

Crisis resilience planning for DB Schemes

COVID-19

Crisis resilience planning for DB Schemes – COVID-19

During these untested times, trustees, sponsors and advisers are operating in challenging times and are keen to take swift action in order not to be caught off-guard by unfolding events. It is now looking as if boards will need to continue to operate within this restricted environment for a prolonged period. This has moved beyond finding a way to take forward the business from your next trustee meeting but more about how we continue to operate in this environment for successive meetings. Where boards have emergency sub-committees established, these will now kick in and start to work through the schemes' business continuity plans. But for those schemes that have no such plans in place, here is our view on the immediate actions to take now, some actions to set up for the ongoing months and also steps to take to support your business continuity plans in the future; with all these efforts taken in the short term, it is important to document what goes well and where improvements can be made to support you through future events.

Step 1:

Review your current governance and decision-making structure and ensure it will remain fit for purpose over the next few months

Under all these actions will be the requirement to monitor and make further decisions, potentially with limited time. Where possible, we recommend that an emergency sub-committee is established as quickly as possible with the following considerations:

Be flexible

Due to the nature of this virus, the emergency sub-committee members may need to be fluid, and/or decisions made by different groups within the sub-committee. We suggest approval powers are granted to enable 2-3 trustees to make time-critical decisions.

Assign roles

Board members should be given specific responsibilities and must speak out immediately if there are any concerns. Availability, health and experience will all be key factors when making important and urgent decisions; select from those members who are already isolated, and who have the time to respond to and process information quickly.

Stay informed

Where funding and or investment actions are being undertaken by a different sub-committee, consider including members from those sub-committees in the emergency sub-committee to maintain understanding and ensure informed decision making.

Step 2:

Review your scheme priorities

Having the right structure ensures that you have appropriate robustness around the decisions that follow. Our chart suggests that the key priorities for many schemes are likely to be those shown in amber; however, our 10 questions provide you with further information across a range of different areas.



3 Crisis resilience planning for DB Schemes – COVID-19

Question	Immediate actions	Crisis monitoring
<p>1. Cash: Have you reviewed your cash management plan in the last 12 months to ensure pensioners will still be paid in a stressed scenario?</p>	<ul style="list-style-type: none"> • Determine, review and consider invoking your emergency cash management protocols, including: <ul style="list-style-type: none"> - Establishing at what level future contributions are likely to continue - Agreeing higher acceptable float limits to enable sufficient cash to be held to cover anticipated payments over the next three months - Increasing the limits requiring trustee approval - Establishing faster processes for approving and obtaining cash into the scheme bank account • Review collateral arrangements and work with your investment consultant to establish contingency plans for future collateral calls • Engage with the sponsor to understand timing of and any challenges with regular contributions and deficit contributions • Work with your administrator to decide on MI and reporting frequency including: <ul style="list-style-type: none"> - Anticipated monthly outgo for the next 3-6 months - Frequency of requests 	<ul style="list-style-type: none"> • Maintain regular dialogue with <ul style="list-style-type: none"> - the sponsor - your administrator and / or pensions team - your investment adviser • Review simple weekly MI and monthly forecasting • Consider revisions to plans if clear shortfalls or further anticipated challenges based on available information
<p>2. Administration: Are the majority of your administration calculations automated rather than needing manual administrator or actuarial input?</p>	<ul style="list-style-type: none"> • Get confirmation of your administrator’s business continuity plans • Agree and document protocols for managing extreme administration demand with reduced capacity and / or scheme knowledge: <ul style="list-style-type: none"> - Identify key member priorities, eg, paying pensioners, retirements and death cases - Identify which cases can be put on hold, or where SLAs can be extended to ease the strain on the administrator - Agree other easements, including second stage process if pressure squeezed even further - Identify vulnerable members and reporting simple MI to support cash management plans • Agree member communications plan (see 7. communications) 	<ul style="list-style-type: none"> • Maintain regular dialogue with your administrator • Review simple weekly MI and monthly forecasting • Consider revisions to plans if clear shortfalls or further anticipated challenges based on available information

