03/2020

XPS Express for Employers

Bringing you the latest pensions news for employers

COVID-19 pensions actions for employers

At a glance

This month has seen a raft of changes in the pensions world, from the Pensions Regulator's funding consultation, to the government's consultation on changes to RPI, to changes to pensions tax in the budget

But the biggest change by far has been the unprecedented impact of COVID-19 on both employers and their pension schemes

Trustees will be concerned about the impact that COVID-19 is having on sponsoring employers

The Pensions Regulator has been clear that trustees should be open to requests from employers to reduce or suspend contributions

Your employees may also have financial difficulties. If they look to transfer their pension they may be targeted by increasingly opportunistic scammers

Pension scheme investments are likely to have moved considerably over recent days and weeks, depending on what your scheme is invested in

Which contributions?

Contribution type	Can suspend?
Employee contributions.	✗
Employer benefit accrual.	✓
Employer administration expenses or levy contributions.	✓
Deficit contributions.	✓
Contingent contributions. Escrow or asset backed funding.	✓ (subject to contractual agreements)

Methods of suspending contributions

1. **Recertify** schedule of contributions
2. **Do not** make a contribution that is due

Each option has different implications and limitations, but in both cases they should be discussed with your trustees in advance.

Your business contingency planning should provide the information you need to put a proposal together.

Actions employers can take

1. Understand how recent market changes have impacted your scheme's funding level.
2. Engage with your trustees to ensure they understand how your business is affected.
3. Include pensions in your business contingency planning. This should cover potential suspension of contributions and benefit reductions for both DB and DC schemes.
4. Protect your members from scams by putting more robust protection into the transfer process.
5. Review your scheme's investments to take action where needed to protect the scheme and the business.

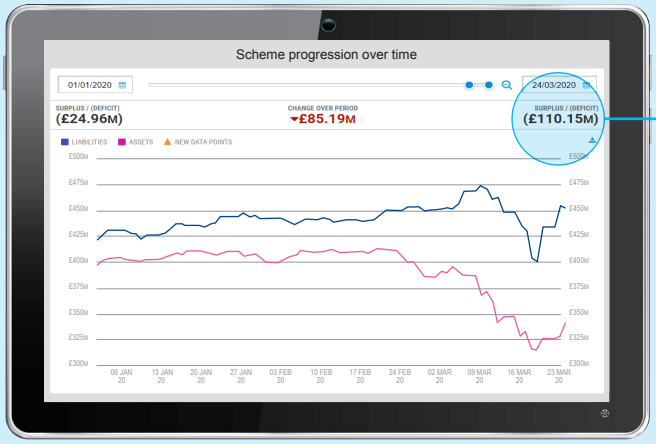
It is important to understand how your scheme is impacted

Different schemes will be impacted very differently by recent events, which largely depends on their investment strategy. We use Radar, our proprietary modelling software, to monitor schemes' funding positions.

Scheme A

65% equity

35% corporate and government bonds

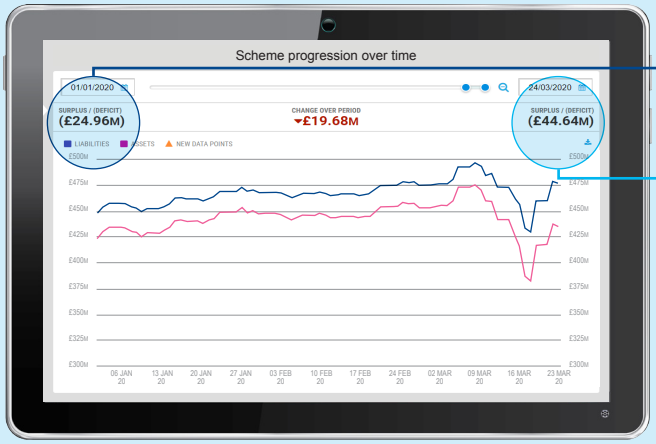


Deficit increased by £85m

Scheme B

65% Liability Driven Investment (giving 100% interest rate and inflation hedging)

35% corporate bonds



Same starting deficit

Deficit increased by £20m

What about accounting?

It is important to separately check the impact of recent market conditions on your scheme's accounting position. This is likely to have moved very differently to the funding position due to large recent changes in corporate bond yields.

If you need to report on accounting shortly, consider whether to include a statement on additional pensions risk in the current environment.

For further information, please get in touch with Vicky Mullins or speak to your usual XPS Pensions contact.

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