Covid and pensions decisions

Emily McGuire looks at five ways in which Covid-19 is reshaping pensions decision-making

As the immediate effects of the Covid-19 lockdown give way to uncertainty over working patterns and market performance, we can start to analyse some of the wider pension scheme trends driven by the pandemic.

New research from Aon, 'Covid-19, climate and compliance', explores key investment themes and their effect on pension schemes. In June 2020, we carried out a series of 20 in-depth interviews with member-nominated and professional trustees, third-party evaluators and scheme leaders to find out their views on topics such as responsible investment, costs and transparency, governance, endgame planning and the effects of the new DB funding code.

Given the timing of our research, the pandemic was a common thread that ran through all our discussions. While it is still too early to understand its longer-term effect on schemes and markets, the crisis has already started to reshape investment strategy decisions – and the way these are made.

Trustee governance – like many other aspects of business life, quarterly face-to-face trustee meetings have been replaced by video conferencing and phone calls.

But respondents told us, that it is difficult to conduct a full-day board meeting over a video link. Most said they have opted for frequent, shorter meetings with carefully-focused agendas. They have also been able to discuss scheme issues – including investment – at much shorter notice, helping them to address concerns more quickly and effectively.

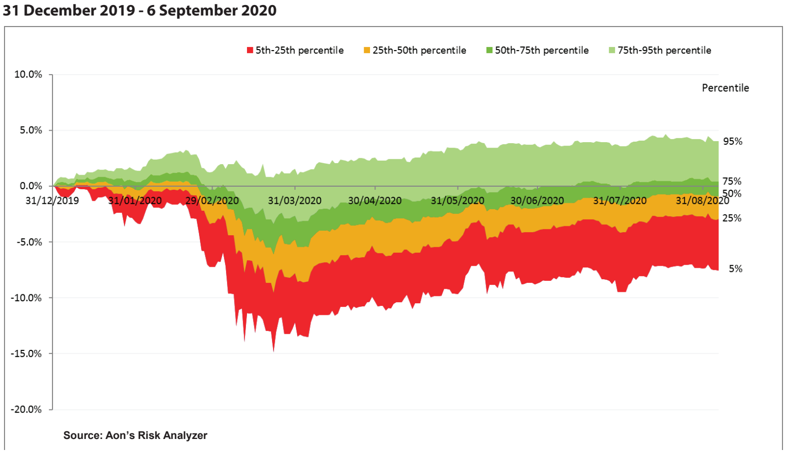
Market performance – March 2020 was a torrid month for equity investments and although markets have bounced back, respondents were still cautious. Several pointed out that the longer-term effect on equities and corporate credit is yet to be seen, with businesses preparing for a difficult 2021.

Making sure the scheme can cover its liabilities – the events of March and April brought home the importance of ensuring that there are liquid assets in a DB scheme to cover immediate pension payments. "I got worried that we might not even be able to sell gilts," said one respondent. "We took the precaution of increasing the cash allocation, just to make sure we could meet the monthly pension payroll."

The 'S' and 'G' of ESG – there were positive stories during lockdown of employers acting responsibly towards their staff and changing business models to cope with the pandemic. At the other end of the scale, we have seen furlough fraud and executive pay awards that are out of kilter with business performance. "In our ESG questions for asset managers, we want to ask businesses how they've used the furlough scheme," said one DC scheme chair. "I think some organisations have used it to protect the salaries of senior people."

Long-term strategy – respondents have not turned their backs on long-term plans to de-risk or to change investment strategies. However, the pandemic has affected sponsor covenants and deficit repair contributions. These factors, along with ongoing market uncertainty, mean that now is an important time for all schemes to review their journey plans. The graph here shows Aon's clients' funding levels between January and September 2020. Although around 30 per cent have made progress compared to the start of the year, the majority are still lagging behind their 2019 position. For those schemes, taking a step back and re-evaluating progress towards longer-term goals is crucially important.

The range of funding level experience on the Technical Provisions Bases of Aon's clients 31 December 2019 - 6 September 2020



Source

This chart shows the range of funding level experience on the Technical Provisions bases of Aon's clients since 31 December 2019, taken from Aon's online funding monitoring tool, Risk Analyzer

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