

# **COVID-19**

## **Key actions for pension scheme trustees**

# COVID-19: Key actions for pension scheme trustees

This checklist summarises the actions we are working through with our clients to ensure their pension schemes are responding appropriately to the unprecedented circumstances as a result of COVID-19. We hope it acts as a helpful checklist and recommend all trustees and employers discuss these points with their advisers.

The actions should be taken in the context of guidance from the Pensions Regulator. This guidance is set out on the Pensions Regulator's website at: <https://www.thepensionsregulator.gov.uk/en/covid-19-coronavirus-what-you-need-to-consider>.

This guidance does not remove the need for trustees to consider the right approach for their scheme.



This guidance is designed to support trustees facing difficult decisions and circumstances, and should not supersede trustees' fiduciary duties, their obligations under the scheme rules, or the legislation. We are not authorising, encouraging or compelling a particular course of action – we expect trustees to do the right thing for their situation and members. This document highlights some good practice ideas and outlines our current response to legislative breaches or trustee actions.

The Pensions Regulator

## Important headline actions

- 1. Ensure you can govern** – trustees should set up processes to ensure they can continue to run the scheme.
- 2. Pay benefits** – prioritise ensuring benefits can be paid in line with the Pensions Regulator's guidance.
- 3. Protect members** – communicate with and protect members, noting that scams are on the rise. Ensure options are fit for purpose.
- 4. Review funding** – understand how the funding position is being affected and review contingency plans.
- 5. Review investments** – understand investment risks in the current environment and action you can take.
- 6. Trustee and employer engagement** – review covenant and contribution affordability.
- 7. Review specific actions for DC schemes** (trustees and employers).
- 8. Confirm actions in line with regulatory guidance** – check you are carrying out all of the actions the Pensions Regulator expects.

# 1. Ensure you can govern



You need to be alive to risks that would have significant consequences for your scheme and members. Assess whether your business continuity plan (BCP) is still adequate...

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**Completed?**

- 1.** Have you checked and reviewed your business plan? Ensure it is up to date and fit for purpose in the current climate.
- 2.** Have you confirmed with each trustee, especially those who are company nominated and may now be heavily involved in the business, that they remain able to join trustee meetings and take action? Do you have a contingency plans for trustee absence in the event of illness. Have you considered using a professional trustee firm to provide short-term expertise and cover?
- 3.** Have you set up online processes for trustee meetings? Have you considered the frequency and number of meetings you will need to on separate topics to get on top of current circumstances?
- 4.** Do you have a trustee meeting protocol, setting out how discussions will take place using online technology and how decisions will be made?
- 5.** Have you reviewed your delegated powers and discretions and how these will operate in the current environment?
- 6.** Have you asked and had confirmation back from advisers and providers that key administrative deadlines have been met (for example Scheme Returns)?

## 2. Pay benefits



Work with your administrators to make sure they deliver critical processes. These include:

- paying members' benefits
- retirement processing
- bereavement services, as well as any administrative functions required to support these
- any processes needed to ensure benefits are accurate (eg investing contributions for defined contribution schemes)

You should work flexibly with your administrators to support them in delivering core functions.

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**Completed?**

- 1.** Have you spoken to and had formal confirmation from your providers that they have robust, secure processes in place to continue pensioner payroll and the payment of other benefits?
- 2.** Have you reviewed processes for members to continue to contact the scheme and administrators? Have you confirmed administration teams can operate remotely with secure access to member data?
- 3.** Have you received and reviewed the business continuity plans from all advisers and providers? Have you reviewed the operation of in-house teams if relevant?
- 4.** Have you checked that the processes for authorising and making financial transactions are still robust? Have you put in place contingency plans for key signatories becoming ill or unavailable?

### 3. Protect members



Trustees should give greater attention to the heightened risk of members being targeted by scammers and unscrupulous financial advisers.

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**Completed?**

1. Have you identified and consider options to ensure you can continue to communicate effectively with members? Do you have contingency plans for reduced or suspended postal services in case these become limited or are stopped in future?
2. Do you have members' email addresses to ensure you can communicate electronically? Have you understood and introduced online member verification processes? Have you considered using the XPS Member Engagement Hub to gather the required information and verify members online?
3. Do you have or are you looking at putting in place an online portal to be able to quickly communicate to members?
4. Have you sent members a communication outlining the action the trustees are taking and confirming how the trustees are ensuring that benefits will continue to be paid?
5. Have you reviewed protections the scheme provides given the heightened risk of scam activity? Do you have a means to talk directly to members to make them aware of the increased risk, such as the XPS Pension Scams Identification Service?
6. Have you carried out a review of transfer values and key member option factors (e.g. cash commutation)?
7. Have you formally considered (and perhaps decided) whether or not to use the Pensions Regulator's easement to suspend transfer values until 30 June 2020?
8. Have you considered the merit of using member profiling tools to identify whether members are more exposed to scams through social media; and to understand the potential effectiveness of different communication routes?

## 4. Review funding



We do not expect trustees who are close to completing their valuations to revisit their valuation assumptions.

Trustees are not required to take into account post valuation experience, but we expect trustees to consider it when agreeing recovery plans, with a focus on whether provisionally agreed DRCs are still affordable for the employer.

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#### Completed?

