



COVID-19:

Dealing with the impact

30 April 2020

Webinar

Speakers



Rupert Watson

Head of Asset Allocation, Investment Solutions
Mercer
rupert.watson@mercer.com



Dan Melley

Head of UK Fiduciary Management
Mercer
daniel.melley@mercer.com



Jim Doran

UK Governance Leader,
DC & Individual Wealth
Mercer
jim.c.doran@mercer.com



Jonathan Wood

Head of Corporate Benefits, London &
South East
Mercer Marsh Benefits
jonathan.wood@mercermarshbenefits.com



Laura McKim

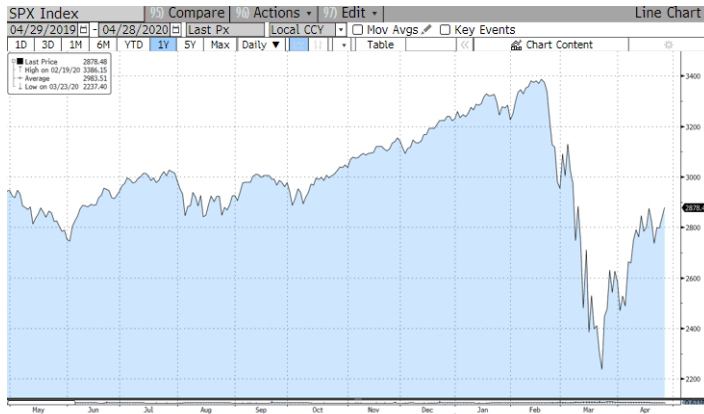
Career Leader, Mercer UK
laura.mckim@mercer.com

We are committed to ensuring the content of these webinars is as useful to the whole audience as possible but we are also aware there may be specific questions you want answering.

Please submit any questions you may have during the webinar and we will include them on a Q&As document, a link to which will be provided in our post event email to you.

