COVID-19
Your Industry Guide

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Moving pensions forward

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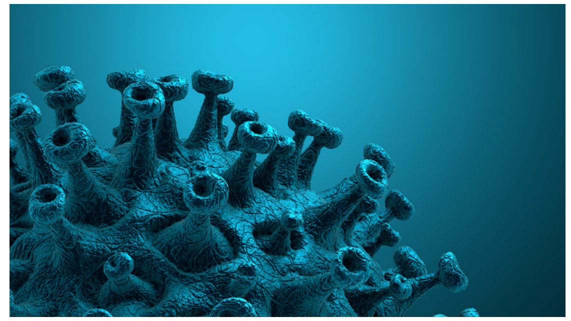

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Foreword

Letter from the CEO

The coronavirus crisis has emerged as the worst peacetime emergency of the modern era. Its impact has been both immediate and wide-ranging and has disrupted all aspects of everyday society. Within the specific context of the pensions industry, its influence has been colossal. The devastating impact on the international markets has resulted in massive reductions of asset values and has seen trustees and sponsors struggle to address funding issues. As many as eight million employees may have been placed on the Government's emergency furlough scheme, and as a result, many are struggling to balance the competing priorities of debt management and continued pension scheme membership.

Lockdown has seen trustees having to manage new challenges to maintain appropriate governance standards, such as dealing with the consequences of illness among their own board members, how to conduct regular board meetings and maintain effective communications with their advisers and scheme members.

Taking these factors into account, trustee boards have been forced into making radical decisions in order to be able to continue functioning. There has been a dramatic and immediate shift to accommodate the challenges – and opportunities – of holding virtual meetings. There has been a grim but necessary requirement for them to review risk registers in order to address critical issues that did even exist as recently as six months ago. Another unfortunate development has been a growth in pension scams, as desperate members seek solutions for short-term cash shortages.

However, it has become clear that the industry has responded to the emergency with pragmatism, creativity and professionalism. To date, those working within the pensions sector have shown a commendable capacity to adapt and innovate in response to new challenges. It is entirely likely that many changes adopted over the last month will prove to be permanent as rapidly-improvised solutions prove to be superior to long-established procedures. With this in mind, now is a golden opportunity for pensions professionals to exchange ideas to ensure that we are not only prepared to cope with the immediate emergency, but can look forward to working more effectively in future. Whilst COVID-19 has had a terrible impact on society, one we will never forget, we should be proud of our capacity for resilience. A terrible situation has brought out the best in us.

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Avoiding panic in a pandemic

The world has changed beyond recognition over the past year. Many individuals lives have been impacted and the pandemic has put into perspective what's important, what we value and the things we take for granted. Health is clearly the number one priority, however the financial decisions made during this time will have long lasting consequences. From a pension perspective, the key thing is to think about the long-term and not let short-term shocks impact decision making. However, that is easier said than done.

Human nature

At the height of the pandemic, there was a sense of panic, as no-one had encountered anything of the scale of COVID-19. With a sense of helplessness, human nature kicked in and behaviours changed along with the heightened sense of fear. This manifested itself in many ways, for example stocking up on toilet roll and buying cases of baked beans.

As the financial markets were in freefall, for many the most basic of human instincts was to sell as the level of fear was rising and 'losses' were mounting. One year on, as markets recover, it's clear that the old mantra of pensions being a long-term investment is more relevant than ever.

Did members panic?

Unfortunately, for those individuals who switched in fear, they are likely to have crystalised a paper loss, which will take years to recover from, if at all. Thankfully these individuals were a minority. The de-risking safety net that is built into many defaults limited the equity exposure for those approaching retirement and we didn't see a wholesale move away from equity, even with self-selectors. So, what stopped human nature from kicking in for most of us? - in my opinion there were two reasons why.

1. Apathy

For once, apathy towards pensions may have been a good thing. Whilst panic was ensuing in our everyday lives, deciding what to do with an intangible pension was unlikely to have been top of the agenda for many individuals. However, apathy is not something to be relied upon and much more important was timely and relevant communications, which provided reassurance and guidance to members when they needed it most.

2. Communication

Looking back, the industry has done a fantastic job at communicating to members. Master Trusts, in particular, were able to draw on their size, scale, skills, and access to resource to communicate messages to members quickly and efficiently in a targeted manner. For example, at Atlas we were able to deliver different key messages about the impact of falling markets to those already in drawdown, whilst for members in the accumulation phase, we issued communications explaining how markets work, the long-term nature of investing and urging members not to panic.

