# First Briefing, December 2020: Post-Brexit considerations for pension scheme trustees

The UK's membership of the EU has ended, with the transitional period due to end on 31 December 2020. At the time of writing, we are still uncertain whether or not a deal will be agreed between the UK and the EU.

Whatever the result, trustees should be taking stock and making sure they are comfortable with how their scheme will operate post-Brexit. To help with this we include some questions and actions you may want to consider in relation to:

- your employer's covenant
- your investment strategy and scheme funding
- your scheme governance
- operational considerations, and
- schemes with DC benefits.

## Your employer's covenant

- What proportion of the sponsor's business is reliant on import/export from/to the EU?
- How reliant is the sponsor on EU workers?
- What would be the impact of further currency volatility on the sponsor?
- Is the sponsor part of a wider group with EU entities? How will this affect the UK sponsor?
- Will any contingent asset be affected by the UK's withdrawal from the EU?
- Has the sponsor confirmed that any deficit reduction contributions will continue at the agreed level, and will not be affected by the UK's withdrawal from the EU?
- What is the expected financial impact on the sponsor of the withdrawal from the EU? Is there a need for more regular covenant reporting from the sponsor?
- Is there any risk relating to the scheme's eligibility for potential entry into the PPF?


## Your investment strategy and scheme funding

- Does the Scheme's investment strategy need to be reviewed, e.g. do currency, interest rate or inflation hedging practices need to be re-considered?
- Do the Trustees understand the potential risks to the scheme's investments from the UK leaving the EU and whether specific actions or mitigations are appropriate?
- Will the investment vehicles used by the scheme continue to be appropriate following the UK's withdrawal from the EU?
- Should more frequent funding updates be provided and/or trigger-based strategies adopted e.g. in the event of higher levels of asset class / currency / gilt yield volatility following the UK's exit from the EU?
- Will the current approach to calculating Transfer Values need to be reviewed?
- Are any de-risking strategies (such as buy-in or buy-out) likely to be affected?

## Your scheme governance

- Do the scheme's internal controls documents / Risk Register / Data Protection Policy need to be updated to reflect any additional or changed risks?
- Is any personal data transferred from the European Economic Area[1] (EEA) to the UK? Do the scheme's policies and processes for the processing of personal data remain appropriate?
- Does the scheme wish to assist pensioners residing in the EEA with the potential need to replace their UK bank accounts?
- Are any data processors or sub-processors based in the EEA or UK using EU-based agreements to transfer data outside the EEA?[2]?

## Operational considerations

- Will all key services to your scheme that are provided from the EU or by firms that are themselves exposed to the EU, continue unaffected?
- If the scheme has a pensioner payroll, seek assurance from the payroll provider(s) that payments will continue following the UK's withdrawal from the EU. Understand whether there are likely to be delays in processing such payments, or if additional costs will arise.
- If the scheme has insured pensioners, seek assurance from the annuity provider(s) that payments will continue following the UK's withdrawal from the EU. Understand whether there are likely to be delays in processing such payments, or if additional costs will arise.
- Consider whether additional communications should be issued to members to reassure them that benefit payments will not be affected.

## Schemes with DC benefits

- Has the provider provided an update on the potential impact of the UK's withdrawal from the EU for its business and the security of members' pension savings (e.g. if the provider has an EU based parent company)?
- Has the provider given assurances regarding the continued processing of personal data?
- Seek confirmation from your provider that nothing will interrupt the payment of benefits across the UK/EU border.
- Consider whether additional communications should be issued to members in relation to any potential implications of Brexit (either generally or to specific groups of members).
- Consider whether additional monitoring of the default fund is required until the implications of Brexit become clearer.
- Consider if additional reporting should be included in the next Chair's Statement.

*You should be prepared to explain clearly to your members the work you have done to understand how the UK leaving the EU may impact your scheme and the steps you have taken to address these issues.*

(taken from TPR's Brexit guidance for trustees)

## Further information

For further information, please contact your usual First Actuarial consultant. The Pensions Regulator has also published guidance for pension scheme trustees, which is available here:

https://www.thepensionsregulator.gov.uk/en/trustees/managing-db-benefits/prepare-your-db-scheme-for-brexit

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[1] https://www.gov.uk/eu-eea

[2] https://ec.europa.eu/info/law/law-topic/data-protection/international-dimension-data-protection/standard-contractual-clauses-scc_en