Taking stock of recent market moves over the last 12 months

US equities rebound 50%



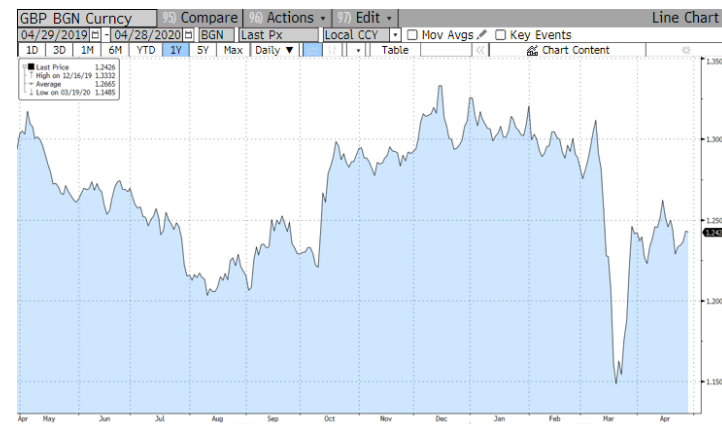
UK equities rebound much less



10 year gilt yields



Sterling rebounds after falling to 40yr low



Source: Bloomberg, 28 April 2020



A quick comment on Italy

Italian CDS: a measure of default risk. Since 2010



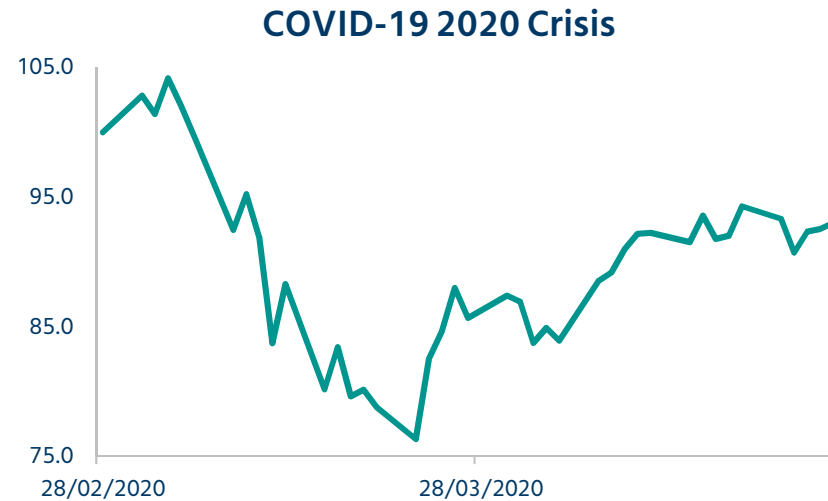
Source: Bloomberg, 28 April 2020

Importance of investment governance

Situations will arise



Source: Databank, MSCI ACWI Index returns (local currency)



Source: Databank, MSCI ACWI Index returns (local currency)

Truths that are always there are highlighted in times of market stress:



Investment markets are complex, interconnected and, at times, extremely volatile.



Trustees have competing pressures on their time and resources.



A long term plan, needs to be coupled with an ability to be nimble over shorter periods of times.

Coronavirus job retention scheme ('CJRS')

BASICS

- Employers can apply to HMRC for a grant to cover salary for each employee who is 'furloughed' owing to Covid-19 measures.
- 80% of a furloughed employee's regular salary or £2,500 per month, if lower, is payable.
- A payment to cover associated Employer NICs and minimum auto-enrolment employer pension contributions is added to the grant.
- Employers can only claim for employees on the payroll on or before 19 March 2020.

KEEP IN MIND

- Furloughed employees must agree in writing to undertake no work for the employer.
- The CJRS is an overlay to existing employment law - it does not change the need to consult with employers on contractual changes.
- Any employer pension contributions above the statutory minimum amounts cannot be reclaimed under the CJRS, nor can the cost of other benefits.

PENSION ISSUES

- Where a furloughed employee's salary reduces, this will usually feed through into the calculation of employer and member pension contributions.
- Changing the rate of contributions is not straightforward and legal advice should be sought on whether employment contracts and plan rules permit it.
- Reducing employer contributions requires a 60 day consultation. For DC arrangements only, TPR will not insist on the full 60 day consultation provided certain conditions are met.
- Where salary sacrifice applies:
 - The CJRS grant is based on post-sacrifice pay (subject to the £2,500 monthly cap).
 - The furlough grant is the minimum that must be paid to the employee - it cannot be reduced for a salary sacrifice, so the employer may have to pay the employee's sacrifice during furloughing.

Client scenario – pension contributions in practice

The following client scenario is taken from The Pensions Regulator's guidance, which can be found at the following link, and is typical of a number of actual cases we are seeing:
<https://www.thepensionsregulator.gov.uk/en/covid-19-coronavirus-what-you-need-to-consider/automatic-enrolment-and-pension-contributions-covid-19-guidance-for-employers/covid-19-technical-guidance-for-large-employers>

“The pension scheme requires a total contribution from the employer of 8% of the notional pre-sacrifice qualifying earnings.

Separately, the furloughed worker has agreed to sacrifice 5% of their qualifying earnings as a pension contribution to be paid as part of the overall employer pension contribution.

Their pre-sacrifice salary is £24,000 a year or £2,000 a month.

In February 2020 (their last pay period before 19 March 2020) the amount they sacrificed as pension contribution was £74.40 (5% of (£2,000 minus the lower qualifying earnings threshold for 2019/2020 of £512)).

As a result, their contractual wage at 28 February 2020 was £1,925.60 a month.

The amount of salary that can be claimed under the grant is 80% of £1925.60 = £1,540.48.

The employer has chosen, after reviewing their contractual arrangements, to pay the furloughed worker £1,540.48 a month during the furlough period.”