Our response was not just limited to issuing 'emergency communications', we also reviewed the regular communication cycle to make sure they were still relevant and whether they needed to be tweaked. In particular, our benefit statements (or Annual Updates, as we call them) had a valuation date of 31 March 2020, when the market was at one of the lowest points, so we decided to include four different 'personas' in the updates telling a story of how COVID-19 had impacted these individuals' investments. This resonated really well and feedback tells us that it provided invaluable reassurance to members who were easily able to relate to one of the personas.

Lessons leaned

Whilst we're not out of the woods just yet, the panic stage seems to be over and there are lessons to be learned.

I would summarise these as follows:

- Don't rely on apathy
- Have policies in place to deal with a fast-moving situation, including the ability to rapidly deploy targeted messages
- Consider all communications and whether they tell a consistent coherent message
- Reiterate the 'keep calm and don't panic' message as often as possible

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COVID, one year on.
What next for pension administration?

There's no such thing as a 'slow day' in pensions. Taking COVID out of the equation, we were already looking at a full slate for 2021 and beyond. The courts had given us GMP equalisation, Pension Dashboards were looming, and end-game planning was rapidly moving up the trustee agenda. Then came lockdown.

Overnight, the world's priorities changed and business plans had to adapt. Fast-forward to 2021 and GMP equalisation, the data quality challenge and the Dashboard agenda are all back in play, but we also need to adapt to the realities of where the COVID crisis has taken us as the 'new normal' post-lockdown priorities emerge.

The people plan

Regardless of how well prepared any organisation may have been, the early days of lockdown were hugely worrying and disruptive for everyone. None of us expected to combine work with childcare, home-schooling, elderly relatives, financial pressures, loneliness, social distancing, frustrated teens and competition for broadband access in crowded homes full of worried but working people.

Essentially, the last year has been like a mass participation pilot on the feasibility of remote working, but under exceptional, and hopefully unrepeatable, circumstances.

After a long, hard year where there's been an almost universal re-evaluation around personal priorities and what each of us wants the world of work to look like, there's very little appetite for a return to the suited and booted, office-based nine to five. Flexible, responsive people policies are 2021's non-negotiable.

However, thinking about what the world of work might look like post-crisis, before we extrapolate the 2020 'make do and mend' into a mass home-working future, we probably need to stop and think about the wider elements that also contributed to that success and how readily they translate into future practice.

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- The Regulator's explicit focus on prioritising core activities over discretionary projects eased immediate pressures – hitting immediate payroll dates trumped future Dashboard planning every time.
- Across the industry we saw a massive digital acceleration - 'heat of battle' solutions included rapid member online access rollouts, secure document exchange facilities, automated ID verification, remote printing solutions, and electronic approval processes.
- The 'all in this together' factor – clients, colleagues and competitors were all travelling down the same relentlessly bumpy road, navigating the same work and home pressures.
- Sickness and holiday levels plummeted – with nowhere to go, and no way to catch the usual annual round of colds and flu, we had significantly more work hours available to balance out the inevitable inefficiencies of working from one end of the dining table.
- Teams stayed fairly stable - with little turnover or team churn, tight-knit teams who already knew their clients and processes kept the admin ship on course. Moving forward, this static picture isn't sustainable. Natural turnover and business needs are reasserting themselves, so one of the biggest challenges is going to be around how teams grow and learn in the remote environment.

There's no question that admin absolutely rose to the challenge. Barnett Waddingham was recently named as most highly rated third party administrator (TPA) for the second consecutive year in the 2021 Professional Pensions administration survey and our people's ability to adapt through crisis conditions was undoubtedly a major factor. The picture was the same across the industry - nobody could have anticipated how readily pension administration would adapt to the unique challenges of this last year, but we've also had a lot working in the industry's favour.

There was a temporary blurring and easing of expectations, but the key word here is 'temporary'. At its core, pension administration is a high volume, highly regulated and interconnected industry, with multiple moving parts and a non-stop demand for efficiency. We're also seeing a renewed focus from the Regulator, PASA and the FCA on governance, raising standards and getting the best outcomes for members. Moving through 2021, we should expect to see everything that was temporarily back-burnered in 2020 heating up fast.

As the post-COVID dust settles, a workable new normal has to deliver the sort of maximum efficiency that can't rely on temporary workarounds and goodwill.

This is likely to become an even bigger issue as trustees consider what choices they have in the TPA market in the coming years as providers consolidate and/or shift to fully home-working. Trustees need to ask whether TPAs are properly investing for the future.

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Post-COVID opportunities and challenges

Taking the long-term view, the wider GMP exercise is a major industry challenge. But it also comes with an end-point and is more a question of robust reconfiguration than re-imagination. Trustees, sponsoring employers and literally the whole of the admin industry want to see the back of GMP projects, which is partially driving immediate priorities around systems developments. Nevertheless, eventually (however painful it may be in the short-term) GMP is going to be yesterday's news.