4 Crisis resilience planning for DB Schemes – COVID-19

Question	Immediate actions	Crisis monitoring
<p>3. Approvals: Have you reviewed your signature limits in the last 12 months and ensured there is no 'key man' risk where only one person can sign?</p>	<ul style="list-style-type: none"> • Review and where appropriate put in place emergency measures for the following: <ul style="list-style-type: none"> - All processes which require trustee approvals and document these in an approvals list - All delegated powers - All signature lists - Discretions policies - Tools to facilitate online decision making • Agree and establish an availability protocol, setting out: <ul style="list-style-type: none"> - A weekly availability schedule - Who to contact if unwell or unavailable for a prolonged period • If not already available ensure all trustees have each others' email and phone contact information • Consider setting up weekly 15-minute catch-ups with the emergency sub-committee to review robustness of plan 	<ul style="list-style-type: none"> • Monitor availability on a weekly basis • Consider any revisions to policies in light of availability or other issues which may arise
<p>4. Decisions: Do you have flexibility in your quorate rules to allow you to operate in different ways?</p>	<ul style="list-style-type: none"> • Check your Trust Deed & Rules to ensure you can make decisions flexibly and securely, including by email, the minimum number of trustees to make a decision and that you can have virtual meetings • Amend Trust Deed & Rules to increase flexibility if appropriate • Establish appropriate terms of reference for your emergency sub-committee • Review terms of reference for any funding / investment sub-committee and amend if further decision-making powers are required • Review tools to facilitate online meetings and for sharing meeting papers 	<ul style="list-style-type: none"> • Review strategic business plan and 'business as usual' activity and agree new priorities such as, risk settlement activity, GMP equalisation, member options exercises, factor reviews, taking account of any new cost, market or environmental constraints • Monitor project timescales and critical paths and agree revisions

5 Crisis resilience planning for DB Schemes – COVID-19

Question	Immediate actions	Crisis monitoring
<p>5. Covenant: Do you know what the early warning signs are of your company covenant deteriorating and the actions you would then take? Do you have crisis response plan for major covenant events such as insolvency, default or opportunistic M&A?</p>	<ul style="list-style-type: none"> • Review funding position and identify short term and longer term risks addressing covenant, investment and funding • Seek emergency meeting with Scheme Actuary, Investment Consultant and Covenant Consultant as applicable • Understand which IRM triggers are under stress • Establish communications with the sponsor to: <ul style="list-style-type: none"> - Get clarity on whether and for how long employer contributions remain affordable in the current circumstances (and understand TPR's guidance for defined benefit trustees if employer seeks to cease or reduce contributions) - Agree a communications strategy, including frequency of communications of information. (See TPR's guide for questions to consider) - Forewarn any pending funding issues, to prevent future surprises and to discuss possible solutions (eg buyout, de-risking triggers) • Identify: <ul style="list-style-type: none"> - actions available now to minimise impact - any potential further impacts, such as sponsor cashflow challenges potentially impacting deficit contributions - actions that may need to be taken in the coming months and the circumstances to trigger such action - any monitoring requirements, such as emergency KPIs (such as proxy measures which are available daily), corporate statements on outlook and sector statements • Document your contingency plans and any key factors to take into account when making decisions over the next 12 months • Check your contingent asset provisions • Consider stress testing funding outcomes for different scenarios • If covenant robust, consider if there any market opportunities that would benefit the scheme 	<ul style="list-style-type: none"> • Maintain regular dialogue with your sponsor and advisers • Increase frequency of monitoring • Be ready to reconsider investment strategy in the light of weakening employer covenant • Be ready to reconsider if Cash Equivalent Transfer Values should be reduced / suspended

