The long term impact of coronavirus on pensions

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Introduction

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- Coronavirus – ever changing situation and impacts pensions in various ways
- Guidance has been issued by the Pensions Regulator in regards to DB scheme funding, Defined Contribution schemes and the job retention scheme. Expect further guidance on job support scheme
- Prospect has successfully lobbied government for amendments and further guidance

How do pensions and coronavirus interact?

- Job retention scheme and pension contributions. In future, job support scheme.
- Wider impact through job losses and individual ability to save
- Stock market performance and impact on:
  - Defined benefit schemes
  - Defined contribution schemes

DC schemes

- Fund values initially fell dramatically but have since recovered to a certain degree
- Message at the time was that pensions are a long term investment – don’t panic!
- Those furthest away from retirement have probably seen largest change to fund but should be recovering now
- Check your own fund value

DC schemes – close to retirement?

- Fund values has probably still fallen
- Hopefully scheme diversifies investments and uses lifestyling
- Consider whether or not to take pension
  - Potentially delay taking pension
  - Consider taking reduced benefits or take them in a different way

What is lifestyling?

- For DC members, pension schemes often use lifestying which is the name for how your investments are adjusted throughout your pension saving journey
- Adjusts the risk taken with investments
  - Younger years – more linked to equities
  - Closer to retirement – move into safer assets
- This should partially protect those closest to retirement

Pension fund recovery

- The markets have partially recovered
- Individual DC pots should have picked up
- Illustrative example of DC fund value at certain points before and during covid
  - 16/12/2019 - £9,000
  - 01/04/2020 - £7,800
  - 16/06/2020 - £8,500
  - 25/09/2020 - £8,703

Pension fund recovery

DB schemes

- Funded DB schemes have proportion of investments in equities (stocks and shares)
- Funding positions have worsened
- Schemes generally take long-term view but this will likely increase likelihood of DB scheme closures
- Relaxations from TPR regarding DRC's

DB schemes continued

- Scheme funding levels (PPF 7800 index)
  - 29 February 2020 – Aggregate deficit of £124.6 billion. Funding ratio of 93.2 per cent
  - 31 March 2020 – Aggregate deficit of £135.9 billion. Funding ratio of 92.5 per cent
  - 31 May 2020 – Aggregate deficit of £176.3 billion. Funding ratio of 90.9 per cent
  - 31 July 2020 – Aggregate deficit of £199.5 billion. Funding ratio of 89.9 per cent
  - 31 August 2020 – Aggregate deficit of £140.5 billion. Funding ratio of 92.6%

DB schemes continued

- Likely impact will be pressure on those open DB schemes
- Potential increase in contributions required from next valuation date
- Increased cost to employer of funding DB scheme. Could this impact spending in other areas? e.g. pay awards

Employer insolvencies

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- Defined contribution schemes – pensions funded in advance, no affect in event of insolvency.
- Defined benefit schemes – funded in advance based upon actuarial estimates with employers topping up the fund when required.
- Pension Protection Fund – DB schemes enter PPF assessment following employer insolvency. Scheme isn't able to fund benefits greater than the PPF, the scheme will enter the PPF.
- Compensation provided:
  - Broadly 100% compensation for members over pension age and 90% for those under pension age.
  - Subject to cap.
  - Indexation only in respect of service after 1 April 1997 and is CPI up to maximum of 2.5%.

Employer changes to pensions

- Employers can make detrimental changes to future pensions provided to staff.
- Changes cannot be instigated by employers to accrued rights.
- Pension protections – Energy Act, Protected Persons, Fair Deal/New Fair Deal
- Requirement to consult – 60 days
- Pension provisions need to meet statutory requirements.

Wider economic impact

- Government have put in place support schemes which have increased the level of debt. This could lead to money saving changes being made.
- Potential pensions policy changes:
  - Triple lock
  - Tax relief
  - Auto enrolment reform pushed back

Possible future developments & other information

- Suspension of automatic enrolment?
- Beware of scams
- State pension unaffected currently although pressure on the triple lock with low inflation
- Delays and different interaction with scheme administrators
- Annual benefit statements

What is Prospect doing?

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- Prospect has and will continue to lobby government and employers
- Developing up-to-date advice and guidance for members and reps
- Engaged in negotiating with employers to protect jobs, and pay & benefits where possible
- Range of webinars being delivered

Further information

- Prospect's COVID-19 advice pages (including pension FAQ's) - https://prospect.org.uk/coronavirus/
- Pensions Regulator guidance - https://www.thepensionsregulator.gov.uk/en/covid-19-coronavirus-what-you-need-to-consider
- Official guidance on Coronavirus Job Retention Scheme - https://www.gov.uk/guidance/claim-for-wage-costs-through-the-coronavirus-job-retention-scheme
- Job support scheme guidance - https://www.gov.uk/government/publications/job-support-scheme