Pension Dashboards - the smart money would probably pick Pension Dashboards as the next big story in admin – the pressure was off during 2020 while the industry got on with the day job. But the last few months have seen this long rumoured project rapidly gathering pace. Right now the digital architecture procurement is up and running, with identify procurement to follow very shortly. This is happening people and 2023 is suddenly looking imminent.

The focus for Dashboards has to be on data and benefit quality. The timing of the GMP piece could have been better since trustees are already glassy-eyed with data fatigue, but if the Dashboards are ever going to deliver anything more than a long list of scheme names and national insurance numbers, there's a huge amount of work to be done.

Speaking anecdotally, we regularly receive member files for new schemes where it's clear that major administrators are working with very little automation – so they're likely to be using paper files and performing manual pen and paper calculations. This lack of automation can't be anything other than a huge drag on the whole Dashboards programme and is also going to shine a very harsh light on providers delivering 21st century pensions using 1970s processes.

Enhanced online experience - the solutions of the past year were quick technological fixes that substituted online options for existing processes to keep the wheels turning on benefits and cash movements.

Post-COVID, our biggest opportunities and challenges in this area are two sides of the same coin. After years with not much traction, there's suddenly a huge demand for digital services. Unsurprisingly, the number one demand for 2021 is for innovative member online self-service options that drive intuitive member engagement.

This goes beyond substituting electronic alternatives for paper-based processes. We need to deliver enhanced user-focused digital technology that looks at the entire online experience and provides meaningful options and information. Members are working in a 24/7 world, so their options shouldn't be limited to business hours and five working day SLAs. From the desk or the sofa or the depth of a night shift, members need to be empowered with self-driven online access that lets them explore their benefits and actively engage with retirement planning.

This is really the future for the member servicing side of pension administration. It also underpins end-game planning and links right back to the Dashboards piece, showing the absolute prime importance of data quality and robust automation.

Goodbye to the boardroom?

The Regulator expects one of the by-products and benefits coming out of COVID to be shorter, more focused and more productive trustee meetings, with a potentially more diverse range of trustees coming forward as the obstacles of long days and extensive travel fall away.

It takes a village to administer a pension scheme but, realistically, you can't pack your full team off on a mini-bus once a quarter for every client, so very few members of the team would ever sit round the table with the trustees to talk in-depth around their specialism.

In the online meeting world, there's room around the table for the consultant, the accountant, the payroll team, the lead administrators, the project managers and the call-handlers, with very little impact on day-to-day work. This opens up opportunities for informed and collaborative working between the wider admin team and the trustees.

The in-person element does still have value, so it's doubtful that the boardroom is gone for good. However, we're definitely seeing the benefits of very focused online meetings that also put much more of the team in the room than the traditional model.

If you would like to talk to us about the topics discussed in this article, please do not hesitate to get in touch by contacting Julie.Walker@Barnett-Waddingham.co.uk

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What have been the lessons for pension scheme trustees?

It is now over one-year since that fateful day on 23 March 2020 when the Prime Minister addressed the nation and told everyone in the whole of the UK to:

"stay home, protect the NHS and save lives"

That 'full-lockdown' gradually eased across the UK from June/July 2020. Restrictions and local lockdowns did, however, continue, with different policies set for England, Scotland, Wales and Northern Ireland because of the UK's devolved government system, and each nation having its own National Health Service and public health bodies.

In December, just as we were beginning to plan for Christmas, with the expectation that the restrictions would be relaxed over the festive season, a new COVID variant was blamed for a rise in cases. Following a brief easing of restrictions for Christmas, all of the UK went into another full-lockdown, from which we are now beginning to emerge. Again, each of the four nations has a different policy or 'roadmap' for getting out of lockdown but, with the sacrifices made over the past months and the continued development and deployment of vaccines, there is hope that the full-lockdown through to April 2021 will be the last of its kind for the UK.

Perhaps, therefore, this is an opportune time for pension scheme trustees to reflect on the past twelve months or so, to think about the lessons that have been learned, and to look to the future and start making some tentative decisions on what their 'new normal' might look like for the coming months and possibly even years.

So, what have trustees learned about running pension schemes in the context of a global pandemic?

Well, for many, the first question was "Can the board still function in a virtual environment?".

The answer to this question entailed a review of scheme provisions and advice from lawyers on meeting and making decisions over Teams, Zoom, Skype, Webex, etc. (apologies to platforms I have missed out). My record was six different platforms in one day but, to get back to the point, most scheme rules included provision for meetings to be held virtually and, for those that did not, a simple amendment usually rectified the issue.