1. Have you reviewed the impact of current market movements on your scheme's funding level?
2. Do you have a process to monitor the impact of current circumstances on scheme funding?
3. If a valuation is in progress; have you considered the Pensions Regulator's guidance on completing a valuation and allowing for post valuation experience?
4. If a valuation is imminent; have you discussed whether a different valuation date could be used or how you will reflect the Pensions Regulator's guidance if you decide to continue with a valuation at the valuation date?
5. Have you checked whether any existing contingent funding triggers have now been triggered, and considered how you will engage with the employer on these?
6. Have you reviewed the impact of events on your journey plan and likelihood of achieving the scheme's long term targets? Have you identified what changes are needed to correct the journey? Have you checked and confirmed that risk management plans remain robust? Have you checked that journey and risk management plans are best practice in light of the funding code consultation?
7. Have you checked with the employer, and reviewed with them, if their appetite and ability to support risk has changed? Have you checked with the employer whether their view on the appropriate level of cash funding has changed?
8. Have you reviewed de-risking plans, and in particular have you checked current insurer pricing where this was part of plans?

## 5. Review investments



Trustees should do the following:

- review their scheme's cashflow requirements...
- review and manage specific risks which may now exist...
- review any previously agreed investment and risk management decisions...
- review their investment governance structures and delegations...
- assess...whether they should make any changes to their investment and risk management governance framework.

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**Completed?**

1. Have you tested and reviewed your investment risk tolerances in the current climate – especially what the employer is comfortable supporting in light of possible deterioration in covenant?
2. Have you reviewed your liquidity and short-term cashflow requirements, particularly in light of possible changes to the employer's ability to make contributions and liquidity in investments?
3. Have you checked your interest rate and inflation hedging has performed in line with expectations and considered increasing or refining the hedge to provide further protection?
4. Have you assessed your underlying sector and regional exposure to understand if any undesirable concentrations now exist (for example exposure to industry sectors heavily impacted by the economic consequences of COVID-19)?
5. If in the process of implementing a change to your strategy, have you reassessed if it continues to be suitable in light of developments?
6. Have you consider holding a greater cash buffer to meet benefit payments (noting the importance of not using the trustee bank account for this purpose)?

## 6. Trustee and employer engagement



Engaging with the employer will be complicated by the many new demands on their time resulting from managing the impact of the situation and the fact that, with many fundamentals of business operations changing in a dramatic and unpredictable way, forecasting will be difficult. Nevertheless, as a key stakeholder, you should be kept informed with the best available information, but also accept that this will not be as robust as it would normally be.

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#### Completed?

1. Have you engaged with the employer to understand how their business and trade may be impacted?
2. Have you been provided with information and reviewed this to understand the consequences of the business continuity plans of the employer? Are you aware of contingency planning by the employer and how this may impact the pension scheme and members?
3. Have you agreed with the employer how they will keep the trustees up to date on their business as circumstances develop?
4. Have you read and considered the Pensions Regulator's guidance on distressed employers and suspending employer contributions, and decided how the trustees will respond to any related requests?
5. Have you considered and put in place contingency plans for how the scheme will continue to operate and take advice in the event the employer asks to suspend contributions including expenses?

## 7. Further DC specific actions



Trustees should:

- consider how individual members might react in the current environment...
- review and manage specific risks that may now exist within their portfolios or with their service providers...
- review any previously agreed investment and risk management decisions...
- review their investment governance structures and delegations...
- assess...whether any changes to their governance framework or provider arrangements should be made.

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**While a significant number of actions in this checklist are relevant for defined contribution benefits, we have collated some specific actions for these benefits below.**

**Completed?**

1. Contingency planning on DC contributions by the employer is becoming more common place. Have you considered possible options the employer may look at around changing contributions – reducing, ceasing, and restructuring – and their implications on the scheme?
2. Have you identified risks and considered implications for benefits if an employer is furloughing employees – for example the impact on risk benefits and any mismatch in Government levels of protection and actual member contributions?
3. Have you considered the implications of member requests to reduce or opt out of contributing? Do you have communications in place to respond to and manage these member requests?
4. Have you communicated with DC members about market volatility, scams and where to get help?
5. Have you considered and identified necessary targeted communications to specific members, especially those closer to retirement?
6. Have you checked that the investment strategy remains fit for purpose – including whether it is reacting as expected? Have you identified any deviations and variances and considered actions in response?
7. Have you reviewed investment strategy (both default and self-select funds) to consider if amendments are required?
8. Have you assessed and determined whether ‘at retirement’ member support on retirement options is robust in current markets?
9. Have you identified if your scheme is affected and then managed the impact of the current suspension of property fund investments?

## 8. Actions in response to regulator guidance



There are a whole range of issues that trustees, employers and their advisers are facing as a result of COVID-19 (coronavirus). We are producing guidance to provide support for those facing difficult decisions and circumstances.

We will provide further guidance in the coming weeks and months once we have a better idea of the extent of the crisis, its possible impacts and the package of measures that governments and other organisations intend to adopt.

### The Pensions Regulator

Completed?

1. Have you made all trustees aware of the Pensions Regulator's COVID-19 guidance and support pages?
2. Do you have a plan in place to ensure that the trustees are aware of when new guidance is posted to ensure the scheme remains up to date with emerging guidance?
3. Have you been through all guidance issued by the Pensions Regulator in respect of COVID-19, and have you taken action in the areas that are relevant for your scheme?

## Talk to us



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