Housing briefing, March 2020
Covid-19: 7 key areas for action on pensions

The Covid-19 pandemic is hitting countries around the world and causing widespread disruption. We consider how this unprecedented crisis is impacting on pension schemes and sponsoring employers, specifically looking at the actions housing associations should consider taking.

At the time of writing, there were three main strands to the guidance outlined by the Public Health England: self-isolate, social distance and shield the vulnerable. On 24 March 2020, stronger measures were introduced requesting we stay at home. It is critical that we all take this guidance seriously:

Business continuity plans have kicked in to enable organisations to carry on as best they can. First Actuarial has its own measures to ensure disruption is minimised as much as possible.

We are actively engaging with housing association clients who have signed up to our Firstwatch governance service to assess the impact on them and their pension schemes.

This briefing outlines 7 key areas for action.

1. Employer payroll

In usual times, you will have a smooth process to pay your staff and pay contributions to pension schemes. But these are not usual times. Your business continuity plan will include all departments, including payroll, but is everything working as planned? Are systems able to run remotely?

Action 1: Make sure your payroll team has the resource and systems in place to pay pension contributions in line with payment schedules.

2. LGPS contributions from 1 April 2020

It's probably a good thing that the valuation date was 31 March 2019 rather than 31 March 2020. Stock markets have suffered severe losses in the last few weeks so regional LGPSs are likely to have been adversely impacted. However, the impact will depend on the investment strategy of each regional fund and the membership profile of each employer.

As the new 3-year contributions schedule is set to start on 1 April 2020, it's likely that the majority of LGPS employers formally agreed the contributions payable well in advance of the implementation date.

However, the valuation results for many regional funds were issued later than usual for a few reasons, including the potential impact from the ruling on age discrimination for transitional protections (often referred to as the McCloud judgement).

Action 2: Review your LGPS contribution schedule for the next 3 years for affordability, allowing for changes to your financial forecasting.

3. Pensions accounting for 31 March

Whereas the LGPS valuation date has come and gone, the company accounting year-end for many is imminent and this includes all pension provision – the LGPS, SHPS and any other pension scheme you sponsor. We covered this topic in detail last month.

As already highlighted, stock markets have crashed just ahead of the date your assessment will be carried out. The impact of this will depend on many things such as the investment strategy of your pension scheme. For example, what is the split of return-seeking and liability-matching assets?

The value of pension liabilities is driven by the discount rate which, for pensions accounting, is in line with corporate bond yields. At the time of writing, yields have increased from this time last year so that will help reduce the liability value. However, will this be enough to offset any drop in asset value?

There are further accounting complications such as the impact of the McCloud judgement and GMP equalisation. These may have been handled last year and may only need a slight tweak this time around. Or perhaps last year they were parked until now.

Action 3: Ask your independent actuarial advisor for their views on the assumptions put forward by your pension scheme. These are your assumptions, you do not need to automatically accept the default assumptions used by the scheme.

4. Pension transactions

If you are in the middle of, or are considering, starting a significant financial transaction then it would be wise to take advice to see if it's sensible to go ahead.

Such a transaction could be paying a cessation debt, accepting a bulk transfer from SHPS, putting in place a funding agreement with LGPS, or a subsumption agreement with LGPS and local council.

Action 4: Take stock of any significant pension scheme transaction and take advice to see if the situation has changed materially before going ahead, or opting to postpone or cancel.

5. SHPS 2020 valuation

We're only six months away from the effective date of the next SHPS valuation (30 September 2020). We will wait and see what the impact of the current financial turmoil will be on the assets held by SHPS.

The Pensions Regulator has also recently opened a consultation to revise its code of practice for defined benefit ("DB") funding which could have a big impact on the future obligations for your DB scheme.

Action 5: Prepare your internal governance arrangements before the SHPS valuation results.

6. Investment strategy

The investment strategy of the multi-employer LGPS and SHPS is, of course, crucial to the future funding requirements of each scheme.

Where a housing association is sponsoring its own scheme (perhaps within TPT or a standalone scheme) there is more scope to influence the investment strategy.

Does the investment holding have enough liquidity? Is there too much downside risk in the current strategy? Will there be investment opportunities once the market shock is over?

Action 6: Assess the objectives and application of your pension scheme's investment strategy. Check if your LGPS has different investment options.

7. Your overall pension strategy

Pension strategy should be regularly monitored as a matter of course. The current crisis will also bring to light the risks of saving in Defined Contribution ("DC") schemes. As many DC pots will have taken a hit due to falling stock markets, the investment risk (which has long been for the sponsor to manage) will become very real to scheme members.

Action 7: Review your overall pension strategy to ensure it meets your objectives, and remains affordable, sustainable and value for money.

How First Actuarial can help

First Actuarial provides independent advice to more SHPS employers than any other organisation. If you would like to discuss any of the areas explored in this briefing, please contact your usual First Actuarial consultant or any of the First Actuarial Housing team:

Dale Walmsley (Manchester)
E: dale.walmsley@firstactuarial.co.uk
T: 0161 348 7464

Tony Barnard (Tonbridge)
E: tony.barnard@firstactuarial.co.uk
T: 01732 207 510 M: 07472 302 508

Neal Thompson (Peterborough)
E: neal.thompson@firstactuarial.co.uk
T: 01733 447 657 M: 07429 118 877

Colin Freeman (Basingstoke)
E: colin.freeman@firstactuarial.co.uk
T: 01256 297 779 M: 07456 811 791

first actuarial