Talking about amendments, another practical issue was getting documents signed and many trustees are now conversant with the law on e-signatures (something to add to their trustee knowledge and understanding (TKU) records).

Technology became even more important for pension scheme administration too, with increased communication via e-mail and websites and schemes investing in digital identification platforms in lieu of reliance on paper certificates for beneficiary identification. As an aside, flexible working was already on the increase within the financial services sector before a global pandemic made it a necessity. COVID-19 provided confirmation that administrators can work from home whilst ensuring that pension schemes continue to serve their members.

As trustees began to adapt to lockdown, guidance started to emerge from The Pensions Regulator (TPR) for them to get to grips with. This guidance, which TPR has regularly refreshed throughout the pandemic, covered not only some of the practical challenges for trustees but also funding, covenant and investment considerations. In particular, important information was provided for trustees around due diligence in the event of scheme sponsors seeking to reduce and / or defer pension scheme contributions.

Related to this, another lesson from the past year or so has, undoubtedly, been the importance of practical and time-sensitive advice from service providers.

What then does the future hold as COVID-restrictions fall away but the virus continues to play a part in our lives, both domestically and internationally?

I think it is safe to say that many of the changes mentioned above will become part of the 'new normal' and, whilst some trustees might want to have some meetings in person, 'e-trusteeship' will be the preferred model for most proceedings and decisions. We may also see a middle-ground, or hybrid model, where some trustees (such as those who work in proximity) meet in person and others take part in meetings via video conference.

As to other aspects of the future, the table below, which is an updated version of one that the PMI published around this time last year [COVID-19 Your Industry Guide 2020 - The Pensions Management Institute: pensions-pmi.org.uk], involves some speculation and subjectivity, but it is hopefully a useful pension scheme 'roadmap' for trustees in the context of lockdown lifting.

Risk Registers	Add the possibility of continued restrictions, and even further local and full-lockdowns, to scheme risk registers.
Business Continuity Planning	Update business continuity plan (BCP) for lessons learned from the impact of COVID-19.
Service providers BCP	Ensure service providers have updated their BCPs.
Governance	Document changes to pension scheme management and oversight, especially where e-governance changes will continue for the foreseeable future. For example, strengthened data protection and cyber security policies.
Member communications	Update members on the post-lockdown governance of the scheme.
Integrated Risk Management (IRM)	Consider with advisers any potential post-crisis impact on employer covenant, scheme investments, and funding and contributions. This could include the impact of continued furlough of employees.
DC and ancillary benefits	An IRM approach can be adapted for DC schemes too.
Transfers	If transfers were suspended, should the suspension now be lifted?

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COVID: Risk Management in the COVID Era

More than one year on from the beginning of the COVID-19 pandemic in the UK and our mindset around risk management has very much changed. Although a pandemic and new infectious disease risk have both featured high on the UK Risk Register since at least 2008, it seems that we were still taken, as a society, somewhat by surprise. A major risk materialised, the unthinkable happened, and our attitude to risk changed forever.

In the pensions landscape, risk management is now higher up the agenda than ever before. For years we have struggled with the problem of the low energy risk register item on the agenda, often near the end of the meeting, as weary trustees and governance committees decide on the adequacy of the current red/amber/green status. But no longer...

Risk management has been revitalised. We are all more cautious, more risk aware, more prepared to think that a large-scale risk might indeed come to fruition. The arrival of the 'Own Risk Assessment' (ORA) for single trust-based schemes with more than 100 members, required as part of The Pensions Regulator's (TPR) new consolidated Code of Practice, will reinforce this mindset, really focusing attention on the adequacy of governance controls and the risk management process.

Let's take Cyber Risk as an example. In the last year, I have seen much more engagement from governance bodies on this major risk as scams and cyber-attacks soar during the pandemic, and the importance of Cyber Risk to pension schemes is more keenly grasped. Boards are increasingly undertaking cyber scenario workshops, where they work through a live example of a cyber attack and assess what they would really do in such a situation and where the weak links in the existing processes are. This supports the drafting of an Incident Response Plan, another requirement under the new draft Code of Practice.

The COVID Era has helped to focus minds on the importance of risk management but there is always more that can be done to ensure engagement in what should be an ongoing process. The best risk management frameworks are built around objectives, with risk being defined as that which hinders those objectives. Frameworks should be dynamic, involve all stakeholders, mitigate groupthink and incorporate human and cultural factors in addition to having sufficient focus on horizon scanning.