6 Crisis resilience planning for DB Schemes – COVID-19

Question	Immediate actions	Crisis monitoring
<p>6. Substitutes: Do you know who to contact if your lead adviser in each area or corporate contact is not available?</p>	<ul style="list-style-type: none"> • Ask all advisers for a team structure and contact details • Identify what work requires core individual input, for example, Scheme Actuary reserved work • Invite wider team members onto conference calls to build up knowledge and for continuity of advice • Identify all key corporate contacts, if not already documented in your incident response plan Core contacts include finance, HR and communications 	<ul style="list-style-type: none"> • Continue to monitor workflow and ensure documented against core advisers, bringing work forward where appropriate • Invoke any substitutes if required
<p>7. Communication: Have you given reassurances to your members about the actions you are taking to manage the investment volatility? Can you contact your members easily?</p>	<ul style="list-style-type: none"> • Establish a member communication policy: <ul style="list-style-type: none"> - Agree messages for members - How to deliver these - How to monitor feedback - Approval protocols • Member communication protocols may involve the following: <ul style="list-style-type: none"> - Administration changes - Scam awareness - Sponsor-related news - Trustee actions • Identify who else you need to communicate with and keep them updated of your position: <ul style="list-style-type: none"> - Sponsor (finance, communications, HR etc) - Advisers, scheme actuary, investment consultant, legal adviser, covenant adviser - TPR, other regulators 	<ul style="list-style-type: none"> • Before issuing any communications: <ul style="list-style-type: none"> - Continue to monitor the situation regularly; at least weekly, linking in with the appropriate contacts (sponsor, advisers, administrators) - Monitor the press and social media to gauge views in the public domain • After issuing any communications: <ul style="list-style-type: none"> - Monitor feedback - Monitor the need for additional member information eg, FAQs (and who should have a copy), further announcements

7 Crisis resilience planning for DB Schemes – COVID-19

Question	Immediate actions	Crisis monitoring
8. Liquidity: Do you have a disinvestment strategy if you have higher than usual cash demand?	<ul style="list-style-type: none"> • Agree with your investment consultant the process for fast advice and execution taking into account the transaction costs, relative valuations, benchmarks and speed of access to funds • Understand the likely impact of movements of collateral on any Liability Driven Investments 	<ul style="list-style-type: none"> • Work with your investment consultant to understand wider opportunities and defensive measures • Work with your administrator and Scheme Actuary to seek greater certainty over future cashflows and cash contributions from the sponsor
9. Insurance: Do you understand your insurance provisions and exclusions?	<ul style="list-style-type: none"> • Check: <ul style="list-style-type: none"> - who is responsible for managing claims and ensure they refresh their understanding of the claims process - you understand any potential mismatch between the insurance provision and benefit payable to members - the revised timescales of expected settlements so these are factored into cash demands 	<ul style="list-style-type: none"> • Monitor expected payments against benefits paid out and feed this into the cash management plan • Monitor claims against cover limits • Review the provisions and exclusions and cover limits of your policies and how they interact
10. Plan: Do you have an incident response plan that pulls together these strands and more into a single place?	<ul style="list-style-type: none"> • Hold your initial response meeting, using your response plan and the information obtained in 1-9 above • Brief the trustees, authorise the emergency sub-committee and assume responsibilities • Establish regular points to check in and review progress • Ensure all decisions and rationale have been documented for your audit trail 	<ul style="list-style-type: none"> • Initially high frequency monitoring • Coordinate key parties and collate monitoring output in order to facilitate decisions • Consider pre-mortems when assessing all the actions and outcomes

This document focuses on the immediate actions and ongoing monitoring to support your response to the COVID-19 outbreak.

However, many of the considerations outlined are valuable for supporting the development of wider business continuity plans, which enable trustee boards to establish a clear framework to articulate contingency plans across key stakeholders ensuring a cohesive and coordinated response to shocks.

We would recommend that after an event occurs you take stock, reflect and learn from the experience to inform and enhance your plans for the future.

We are ready to work with you to support the development of your response plans; both now and to withstand future events. At Aon we have a wealth of experience in supporting our clients with understanding operational risks, quantifying these and developing robust plans to get you back up and running following a range of incidents impacting systems, people, location, sponsors or suppliers.

Contacts

Vanessa Jaeger

Principal consultant
+44 (0)1727 888230
vanessa.jaeger@aon.com

Susan Hoare

Partner
+44 (0)117 900 4441
susan.hoare@aon.com

Sarah Butlin

Principal consultant
+44 (0)117 945 3536
sarah.butlin@aon.com

Sue Austen

Principal consultant
+44 (0)113 394 3413
susan.austen@aon.com

Stephen Davidson

Client service director
+44 (0)131 456 6485
stephen.davidson@aon.com

About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

© Aon plc 2020. All rights reserved.

This report provides general information for reference purposes only. Readers should not use this report as replacement for legal, tax, accounting, or consulting advice that is specific to the facts and circumstances of their business. We encourage readers to consult with appropriate advisors before acting on any of the information contained in this report. The contents of this report may not be reused, reprinted, or redistributed without the expressed written consent of Aon plc.

aon.com