Client scenario – pension contributions in practice

To calculate the pension contribution on this salary:

- The furloughed worker's pay of £1,540.48 is to be treated as their post sacrifice pay – i.e. no further salary sacrifice amount can reduce the pay further.
- The notional pre-sacrifice pensionable pay based on treating £1,540.48 as post sacrifice pay in March 2020 is £1,594.61. We have used a formula of:

$$\frac{(\text{Furlough Pay} - ((\text{sacrifice as percentage of pay}) \times \text{Lower level of qualifying earnings}))}{(100\% - \text{Sacrifice as a \% of pay})}$$

- The pension scheme rules require a total contribution from the employer of 8% of qualifying earnings based on the notional pre-sacrifice pay.
- Therefore, in March the employer contribution to be paid under the pension scheme rules is **£86.61** (8% of (£1,594.61 - £512)).

Under the Coronavirus Job Retention Scheme the employer may claim a grant to cover the AE statutory minimum employer contribution on the furlough pay of £1,540.48.

The employer may claim £30.86 (3% of (£1,540.48 - £512)).”

For April 2020, the calculation of the pension contributions in Step 2 will be calculated as above but allowing for the lower level of Qualifying Earnings for 2020/21 of £520.

It's important to remember though that the furlough pay calculated in Step 1 remains unchanged at £1,540.48, based on the lower level of Qualifying Earnings for 2019/20 of £512.

Each case is different and you should check your own contractual arrangements, salary sacrifice agreement and pension scheme documentation to establish how your pay and benefits are determined. We recommend that you seek legal advice in this area. This document is for information only. It does not contain financial, legal, tax or any other advice and should not be relied upon for this purpose. If you require advice based on your specific circumstances, you should contact a professional adviser.

Return to Work

It will happen in waves



Predictions for a new normal:

- Gradual reopening of some businesses and schools
- Remote work still the norm where possible
- Social distancing remains in practice
- Restricted travel, especially to hot spots
- Likely cycle of restrictive measures



Getting the transition flows right is key:

Economics (what) – future workforce shape, skills requirements, 2020 performance/reward, innovative workforce pools

Empathy (how) – listening strategies, safe workplace practices, flexible and remote working, mental wellbeing, productivity, sustainability



Employers should consider that any return to work will ebb and flow whilst restrictive measures are in place to protect against virus spikes until a vaccine is available.

Agility in decision making, authentic communications and scenario planning remain top recommendations

Q&A

We are committed to ensuring the content of these webinars is as useful to the whole audience as possible but we are also aware there may be specific questions you want answering.

Please submit any questions you may have during the webinar and we will include them on a Q&As document, a link to which will be provided in our post event email to you.

For further information and materials, please visit our COVID-19 hub
www.uk.mercer.com/covid19

Important Notices

This contains confidential and proprietary information of Mercer and is intended for the exclusive use of the parties to whom it was provided by Mercer. Its content may not be modified, sold or otherwise provided, in whole or in part, to any other person or entity, without Mercer's prior written permission.

Information contained herein has been obtained from a range of third party sources. While the information is believed to be reliable, Mercer has not sought to verify it independently. As such, Mercer makes no representations or warranties as to the accuracy of the information presented and takes no responsibility or liability (including for indirect, consequential or incidental damages), for any error, omission or inaccuracy in the data supplied by any third party.

For the avoidance of doubt, this paper is not formal investment advice to allow any party to transact. Additional advice will be required in advance of entering into any contract.

The findings, ratings and/or opinions expressed herein are the intellectual property of Mercer and are subject to change without notice. They are not intended to convey any guarantees as to the future performance of the investment products, asset classes or capital markets discussed. Past performance does not guarantee future results. Mercer's ratings do not constitute individualised investment advice.

This does not constitute an offer or a solicitation of an offer to buy or sell securities, commodities and/or any other financial instruments or products or constitute a solicitation on behalf of any of the investment managers, their affiliates, products or strategies that Mercer may evaluate or recommend.



Issued in the United Kingdom by Mercer Limited which is authorised and regulated by the Financial Conduct Authority.
Registered in England No. 984275. Registered Office: 1 Tower Place West, London, EC3R 5BU