Let's take one of these as an example, the problem of groupthink, can be particularly difficult for risk reviews given the low energy traditionally associated with the process. It may be tempting to rush through a review of the risk register going along with the dominant voice, perhaps the Chair of Trustees, or a particularly experienced Trustee. This is on top of the problem of anchoring, whereby the entire board is anchored by the existing risk rating on the register and probably more inclined to stick with the status quo than think about the risk from the ground up. In the last year we have found many boards have been prepared to go back to first principles on this, taking a fresh perspective on their entire risk ratings, and using online technology to ensure an equal share of voice on risk for all key stakeholders. As a result, a much more dynamic, online risk register is created.

In addition to the example of Cyber Security given above, certain risks have come to the fore in the past year, particularly those relating to business continuity. Whilst many already considered the continuity of service providers such as the administrator. But how many boards had really thought about their own continuity as a board, and on the key person risk often represented by key roles such as the scheme secretary? Some of the themes we have seen over the past year in relation to this key COVID risk are explored further below:

Sufficiency of Trustees - ensuring Trustee decision-making isn't impacted by significant absence of Trustees has been an issue over the last year. Getting board composition right is always tricky and something TPR is currently considering as part of its industry working group on best practice boards (where the focus is on board diversity).

Deputy Chair – over-reliance on a long-serving Chair is a common risk in pension scheme governance. But how many boards have a clearly nominated deputy or process to follow should the Chair be incapacitated or called away at short notice?

Diversity of Trustees – board diversity, particularly in risk factors such as age and geography and the all important cognitive diversity, has become more prominent in the context of a pandemic which impacts certain age cohorts and geographical areas more prominently than others. TPR is currently running its industry-wide group on trustee board diversity and we can expect attention on the risk of an insufficiently diverse board to increase over the year ahead.

Pension scams – we have heard much over the year on pension scams. TPR's scams pledge and increasing guidance and regulation in this area means it is high on risk agendas. Due diligence over administration processes, particularly where a new administrator is being appointed, is more critical than ever. In light of the increased risk of cyber-attacks, many boards have been reviewing the risk rating on pension scams and fraud more generally.

Sponsor continuity and covenant have of course also been very high on the agenda. The impact of the disease and lockdown measures on sponsor survival has enhanced the risk of sponsor distress and insolvency. This area is also under increasing scrutiny from auditors who want to see that pension schemes have been clearly assessed by Trustees as 'going concern'.

Whilst the past year has been frightening on many levels, we may see the enhanced appreciation for high quality risk management in pension schemes as a positive development. This will only increase with the new ORA requirement and the increasing appetite to consider revising risk management frameworks and revitalising tired old risk registers into dynamic online documents.

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Outsourcing solutions: What does this look like in a post COVID-19 landscape?

In today's environment, it is critical for both asset managers and owners to push boundaries through collaboration and innovation. Efficiently outsourced and implemented solutions can save asset owners unnecessary costs and improve overall control.

In recent years, the move to outsourcing has gathered pace within financial services. By 2022, it is expected that 20% of investment managers with AUM greater than US$50 billion will outsource some portion of their trading desks[1]. This shift will only continue as the investment landscape faces the challenges of increased regulation, transparency, cost pressures and advancements in technology.

As fees continue to be squeezed - and asset owners require greater control, transparency and delivery - an outsourcing model can help firms meet these needs, often via creating a more innovative and tailored partnership approach.

Preparing for a post-coronavirus landscape

The coronavirus pandemic has provided further evidence that the outsourced model is effective and resilient. Today, the majority of individuals across the globe are challenged with the new normal – working from home. This new way of operating through remote working has added to the challenges that companies are facing. This includes cybersecurity, VPN capacities and volatile broadband speeds – all of which are pushing companies to critically evaluate their infrastructure and its ability to weather another COVID-19-like storm.

The traditional approach to outsourcing would include active managers seeking a more efficient way of trading through outsourced implementation, or an institution with a multi-manager equity framework looking to outsource middle and back-office capabilities.

With the increased diversification of asset classes, the increasing potential for extreme market swings and the ongoing pressure on managers to reduce fees, the need for a more seamless and cost-efficient trading model has never been more imperative. An outsourced implementation model can - and has proven to - achieve the best pricing via a team of appropriately resourced, experienced traders that understand the nuances of portfolio trading and risk exposures. The result? Gaining on-demand trading capability without the cost and operational burden of establishing this function independently.

A forward-looking solution towards centralised efficiency

By combining the evolution of outsourcing with centralised implementation of the middle office and trading capabilities, the elimination of the complexities and high fees associated with a multi-manager fund model bodes well for asset owners, due to reducing overall costs.

