too.*

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## TOP TIPS: AT A GLANCE

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### 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**

### Communications:

- ▶ **Review and update your scheme communications policy**
- ▶ **Step up efforts to protect members from scams**
- ▶ **Take necessary steps to protect members from poor outcomes**
- ▶ **Consider financial advice offering**

### Governance:

- ▶ **Have a strategy in place for future trustee and adviser meetings**
- ▶ **Prioritise actions which ensure board effectiveness is maintained**
- ▶ **Monitor timeliness of employer contributions**
- ▶ **Assess cybersecurity implications of changed working habits**

### Investment:

# COVID-19: TOP TIPS FOR DC SCHEMES

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

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## ADMINISTRATION

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As an initial step, trustees 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 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 creating challenges for every part of the pension system. Trustees should clearly communicate their priorities to the administrator, including that the scheme is fully equipped to pay benefits, process retirement options and allow for fund switches, and offer as complete a bereavement service as necessary.
- ▶ **Proactively engage with administrators on member queries.** Some members in DC schemes may be extremely nervous about the impact of market volatility on their pension savings, particularly those who are approaching retirement. Monitoring volume and content of member queries, including request for fund switches, will be vital to ensuring targeted and effective communications to members.

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## **COMMUNICATIONS**

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Scheme members will look to their providers as a trusted, expert source of guidance on the impact of Covid-19 on their savings. DC scheme members may be nervous about the impact of market movements on their savings and may be more inclined than usual to take decisions about their accumulation and decumulation options. Trustees may have already taken some initial steps to acknowledging member concerns and providing reassurance where possible. They could 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:
  - An understanding of the content of member queries, including level and nature of fund switch requests
  - Consideration of how best to prioritise, target and tailor your communications. For instance, those members who are near retirement should be reminded that where a scheme has a lifestyling approach, that they will have been in part protected from falls in equity markets and that there may be no need to take decisions about decumulation products immediately. Those who are further from retirement should be reminded that their pension investments take a long-term approach.
  - 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, if any concerns
  - MaPS have a dedicated page that members can be signposted to [here](#).
  
- ▶ **Take necessary steps to protect members from poor outcomes.** Although many members may be under financial pressure, continuing to contribute should also remain a priority as far as possible. Trustees should monitor the level of fund switch requests and where these occur could also:
  - Ensure communications go out which remind members of the benefit of having retirement savings and other options beyond opting-out which may be available to them if under financial pressure

# COVID-19: TOP TIPS FOR DC SCHEMES

- Remind members of the benefits of remaining in the default and the need to assess carefully the appropriateness of any self-select options.

- ▶ **Consider financial advice and guidance offering.** Given the increased likelihood of scams in the current environment and the impact of Covid-19 on annuity pricing and other decumulation options, trustees should discuss their approach to offering financial advice or guidance near retirement with their advisers.

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## GOVERNANCE

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Trustees should already have robust governance arrangements in place, with access to the required expertise and effective processes. The trustee board should have already undertaken an initial assessment of how its operation will be affected and have plans to hold an emergency trustee meeting. Trustees 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.
- ▶ **Ensure board effectiveness is maintained.** This should include the creation of an effective trustee continuity plan, as well as testing any video or other conference technology or virtual board documents system so that the trustees 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.
- ▶ **Monitor timeliness of employer contributions.** Trustees should already be undertaking an assessment of the impact of Covid-19 on employers, including proactive engagement with those which are considered to be most at risk. A key metric to monitor closely in this regard will be timeliness of employer contributions – trustees should ask their administrators to undertake enhanced monitoring of those employers failing to keep to their payment schedule.
- ▶ **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.

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## INVESTMENT

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Covid-19 has unleashed significant volatility in global markets and a sharp fall in every major stock market. Property funds have been suspended and movement is happening in the credit markets too. An initial assessment of the immediate impact of Covid-19 on investment performance and volatility on both the default and the self-select funds should have already taken place. Trustees should also:

- ▶ **Consider longer-term impact.** This will be particularly important for DC schemes, considering the typically higher allocation to equities in the growth phase. 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 cashflow although this will be less of a concern than for DB schemes.
  - *Impact on the non-equity portion of the portfolio.* Schemes should consider all their asset classes, beyond the equity portion of their portfolio and impact on dividend income.
  - *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 nature of the scheme's self-select options* and whether they remain appropriate. This will be particularly important if higher numbers of members decide to switch funds.
  - *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 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 approach to stewardship.** 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 some time in June. Trustees 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.

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#### **FURTHER GUIDANCE**

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The Pensions Regulator (TPR) Covid-19 Guidance:

[www.thepensionsregulator.gov.uk/en/covid-19-coronavirus-what-you-need-to-consider](http://www.thepensionsregulator.gov.uk/en/covid-19-coronavirus-what-you-need-to-consider)

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)

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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](mailto:james.walsh@plsa.co.uk)

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