

# Covid-19 and recent market volatility

## Checklist of issues for pension schemes to consider



The spread of the Covid-19 virus has caused significant market volatility and challenges for pension scheme sponsors and trustees. This checklist was first published on 12 March 2020 but is being updated as the situation develops. The latest update was on 7 April 2020.

This is a fast-moving situation but, for example, at the time of writing on 7 April 2020:

- The FTSE 100 has fallen by 25% since the start of the year, while overseas equities markets have fallen by around 20% over the same period;
- The yields on long dated gilts have fallen by around 0.5% pa since the start of the year.

## Issues to consider

The checklist below sets out the key issues that most defined benefit (DB) schemes will need to consider during the current period of uncertainty. However, the checklist is not intended to be exhaustive, so please speak to your scheme advisers to understand the position for your scheme before making any decisions.

Trustees should also review the Pensions Regulator's published guidance on these topics.

### EMPLOYER COVENANT ISSUES TO CONSIDER

1. How the strength of the Employer Covenant may be affected. If the covenant has / is expected to deteriorate, implement any pre-agreed contingency plans, and consider the implications for the scheme's investment and funding strategies.

2. Check that agreed contributions remain affordable. Where sponsors request a temporary suspension or reduction in contributions, assess the situation (possibly relying only on the limited information available) as soon as possible to understand whether the request is appropriate.

### INVESTMENT ISSUES TO CONSIDER

3. The implications for the scheme's investment strategy should be discussed with the scheme's investment adviser.
4. The timing for implementing any investment strategy changes, including the implications of elevated trading costs.
5. The need for, and implications of, disinvesting funds on an ad hoc basis - and whether pre-agreed strategies remain appropriate. Possible reasons for disinvesting include:
  - a. Meeting benefit payments. In particular, schemes may wish to consider increasing the cash float;

- b. Asset allocations being out of line with the strategic benchmarks;
- c. Cash either being required or released from Liability Driven Investment (LDI) funds as these funds are required to amend the level of capital/leverage in place in response to changing yields.

#### **SCHEME FUNDING – TRIENNIAL ACTUARIAL VALUATION ISSUES TO CONSIDER**

- 6. Revisit the affordability of sponsor contributions if this has previously been assessed. Consider whether contingent contribution agreements or alternative forms of security instead of / in addition to cash contributions would be appropriate.
- 7. Whether to take post valuation experience into account when signing off valuations in progress.
- 8. Whether to delay valuation submissions where more time is needed to consider the current situation.

#### **SCHEME FUNDING – GENERAL ISSUES TO CONSIDER**

- 9. Discuss the latest funding position with the Scheme Actuary.
- 10. Implement any pre-agreed contingency plans that have been triggered by changes in the funding level. Consider the implications of any changes in the funding position for the investment strategy and schedule of contributions.
- 11. The impact on the Scheme’s long-term “journey plan” and implications for any short-term decisions. In particular, consider whether any funding level triggers remain appropriate, including considering the costs of monitoring any triggers that may now be unlikely to be hit in the short-term.
- 12. Where the scheme is open to accrual, and employers are “furloughing” employees, check the implications for pension contributions, the accrual of further benefits and life cover. The impact will depend on the wording in the scheme rules for example, so legal advice may be required.

#### **CASH EQUIVALENT TRANSFER VALUES (CETVS) ISSUES TO CONSIDER**

- 13. Whether it is appropriate to issue CETVs calculated on current market conditions. If not, consider temporarily putting CETV quotations on hold.

- 14. Check that the CETV basis is robust to market movements. If not, consider reviewing the assumptions.
- 15. Where underfunded schemes are paying CETVs in full, whether this practice should continue or whether CETVs should be reduced.
- 16. Whether any bulk CETV exercises should proceed as previously planned.
- 17. Check that the administrators provide sufficient information to members about the dangers of pension scams when issuing CETV quotes.

#### **OTHER ACTUARIAL FACTORS (FOR EXAMPLE CASH COMMUTATION AND EARLY RETIREMENT) ISSUES TO CONSIDER**

- 18. Whether the actuarial factors need reviewing to ensure they remain appropriate. A number of further matters will have to be taken into account, including the wording of scheme rules and the date of the last review. The scheme actuary will be able to provide further information and advice.

#### **OPERATIONAL ISSUES TO CONSIDER**

- 19. Check that third parties’ business continuity plans are robust. The key question to consider is whether there are systems in place to continue to pay pensions and other benefits on time, particularly if key members of staff are absent?
- 20. Check that the work undertaken by key sponsor contacts will continue. In particular, make sure that sponsor contributions will continue to be received on time (and/or perhaps check that the scheme could manage if they are not), even where sponsor affordability is not a concern.

21. How meetings are conducted – for example whether conference call meetings should also use make use of video facilities. Barnett Waddingham arranges video calls through our Fuze conferencing system – speak to your usual consultant for a demonstration.
22. Check whether decisions made by video/telephone conference are allowable under the schemes rules.
23. Cyber crime may be more likely in the current environment, so review the mitigation in place.
24. Whether to issue a special communication to members.

## Need to know more?

We have a specialist 'Covid-19 hub' on our website where you can read further briefing notes and blogs in this challenging time.

[VISIT OUR HUB](#)

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively get in touch with Mark Tinsley via the following:

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