As a global solutions provider, Russell Investments partners with active managers – using a model-based investment approach for equity investments on a centralised trading platform called Enhanced Portfolio Implementation (EPI). With assets totalling more than £55 billion and using over 100 active manager models and growing[2], asset managers are able to utilise the EPI to limit transaction cost impact to performance, improve operational control and visibility – providing an overall benefit for asset owners. New active manager models are added proactively for EPI and are tailored directly to meet manager selection.

EPI: Greater control and cost efficiencies

EPI is Russell Investments' proprietary implementation platform designed to access active equity management through advisory model portfolios implemented in a single segregated account, rather than multiple segregated or pooled accounts. Investment managers continue to be responsible for the investment strategy, asset allocation and stock selection. However, instead of implementing their trades, we ask each investment manager to submit a model portfolio to our EPI portfolio management team. These model portfolios are provided by the investment managers after the market close and represent the long-only trade date positioning of their portfolio.

The EPI team will then effectively manage a client's single segregated account against the implementation benchmark of their active managers, much like an index tracking portfolio. Underlying manager models are updated and monitored whenever the investment manager trades, which in turn directly updates the EPI benchmark to ensure the portfolio is always benchmarked to the most current positioning of the active portfolio managers.

Active equity managers are still hired for their strategic investment insight and asset selection. We simply combine this with our speciality – centralised portfolio management and execution in an enhanced structure. Not only does this allow investors and managers to work in a much more efficient and controlled infrastructure, but it also affords much more flexibility to make active manager changes or portfolio updates.

Incorporating ESG factors requires flexibility

The need to incorporate Environmental, Social and Governance (ESG) factors into the investment decision-making process is being critical to investors. Russell Investments centralised EPI platform enables a client to have control in applying ESG factors to their portfolio. Once a common policy is agreed upon, it is efficiently expressed when implementing the portfolio directly in the single segregated account. In the majority of circumstances, no additional changes are needed with each investment manager, as these particular changes can be directly applied to the centralised EPI portfolio management process when constructing trades. The integration allows for specific exclusions such as controversial weapons, tobacco or screening of companies with the lowest ESG scores in the investment universe.

Additionally, the EPI platform enables the client to go beyond simple exclusions and implement considerations such as a reduction in the funds' carbon footprint or exposure to fossil fuel reserves. This capability can be used to achieve targets such as a 25% reduction in carbon footprint. Our research-backed energy transition solutions can be leveraged off the shelf or tailored to the client's sustainability objectives.

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The bottom line

The drive to improve margins, reduce underlying fees and increase efficiency has always been important. As investors look to the future of operating in a post-pandemic environment the drive for increased efficiency and transparency, combined with more resilient platforms delivering lower costs and fees, will only become even more prevalent.

[1] Opimas, Report: Asset Managers and Outsourcing the Trading Desk.
[2] Russell Investments, data as at 31 March 2021.

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‘Mind the gap’ – managing key legal risks as pandemic restrictions are lifted

Top five tips for “minding the gap” as pandemic restrictions are lifted

1. Train staff on the risks of travelling between home and office, and who to call if a work device is lost or stolen
2. Shred confidential documents which have accumulated at home since March 2020
3. Make sure appropriate equipment is available for hosting mixed in-person / remote meetings
4. Revisit any workarounds put in place during the pandemic restrictions
5. Review insurance cover and trustee protections.

The pandemic restrictions in 2020 forced a seismic shift in working practices for almost all schemes and their providers.

As the restrictions are lifted in the second half of 2021, a priority should be to identify and prepare for new risks which are likely to arise, “minding the gap” as the industry adopts post-pandemic working practices.

Hybrid working – transition risks

Where laptops may have spent most of 2020 on the kitchen table, 2021 looks set to involve work equipment (and perhaps also paperwork) becoming increasingly mobile, moving between office and home desks for many.

Regular transition between work environments will carry risk, particularly the loss or theft of electronic devices. Providers should ensure that staff receive tailored training on managing these risks – for example, who to call to “wipe” the laptop left on a train.

IT processes should be reviewed, with encryption being paramount. Transporting hard copy documents should be discouraged wherever possible. Investing in a second set of IT equipment might help avoid wasted time where a mouse or keyboard is accidentally left in the office on a home-working day.

As trustees have a legal duty to ensure their data processors have appropriate security measures in place, providers should be asked to confirm transition risks are actively being addressed. There’s also never a bad time to check that a provider’s appointment terms continue to work as expected, particularly in the light of hybrid working practices and tweaks to the post-Brexit data protection legal framework.

Home working ‘spring clean’

As restrictions on socialising are lifted, many will entertain family and friends for the first time since the pandemic began.

