A global issue

Summary
• Covid-19 has had a profound effect on pension schemes around the world, with the stock market crash having had the most significant impact.
• Some countries have implemented a range of support mechanisms to help pension funds and members, whilst others have taken little action.
• Pension schemes have also helped other industries that have been hit hard by the pandemic.

Pension systems around the world have faced similar challenges in light of Covid-19. Natalie Tuck examines how the largest pension markets have responded to the impact of the pandemic

The beginning of March saw coronavirus creep into the headlines of pensions news. In the UK the news was bleak; defined benefit (DB) pension deficits climbed by almost £50 billion over February, according to the Pension Protection Fund's (PPF) 7800 Index.

Tumbling markets

As shockwaves rippled through global financial markets, pension markets in other countries also felt the effects. Finnish Pension Alliance senior adviser, Janne Pelkonen, says pension assets in the country have dropped from €215 billion at the end of 2019, to €193 billion (Q1 2020) – around a 10 per cent drop.

In the Netherlands, where its defined benefit-style pension schemes were already struggling, schemes have seen average funding ratios fall to around 90 per cent at the end of May – a decrease of around 10 percentage points since January, according to Dutch Pension Federation chairman ad interim, José Meijer.

The impact of stock market falls has created different challenges for pension systems, depending on the type of schemes they have. For example, in Denmark, where DC pension schemes are the standard, consumers have borne the brunt of the market volatility.

Insurance and Pension Denmark executive director for wealth and pensions, Karina Ransby, explains that investment portfolios follow a glidepath approach by de-risking when savers approach retirement.

As a result, older savers with a high share of bonds have "not been hit so hard by the effects on the financial markets," she states. For those younger savers that will have been hit harder, Ransby says they will have time to recover these losses in the years to come. As a result, the advice to Danish pension savers has been to stick with the investment profile they had pre-pandemic.

The response has been similar in Australia, where its superannuation funds are largely DC schemes. Association of Superannuation Funds of Australia (ASFA) CEO, Dr Martin Fahy, says superannuation funds have experienced considerable volatility in investment markets over the course of 2020 and also volatility in the exchange rate.

"Funds as long-term investors have substantially maintained their investment allocations. However, there has been some selling of bonds to meet liquidity needs, including to meet currency hedging requirements and early release requests. Funds have also used this liquidity increase to participate in discounted capital raisings by Australian companies."

A report by Vanguard, *How America Saves 2020*, also found that US savers have kept in mind the long-term aspect of a retirement fund. Vanguard said the majority of savers have continued to maintain a long-term view with their retirement plan investments. Between January and April 2020, just 5.3 per cent of participants traded.

In Norway, which has also seen pension funds hit by negative returns, Pensjonskasser secretary general, Espen Kløw, says that pension funds have a strong buffer so they have been able to "sit still and stick to their investment strategy".

Pelkonen is also optimistic about Finnish pension funds' assets, with signs of recovery already being seen. Meijer has also witnessed this in the Dutch market. They both agree that contingency plans and changes since the last financial crisis in 2008/09 have helped funds handle this crisis.

Safety measures

Despite this optimism, countries have put in place special measures to minimise the impact of the coronavirus. For example, in Finland, its Ministry of Social and Health has prepared legislation in cooperation with social partners, the Finnish Centre for Pensions and The Financial Supervisory Authority on temporary solvency regulations for pension funds that could be passed if needed.

"We have already prepared as a pre-emptive measure temporary solvency regulations changes, which have not been implemented. But if the storm were to become more drastic than it is, then they could be passed in parliament," Pelkonen explains.

In addition, since May, Finnish employees have seen their average pension contribution level reduce by 2.6 per cent, down from 16.95 per cent. At a cost of €1 billion, the reduction is valid until December 2020. However, Pelkonen says minor contribution hikes between 2022-2025 will see employers pay this back. The government also allowed private-sector employers to postpone contribution payments by three months, although doing so will incur interest.

In Japan, Mercer Japan head of wealth consulting, Tomoya Goto, says that although "no specific responses" have been introduced to Covid-19, the Ministry of Health, Labour and Welfare has informed pension funds that they "can take a flexible approach to their operation, taking into account their circumstances".

In the Netherlands, the Dutch government quickly introduced a generous support scheme for employers that are affected by the crisis, Meijer says. This included the payment of pension premiums, with pension funds extending their payment period themselves before the government support was introduced.

The Dutch government has also announced that its temporary minimum funding ratio of 90 per cent (introduced last year) for schemes will be extended until the end of 2021, as a result of the economic situation. This will hopefully reduce the amount of pension funds that will have to make pension cuts next year.

Member support

Support for the pensions sector has not been limited to the pension schemes themselves, with governments bringing in a number of measures to help members. For example, in Australia the government has introduced an early release of superannuation scheme funds, where those who have been made redundant, or have reduced working hours, can apply for an amount tax free, Fahy says.

This can be for A$10,000 (£5,544) in 2019-20 and a further A$10,000 in the first quarter of 2020-21. The government has also halved the minimum amount that retirees have to draw down in their pension for the financial years 2019-20 and 2020-21.

"Superfunds have handled it well," Fahy says. "They have processed what will be around 2.5 million early release requests very promptly (generally within three days of receiving a request), have achieved more or less breakeven investment returns over a very difficult year, and have handled liquidity and currency hedging pressures."

In Denmark, Ransby says the pandemic has not had much of an impact on the pensions industry, however the government has protected the pension contributions of those not able to work during the crisis.

"The wage compensation schemes negotiated by the government, the employees and the employers for employees who have been sent home during the Covid-19 crisis, have included payments to pension schemes, hence these employees have been able to maintain their pension schemes during the crisis," Ransby explains.

In the USA, the government passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act in March, which provides support for those affected by the pandemic. Savers are able to make withdrawals from their retirement plans and individual retirement accounts without facing the normal 10 per cent penalty usually applicable before age 59.5. However, Vanguard reports that just 0.9 per cent of participants have withdrawn from their funds with the average amount being US$19,000 (£15,100).

Written by Natalie Tuck

Paying it forward

Pension schemes have seen various support measures to help them through the crisis, but they have also taken it upon themselves to support other sectors.

For example, Finnish Pensions Alliance senior adviser, Janne Pelkonen, says pension providers in the country are invested in a fair amount of domestic real estate. When the government imposed a lockdown on the county, leaving the hospitality sector struggling to make an income, pension insurance companies did not collect rent from restaurants for a two-month period.

The hospitality and tourism sector in the Netherlands has also been supported by Dutch pension schemes. "There is a risk of an increase in companies going bankrupt and therefore no longer able to pay their pension obligations. Dutch pension funds have reviewed (and changed) their premium collection policies to cope with this situation," Dutch Pension Federation chairman ad interim, José Meijer, explains.

"This support scheme also covers the payment of pension premiums. Pension funds alleviated the short-term consequences of the crisis by extending the payment period of pension premiums. This helped employers with immediate liquidity problems in the first month in which the government support scheme was shaped."

In addition, several Swedish pension providers have invested in numerous bonds to support those affected by Covid-19. Some of the investments will provide support to companies that have been negatively affected by Covid-19 in both Europe and developing countries. Others are aimed at promoting effective healthcare systems and providing financial support to reduce the disruptions that have occurred in various supply chains.