Marris Miller

From Surviving to Thriving: What Pension Managers Ought to Communicate to Plan Members Right Now

The Pension Papers™

When all of the economic news triggered by COVID-19 seems to be negative, pension members may become worried even if things are under control. But we know that the market has recovered from challenges like this one in the past, and pension managers are required to be prepared for every eventuality. In fact, in Canada, we may be managing this situation even better than we expected. In order to ease the way forward for everyone and build hope for the future, pension managers should be communicating frequently and clearly to their members. Members need to know how flexible and adaptable pension investment systems are so that they can breathe a little easier. This article offers some succinct and important information you can consider communicating to your members, so that we can all get through this challenge together.

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There are a lot of changes on the horizon, and some pundits are trying to sound the death knell on pension plans. In Canada, pension managers have been concerned about the effects of the oil glut and price swings triggered by COVID-19 that have required a rapid change in investment strategy in some sectors. For example, the Ontario Teachers' Pension Plan had C$4.3 billion in oil and gas investments before the pandemic began.[1] In the United States last week, as was widely reported, Moody's investors' service estimated that US state pension funds had lost $1 trillion in the market sell-off that began in February, dropping 12.2 percentage points, and warned that we won't see the real effect of these pension problems until the new year. The same week, the Washington Post warned that with unemployment rates at historic levels, Americans should give up their old notions about pensions and retirement altogether.[2]

Is the situation as bleak as all this? What we know from history is that the market has recovered from challenges as dire as the one we are facing now, and worse. We know that government stimulus packages may help significantly, because we've learned from previous global economic crises. We'll also find new ways to build investment potential in needed areas of growth, such as health care. So while the situation is bleak, it isn't going to stay that way.

When there are doom-and-gloom narratives on the front pages of news websites these days, however, pension members might become worried even if things are under control.

What Kinds Of Worries May Members Be Facing?

Members who don't have direct control of pension cash flow, such as those in defined benefit (DB) plans, may panic if they aren't clear on what's being done to stem the current tide of changes to investment strategies. More than ever, members need real data and authentic assurance.

[1] https://www.pionline.com/alternatives/canada-feel-burn-collapse-oil-industry/
[2] https://www.washingtonpost.com/business/2020/05/04/rules-of-retirement/

We can also expect that some companies will move quickly on steps to advance early retirement to phase out older workers to decrease their cash flow. This could mean an unexpected move to a new life and lifestyle. Some pension members may want to retain their investment accounts (if and when possible) after leaving their jobs, others will be cashing out or transferring the money to a different personal account. All of these changes can signal fear and a need for accurate information quickly.

As well, it is true that some large Canadian pension plans have ties to the energy sector through their investment portfolios. This means movement and change in what we invest in, and also what's going to happen in these industries in the very near term. It's very difficult to have a clear picture of certain sectors before government stimulus packages are implemented, or if larger and more systemic changes will take place. Members need to know how flexible and adaptable pension investment systems are so that they can breathe a little easier.

Here's What Pension Managers Should Be Communicating To Members Right Now

In order to ease the way forward, pension managers should be communicating frequently and clearly to their members. The focus should be on answering questions that you can with confidence, but also stating clearly that there are some answers that are still yet to come as the economic situation evolves.

Here are some of the things you can consider communicating to your members, depending on whether they apply to your pension situation and strategy going forward:

- **Relief is coming**. Just as in other areas of the economy, pension plan sponsors may be getting relief from contributions based on existing valuations, assistance with liquidity constraints and extensions on existing valuations from provincial and federal governments to ensure your retirement is as safe as possible.[3] We'll know more over the next few weeks what these relief measures will look like.
- **The federal rules for your pension plan still apply**. Employers are required to continue to make contributions to their pension plans in a normal course, in accordance with applicable law and the terms of the plan even in this current situation. Just because there is an economic recession does not mean that pension management will look for

[3] https://www.benefitscanada.com/news/canada-pausing-solvency-payments-for-federally-regulated-db-pension-plans-145154s

- ways to decrease your benefits. It's simply not allowed. For pension plan design changes, employers must take care to ensure the amendment complies with legislative requirements. Canadian pension standards legislation prohibits amendments that would reduce benefits that have accrued before the effective date of the amendment.
- **Think carefully before digging into your pension savings**. Many of you may be considering a withdrawal even if you are employed, perhaps because of a job loss in your immediate family, a family business need, or unexpected health-related expenses. Before you withdraw early on a defined contribution (DC) plan, remember that this is your retirement pension. As such, you'll want to invest wisely and that means that you should lean conservative to retain as much of your money as possible. If a portfolio won't do as well as your pension (and right now, it won't), then you should keep the pension over the long term.
- **You may have choices that work**. If you have choices in a DC plan, you can think about diversifying in the equity market, perhaps, because of the oil industry hits, with a larger allocation outside of Canada than you might usually. You can take advantage of lower risks by spreading out your investments. But the reality is that this should be an informed decision based on real data, not on panic selling and buying. A better choice is to sit tight on your investments for at least the next two years until things settle, and there is a chance that your pension will be able to grow further.
- **The pandemic has changed plans for many of us, and we're all thinking about what working strategies might be better for us personally**. If you are within a couple of years of retirement, you may want to opt to remain in paid employment longer, if this is an option for you and your company. That employment income will allow you to cover living expenses as well as putting aside more savings for retirement, when it comes. If you're not at retirement age, it may be possible for you to consider a longer term work-at-home strategy. You'll save money on transportation and work clothes, and you can think about redirecting that money into a personal RRSP or TFSA for the future.
- **Consider all of your different retirement benefits**. Canada Pension Plan (CPP) may be under strain in the near future because of needed spending in the short term, and high rates of unemployment. That means it's important to act prudently, and

- conservatively, with respect to your own pension investments so that you can plan ahead. Even so, it doesn't mean that CPP is going to disappear. When it comes to the CPP, everything is pooled together and invested collectively, funding its commitments for the next 50 years, not the next three years that we'll be emerging from the pandemic.

We're Not There Yet, But Changes Can Be Positive.

We may be facing some challenges, but we may also be managing this situation better than we expected. Recent pension analysis shows that in the current volatile market, even with all of its uncertainty and unpredictability, Canadian pension plan sponsors demonstrated resiliency and less market decline, on average, than those in other countries.[4] Pension managers have worked hard to ensure that their plans have resiliency and that people, both organizational leaders and working team members, can trust in their investment futures.

The core focus now should be to communicate pension managers' hard work to every pension member. With clarity, transparency, and frequency in pension information communication, less misinformation will take hold. And with that, we need to share our hopes for the future, rather than our fears alone, to get through this challenge together.

[4] https://finance.yahoo.com/news/northern-trust-pension-universe-data-133000044.html

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