Confidential papers may be sitting on desks, and personal computers may have been used for work purposes.

Staff should be reminded of the importance of keeping client materials confidential. Encouraging a data security spring clean, which should include shredding confidential paper documents, and keeping up strong IT security practices in the home office, will reduce the risks of a confidentiality breach – as well as help keep the desk tidy!

‘Half and half’ meetings

Whilst many of us are looking forward to “in person” meetings resuming in full, it’s likely that some meetings will run only partly in person, with some attendees tuning in remotely.

Given the importance of running meetings efficiently, organisers should plan carefully to avoid glitches and wasted time, and to make sure that legal requirements (such as quorum) are met.

Essential questions to consider include: does the meeting room support the software typically used for video calls? How will a speaker show slides to both in person participants and those joining remotely? Is there a back-up option, such as a conference call number, in case video technology fails?

“Half and half” meetings will make the chair’s task even harder, requiring new skills to ensure everyone is heard and has an opportunity to put their points forward. Those planning meeting agendas will be considering whether meeting trends over the past year – including shorter meetings and taking much more focussed adviser input – should become permanent fixtures in the post-pandemic world.

New developments – are they all here to stay?

The pandemic required rapid change in many areas of the pensions industry. Some developments will need to be revisited as pandemic restrictions lift, to avoid schemes running unnecessary risks. For example, a number of Sackers’ clients put in place interim changes to their member identity verification processes during the lockdowns, as it was challenging for members to post original documents. As restrictions lift, schemes should revisit any workaround measures to check they are still appropriate.

Other changes may be here to stay, even with a return to the office. Online signing options have proved to be reliable and more efficient than execution of paper documents. Webinars have removed geographical barriers and allowed training and industry thinking to be delivered straight to the viewer’s desk. They can also be watched back at a time of your choosing – (the Sackers Multimedia page comes highly recommended!).

Governance and risk management

Things can go still wrong even for the best prepared provider or trustee board.

Periodic reviews of trustees’ protections, including insurance cover, contractual protections and the provisions of the scheme rules, will help identify any gaps which may need filling in.

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WEALTH at work

How to help members become more financially resilient

The pandemic has affected nearly all of us and none more so than pension scheme members who are approaching retirement.

Redundancies have led to many individuals deciding to retire early and therefore access their pension for perhaps the first time. According to a survey by LV more than 154,000 people aged 55-64 have opted for early retirement because of redundancy and reduced income.

Not only this, pressure on household finances has made it very tempting for those over 55 to reach for their pension savings to supplement their income. Around 383,000 individuals withdrew from pensions throughout January, February and March 2021, a 10% increase from 348,000 during the same months of the previous year.

Others have found that they have to delay their retirement plans to re-build their pension pots that have been adversely impacted by investment market fluctuations. A poll by YouGov found that 13% of over 55s are planning to delay their retirement, whilst a Fidelity study suggests 38% of people will put back retirement by around two and a half years.

Employers and Trustees recognise that for those nearing retirement, it is important that they understand the implications of accessing their pensions, which is especially important given the events of the last year. However, many members lack the resources to assess the risks around this, which the pandemic has put glaringly into focus.

Outlined below are some of the key considerations including what employers and Trustees can do to help:

Paying unnecessary tax

A recent survey carried out by WEALTH at work & PMI between June 2020 and April this year, found that nine out of ten Trustees (89%) worry that their members will not understand the tax implications of accessing their pension. This may be because there are a number of tax considerations to be aware of when withdrawing from defined contribution (DC) pensions, and not all members realise this.

Firstly, up to 25% of a pension pot can be received as tax-free cash, however, anything beyond this is potentially taxable at 20%, 40% or 45%. Also, when someone draws money from their pension beyond their tax-free cash entitlement, in most cases a money purchase annual allowance is introduced. This means an annual limit of £4,000 will apply to all future pension contributions, instead of the usual £40,000. If contributions beyond this limit are made, a tax charge will be due. This could be significant for those who are not yet retiring and are continuing working and contributing into their workplace pension scheme.

For those reaching to their pension because of a shortfall in income, other savings and investments may be a better source of short-term cash than pensions as it can help to avoid unnecessary tax being paid and allows the pension to grow in a tax-free environment.

Making retirement savings last

Most people live longer than they expect, and so members may underestimate how long they think their savings need to last. For example, The Institute for Fiscal Studies found that those in their 50s and 60s underestimate their chances of survival to age 75 by around 20%, and to 85 by around 5% to 10%.

