

DC briefing, April 2020 – Covid-19: 9 key considerations

In our DC briefings, we will be monitoring how the Covid-19 pandemic is impacting sponsoring employers, trustees and DC scheme members. In this briefing, we identify nine actions you may want to consider taking.

We are supporting our DC clients with updates on key issues as the Covid-19 situation unfolds. This briefing outlines 9 key areas for action.

1. What has happened?

Stock markets across the world have fallen significantly in response to the economic effects of the pandemic. Equities have fallen, and other assets such as property, corporate bonds and index linked gilts have also suffered from considerable volatility. Central banks have intervened with unprecedented measures to try and steady their respective economies.

However, pensions should be viewed as long-term investment vehicles. There will be periods of stock market highs and lows and changes in volatility.

Action 1: A communication to members explaining the way DC pensions provide diversification will reassure members.

2. What's the impact on DC members?

DC pension scheme members will have seen significant fluctuations in their fund values over recent weeks. The amounts will vary depending on the funds in which they are invested.

Few asset classes have escaped losses, and members may be concerned about the current volatility. Asset diversification in default investment funds helps spread risk over the medium- to long-term but does not remove the risk of short-term losses and volatility.

However, members approaching retirement will have a shorter period to recover any losses. Depending on where investments are held, this could have a major impact on their retirement planning.

Action 2: Financial education really helps members. For those planning to retire soon, it is important to offer support, to help them make informed decisions.

3. What can employers do?

Employers are responsible for the selection of an appropriate default investment option for contract-based DC schemes. Good governance involves monitoring the default fund to ensure it remains appropriate and performs as expected.

It's good practice to consider alternative strategies that may have become available since the selection of the default fund, and to understand the extent to which members have made their own choices.

Action 3: Robust governance is particularly important at times like these to make sure default investment strategies are performing as expected.

4. What guidance is there for trustees?

On 27 March, The Pensions Regulator announced a number of [key areas for trustees to consider](#):

- Consider how individual members might react to falls in the value of their accumulated fund.
- Consider the risk of members making inappropriate decisions, crystallising losses or falling prey to scams.
- Review previously agreed investment and risk management decisions yet to be implemented.
- Review investment governance structures and delegations so they continue to function.
- Consider how decisions will be made in the event of trustee incapacity or absence.
- Consider whether changes to the governance framework or provider arrangements are needed.

Action 4: Review these key areas and include warnings in member communications.

5. What assistance is Government providing employers for furloughed workers?

Government announced new measures to provide support to employers on 20 March in the form of the [Coronavirus Job Retention Scheme](#).

In short, they will meet 80% of the usual monthly salary costs of employers up to £2,500 per month for each furloughed employee. They will also meet employer National Insurance contributions and minimum auto-enrolment employer contributions on this base salary.

Employers can pay furloughed employees more but will need also to meet National Insurance and pension contributions on the extra salary.

Furloughed employees still pay income tax and National Insurance contributions, and pension contributions will still be deducted.

Action 5: If you furlough any of your employees consider whether you pay more than the Government's salary cap plus accompanying National Insurance and pension costs.

6. Are there any restrictions for DC members switching investment funds?

Many providers have suspended transactions in and out of some of their funds. This has tended to apply to property funds due to their illiquid nature. New contributions are held in cash until the fund reopens.

This applies to individual member investment transactions and changes as well as bulk movements of funds as part of a transfer exercise.

Action 6: Where restrictions apply communicating your provider's current investment stance will help members to make informed choices.

7. Does Government plan to suspend auto enrolment?

Government has focused its attention to date on ensuring business survival. As such there have been no changes to auto-enrolment requirements. While The Pensions Regulator has stated that it is relaxing its enforcement action, the rules setting out minimum contribution requirements remain in place.

Clearly the situation remains fluid and there are regular announcements.

Action 7: Auto-enrolment requirements should be closely monitored.

8. How are providers dealing with Covid-19?

Most providers have provided business continuity updates. These include restrictions on member helpline access and new contact information. This may have an impact on service levels, but the straight through nature of day to day work means this should be minimised. Providers are prioritising critical tasks such as retirements and bereavements.

Some providers have closed certain funds to new monies, withdrawals and transfers. More funds may be restricted as time progresses. Members may wish to redirect future contributions or perhaps use providers' cash funds temporarily.

Action 8: Review communications from providers to make sure you have all the information you need to communicate with your members.

You may wish to provide an explanation of fund suspensions as part of a wider communication.

9. Pension scams

There has been a recent increase in pension-related scams. Some promise to shield members' funds from stock market falls, offering safe havens. They play on members' anxieties following recent market volatility.

Action 9: Help your DC scheme members avoid scams by viewing transfers with extreme caution. Draw your members' attention to [ScamSmart](#) which offers specific guidance on Covid-19.

How First Actuarial can help

If you would like to discuss any of the areas explored in this briefing, please contact the DC team.



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