



## **Caribbean Actuarial Association – Note for members working in pensions**

**Prepared by CAA Pensions Committee – 4<sup>th</sup> May 2020**

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The purpose of this note is to raise awareness of some issues that those of us working in the pensions sector might come across as a result of the COVID-19 pandemic. The list is not intended to be exhaustive and does not constitute CAA guidance or set out any requirements for CAA members to follow. It is simply information, part of which draws from the issues covered in the Risk-Alert recently issued by the Institute and Faculty of Actuaries in the United Kingdom.

### **The impact of COVID-19**

There is no doubt that COVID-19 is having a very significant impact on the way we live. Drastic measures have been taken in many countries to limit our social interactions with the objective of limiting the spread of the virus. It is not known how long such measures will last but it is quite likely that they will persist in some form until a vaccine and/or a viable treatment is found. During this period there are financial and social issues that we will need to take into account as we carry out our actuarial roles. The challenge is that we have only been aware of COVID-19 for a few months. We are therefore still trying to understand its impact. For example, it is far too early to assess at this stage the overall impact it will have on mortality rates in both the short-term and the longer-term. Some of the issues that COVID-19 may have on pension plans and the actuarial services that we provide are listed below.

### **Financial matters**

Stay-at-home orders and forced shut-down of non-essential services have resulted in significant business disruption. This has affected financial markets resulting in general falls in asset values and increased volatility, particularly on the major international exchanges, which has led to many questions and matters to be considered including the following.

- What is the impact of lower asset values on a defined benefit pension plan's funding and solvency position and how could this affect recommended contributions? Should another valuation be carried out and the funding advice updated?
- The likelihood of credit rating downgrades and defaults on a pension plan's bond holdings including those guaranteed by governments in the region. Government finances will have come under strain as a result of lower revenue and possibly increased outgo from social measures taken. How will such shortfalls be financed and to what extent will this affect a government's ability to meet its current obligations.



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- The possibility of credit rating downgrades for insurance companies and how this might affect pension plans that purchase deferred and immediate annuity policies and/or are invested in other insured products.
- Reduced market activity could affect liquidity, which might affect those pension plans with more mature membership profiles, which rely on asset sales to meet ongoing benefit payments (such benefit payments may increase if there are reductions in workforce numbers). Caution may also be needed around quoted asset values, especially those in illiquid markets.
- How will a pension plan's investment decisions be affected, at least in the short-term? Are there any operational risks to consider, e.g. if trading is suspended? Has the pension plan's trustee/management committee raised these matters with the investment manager?
- How will the economic uncertainty affect decisions that actuaries make regarding the economic assumptions to use such as future investment returns for funding valuation and discount rates for accounting valuations? What allowance for future pay increases should be made in the short and longer term?
- Will the economic fall-out affect a sponsoring employer's covenant to pay its contributions to a defined benefit pension plan? What should the response be to an employer that asks to suspend contributions or reduce them below the currently recommended rate for a temporary period?
- How would a pension plan's financial position be affected by a material change in membership, e.g. following lay-offs?
- In countries with statutory funding requirements, has the regulator published any modifications to reflect the current conditions?
- How should requests from members asking to transfer their benefits between pension arrangements be treated? Should the approach to calculating and settling transfer values and other member options be reviewed in light of volatile market conditions and changing funding positions?
- It is unlikely that the longer term impact of COVID-19 on life expectancy of pension plan members will be known for some time. Actuaries are encouraged to consider emerging data on longevity in light of the virus. However, it is difficult at this stage to assess the potential future impact on life expectancy (either in terms of direction or magnitude), particularly given the numbers involved in the region.
- Will there be a material increase in mortality at younger ages, which could result in an increase in death in service payments from pension plans? Are such benefits insured?



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### **Practical matters**

Apart from actuarial considerations, there are a number of practical implications for pension plans including.

- Can pensioners who normally collect a monthly pension cheque, still do so? If not, have alternative arrangements been put in place?
- Are the appropriate business continuity provisions in place for the day-to-day operation of the plan, eg with regard to maintenance of membership administration systems, provision of administration services such as benefit calculations (which may increase if there are significant changes in workforces) and responding to regular questions from plan members? How is the administrator communicating with members?
- Are the appropriate business continuity provisions in place for the day-to-day investment/custody arrangements in force?
- Where required, how can pensioners submit their life existence certificates (where a pension plan relies on a centrally maintained registry of deaths, is this being maintained)? If life existence certificates cannot be collected, will pensions continue to be paid?
- How will trustees and management committees continue to exercise their discretions eg for ill-health retirements?
- What should members of defined contribution plans be told about the value of their pension benefits to help with their financial planning?
- Do physical copies of statutory reports, accounts etc still have to be submitted or will soft copies suffice? Have the deadlines for submission of these statutory documents been extended?

### **Other matters**

It is recognised that, in these difficult and unusual times, the application of professional judgement may be tested more than usual. Actuaries may be called on to make swift decisions in these unprecedented circumstances and they may find it prudent to take extra care to ensure they have for example, appropriate knowledge, skills and peer review.