Our survey found that this is a concern for Trustees, with six out of ten (60%) fearing that their members will run out of money too soon in retirement. This raises questions around not only what decisions members make at the point of retirement but also future decisions as they progress through retirement

Pension scams

According to the Pension Scams Industry Group, £10bn may have been lost to pension scams by 40,000 people since 2015. A report by Action Fraud found that pension scams had become one of the most common types of fraud to occur last year. With some pension pots worth hundreds of thousands of pounds, criminals are targeting those age 55 and over with scams, inappropriate investments and are even stealing their pension pot outright.

Reduced household income caused by the pandemic has meant that some members are more vulnerable than ever. Our survey found that nearly all (94%) of Trustees are concerned about their members being scammed out of their savings.

The Pensions Regulator (TPR) has asked Trustees to pledge to do what they can to protect scheme members including; providing regular warnings on pension scams, encouraging members considering cash drawdown to access impartial guidance from the Money and Pensions Service, to carrying out checks on pension transfers, and warning members that insist on high-risk transfers.

The Pension Scams Industry Group (PSIG) has recently updated its Code of Good Practice to reflect the latest regulatory and legislative changes, as well as the evolving nature of pension scams. In particular, key changes relate to TPR updates including a new letter which warns members who are thinking of transferring their benefits to a defined contribution arrangement of the risks of doing so; as well as additional guidance for Trustees to encourage the use of Pension Wise or regulated advice, and to provide risk warnings about complex investment structures.

The new recommendations by PSIG include for Trustees to consider telephoning members during the due diligence process and before any transfer payments are made, when concerns of pension scamming have been identified. Also, all transfers of concern should now be reported and not only those which are refused. The PSIG's three core principles remain the same including: raising awareness of pension scams for members and beneficiaries; having robust processes for assessing whether a scheme may be operating as part of a scam; and being aware of the known current scam strategies.

DB pension transfers

XPS Pension Group suggests some schemes are seeing an increase in defined benefit (DB) transfer requests in the wake of COVID-19. However, LCP data suggests the trend in actual transfers is towards a smaller number of higher value transfers, with the average hitting £480,000 in 2020. It may be that going forward the three biggest factors in members initiating a transfer request are; transfer value, the specifics of the scheme including strength of the sponsor (whether perceived or real), and lastly wanting to access cash due to financial constraints bought on by the pandemic.

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Our survey found that 80% of Trustees are concerned about members not understanding the risks around transferring out of their defined benefit pension scheme. This isn't surprising given that XPS Pension Group highlighted that almost 6 out of 10 of transfers showed at least one sign of being a potential scam in April this year. Ensuring access to appropriate advice is key, which is of course, a requirement for anyone looking to transfer a DB scheme over the value of £30,000.

Many Trustees now facilitate access to reputable advisory firms having gone through a due diligence exercise to address these issues.

What role do employers and Trustees play?

As we can see pension scheme members now have to grapple with a multitude of risks which have become increasingly complex and uncertain due to the pandemic. There is no doubt that employers and Trustees play a key role but it can be difficult to know where to start.

Providing financial education and guidance can help members to understand their options, and the generic risks and pitfalls of certain actions. It seems that many Trustees now see the benefit of it as almost half of those we surveyed provide it for members at retirement. It can be delivered in a number of ways and social distancing rules have meant that many Trustees have had to adapt to this changing environment.

Although face-to-face seminars are a popular and effective method of delivering financial education, especially for those considering retirement, other forms of delivery such as online seminars are proving to be an engaging alternative in this climate. We are finding the results from our online seminars are receiving great engagement scores and feedback.

Virtual one-on-one guidance sessions, which could be delivered via a video call or telephone, are particularly useful as it offers the support employees and members need to help them clarify elements of their financial situation and to gain a deeper level of knowledge around their options.

This provision can also help members to decide if they would like further support such as regulated financial advice. In fact, our survey found that nearly a third of Trustees are facilitating regulated advice for their members. When done correctly, it carries little risk. Due diligence should cover areas such as; qualifications of advisers, the regulatory record of the firm, compliance process e.g. compliance checks of 100% of cases, pricing structure, and experience of working with employers and Trustees.

Ultimately, empowering members by providing them with access to appropriate support can help them become more financially resilient and able to better deal with all eventualities, which should lead to better outcomes for all.

Additional Information

Accreditation for Lay Trustees

Our accreditation programme for lay trustees is built to professional trusteeship standards. This special seal of approval demonstrates to pension schemes your high degree of competency to drive best practice decision-making and help them navigate the complex challenges of today and tomorrow.

Find out more: www.pmitap.org

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Join our Trustee Group today

Trustee Group membership is available on either an individual or board basis and offers support and benefits to help Trustee meet TKU requirements.

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