XPS Pensions Group

XPS Insights
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Pensions Regulator's updated COVID-19 guidance increases expectations

What you **need to know**

- The Pensions Regulator (TPR) has reviewed, and updated, parts of its guidance on its dedicated COVID-19 web page. The overall body of guidance remains in effect but is consolidated with some changes and limited extensions to some reporting easements.
- Changes reflect a view that sufficient information should now be available to trustees and sets out increased expectations for trustees agreeing to any action to protect employers and schemes from the economic impact of COVID-19.
- The headline changes in TPR's expectations are that trustees should now carry out relevant due diligence (for example when agreeing to reduced employer contributions) and look at whether any short-term employer covenant impacts may be more permanent.
- Nearly all reporting easements will end on 30 June 2020, except for reporting late payment of contributions (other than deficit contributions) where the easement is extended to 30 September.
- Whilst TPR's guidance seeks to help trustees make difficult decisions in difficult times, TPR reiterates it does not supersede trustees' fiduciary duties, scheme rules and legislation. Importantly, due process (for example on amending and recording funding arrangements) must be followed.

Actions you can take

- **Read the updated guidance** on TPR's website (see links in table below).
- **Decide on any changes needed** to any short-term decisions made in response to COVID-19 (e.g. regarding contributions and transfer values).
- **Set up information sharing processes** so employers and trustees can work together to reflect changes in employer covenant, if this has not already been done.
- **Review reporting mechanisms** to ensure any required reporting action is taken from 1 July 2020 – including any past actions that now need to be reported.

TPR guidance that has changed

Guidance	Audience	Key focus of update
DB schemes Click here	Trustees	Expectations for funding, cash contributions, covenant assessments and transfer values. Guidance on decision-making and reporting.
DB funding Click here	Employers	Sets out TPR's conditions on reducing support (e.g. reduced contributions) and its expectation that employers work with trustees, providing all required information.
Administration Click here	Trustees	Ensure that vulnerable members can contact administrators. Be ready to work flexibly with administrators to ensure key services are delivered.
Reporting duties Click here	All	Sets out that reporting requirements are to resume as normal from 1 July 2020, except late payment of contributions (excluding deficit payments) extended to 30 September 2020.
DC funding Click here	Employers	Guidance changed to reflect changes in the Coronavirus Job Retention Scheme. Benefit change consultation easement extended to 30 September.

The finer detail: Summary of key updates to TPR COVID-19 guidance

Defined Benefit (DB) schemes

Current valuations	TPR continues to prefer trustees take the time needed to achieve the best outcome for their valuations. However, TPR expects to be notified if valuation deadlines are missed.
Employer contributions (including future service)	TPR information shows 10% of schemes' employers have deferred contributions – similar to XPS' client experience – and recognises that suspensions or reductions may continue to be needed. However, trustees must now carry out appropriate due diligence if reducing contributions or extending reductions in place. Trustees should seek appropriate protections and mitigations.
Covenant	TPR believes that information should now exist to review the impact of COVID-19 on the employer covenant. Trustees should consider whether any reductions in covenant are short-term or more permanent, and review funding and risk accordingly. TPR has set out a list of questions for trustees to help assess the covenant impact of COVID-19. TPR also suggest caution is necessary on releasing any security held by the scheme over employer assets.
Investment risks	TPR re-iterates the need to stay on top of short-term investment risks such as liquidity needs, portfolio rebalancing, diversification, transition timing and the appropriateness of hedging arrangements. TPR encourages trustees to look for market opportunities.
Decision-making	TPR recognises that decisions to support employers are difficult for trustees but expects trustees to consider the benefit of any support provided to employers, weigh it up against risk to the scheme and manage conflicts. TPR also encourages trustees to seek a 'seat at the table' and provides guidance on good decision-making.
Transfers	TPR information shows limited suspension of transfers and our experience agrees with this, just 6% of schemes that XPS advise have suspended transfers. TPR requires trustees to resume the reporting of breaches in transfer obligations from 1 July 2020. TPR also requires that trustees continue to provide its standard letter to members looking to leave their DB scheme.

Reporting requirement easements and enforcement activity

Easements falling away from 1 July	From 1 July 2020 reporting easements will fall away for suspending deficit contributions, late valuations and recovery plans not agreed, delays in transfer quotations and payments, failure to prepare audited accounts and master trusts (where formal reporting is expected to resume).
Easements extended to 30 September	Providers will continue to have 150 days (normally 90 days) to report late payments of contributions (other than deficit repair contributions).
Enforcement	TPR will not review any chair's statements until 30 September 2020 – delaying any related enforcement action. TPR will take a pragmatic approach to the late preparation of audited accounts and accept delays up to 30 September 2020. A similar pragmatic approach will be followed for delays in review of a statement of investment principles (or statement in relation to a default arrangement) to 30 September 2020.

For further information, please get in touch with **Wayne Segers** or speak to your usual XPS Pensions contact.

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