

Coronavirus and your Defined Contribution pension – Frequently Asked Questions

This document is intended to answer frequently asked questions in relation to the potential impact of COVID-19 on your defined contribution (“DC”) pension scheme benefits. It has been prepared in our capacity as pension scheme administrators, DC consultants and institutional investment advisers. We are not qualified to provide financial advice and nothing in this document should be construed as providing financial or investment advice to you. The information below is not tailored to your specific circumstances and we recommend that you seek financial advice before taking any decisions about your retirement/pension benefits.

Q: The value of my pensions savings has significantly reduced, what should I do?

The following information is relevant if you are invested in a lifestyle strategy. If you have chosen to invest your savings outside the default lifestyle option, you may wish to consider how your chosen investments have been affected by logging on to your pension scheme/plan website.

It is important to remember that pensions saving is for the long-term and that most members invest their pension savings, as a default, in lifestyle strategies which are designed to gradually lower the amount of investment risk as members approach retirement.

If your retirement is not in the near future

Retirement may be a long way away for you. You are likely to have heard on the news about stock markets falling and may have concerns as a large part of your pension is invested in companies around the world.

It is worth bearing in mind that your pension savings are there for the long term and, when markets have fallen in the past (e.g. following 9/11 or the 2008 recession) they have recovered over time. As you would expect, we do need to point out that we cannot predict how long this recovery may take or how markets may behave in the future and you should be aware that past performance is no guarantee of future performance.

If you are still making contributions to your pension, an overall reduction in company share prices could be a good thing.

What do we mean by that?

You and your company put money into your pension savings every month. This means that when stock markets go down, you buy more. Let's illustrate that with an everyday example:-

You have £1 and go to the supermarket to buy beans. They cost 50p per can - so you can buy two.

The following week, you go in and the price has fallen to 25p. The good news is you can buy four cans for the same £1.

Now you may not hold beans for the long term in the same way you will hold your pension savings (in fact that would not be a good idea at all!) but what the example shows is that, as stock markets fall, you can buy more with the same amount of money. This could mean that, at the point that markets recover (which based on historic experience could be the case over the medium to longer term) what you are buying now will go up in value.

We recommend that speak to a financial adviser (<https://www.unbiased.co.uk/advisers>) should you wish to discuss your specific circumstances.

If you are closer to retirement but still have at least a few years to go

You should consider the time that you have left between now and retirement. This could be long enough to recover from the recent market falls (although this depends on your specific circumstances and is not guaranteed). If you are still making contributions to your pension savings, your choices may include weathering the storm or considering saving more if you are concerned about staying on track. We recommend that you speak to a financial adviser before taking any decisions.

If you are invested in the lifestyle option (like the majority of members), then as you near retirement, your savings are automatically switched out of higher risk funds into lower risk funds compared to those you were previously investing in, to help insulate your pension savings from market movements.

If you are close to your planned retirement age

If you are invested in the lifestyle option, then your investments have been gradually moving to less risky funds as you approach retirement and so your pension savings could be less affected by what is happening in the markets.

Should you wish to consider your current investment funds, an explanation about how the investments work and more information on the funds the scheme/plan offers can be found on the scheme/plan website.

If you wish to change your investments, you can do this by logging into your scheme/plan website. Please note that should you opt to change your pension funds, the investment switch will not be executed on the same day, therefore will be based on the market position when the transaction is actioned, which is usually within 2 to 3 working days, but can on occasion take longer. It may also take up to 10 working days to be visible on the website, therefore the value could go up as well as down from any illustration you may have received. To discuss your specific situation (including possible options on and before retirement and whether to change your investments) we strongly recommend that you contact a financial adviser (<https://www.unbiased.co.uk/advisers>). Hymans Robertson cannot give financial advice. The financial adviser may charge for financial advice.

Q: What is a lifestyle strategy?

A lifestyle strategy is an investment option for members who prefer not to manage their investment themselves. It works by moving your investments gradually (and automatically) from funds that offer growth to those which are designed to be less volatile and help protect your investments as you approach your selected retirement age.

It does not guarantee a particular level of benefit – that will depend on a number of things such as how much you and your employer contribute, how well your investments perform, the charges and the age at which you retire.

You can adapt your lifestyle option to fit with how you want to take your savings at retirement, whether you want to:

- Take all your money as cash at retirement - the first 25% (that's £25 out of every £100) will be tax free. The rest will be subject to income tax.
- Buy a lifetime income – you can buy a pension for life from an insurance company (an “annuity”) and take some tax-free cash.
- Take your money as flexible income over time – take part of your retirement savings each year as income to help pay for your retirement, again with some tax-free cash. You may need to transfer your benefits out of the scheme/plan to take this option.

Q: I have heard all about lifestyle, how can I tell whether I am investing in that?

Lifestyle is the scheme/plan default investment strategy if you did not make an investment decision when you first began your pension saving. Your annual benefit statement should tell you which funds you are currently invested in or you can check by logging onto the scheme/plan website.

Q: I did not select lifestyle, should I change anything?

We cannot provide financial advice but you should speak to a financial adviser before taking any decisions in respect of your pension benefits, (<https://www.unbiased.co.uk/advisers>). Please note that should you opt to change your pension funds, the investment switch will not be executed on the same day so your money may be adversely affected by market movements.

Q: I am planning to retire this year, what shall I do?

We recommend that you seek financial advice ahead of your retirement date to discuss possible options on and before retirement.

Q: I have received a letter with my retirement options, what should I do?

It is likely that the value of your pension savings has reduced since you received the letter. You should log onto the scheme/plan website which will provide your current fund value.

Even though you have received a quotation, it is not too late to change your mind and plan to retire at a later stage. We recommend that you seek financial advice to discuss possible options on and before retirement.

Q: I am having financial troubles; can I opt out of my pension arrangement and take the money out or reduce my contributions?

We understand that many people are finding their personal finances are under strain. If you can, continuing to pay your normal pension contributions will benefit your long term retirement planning. However, if you have material financial difficulties, you may be able to either reduce your contributions to the auto-enrolment minimums or opt out altogether for a temporary period and stop paying contributions. If you do this, your employer would also stop paying their contributions into your pension savings and you may not be covered for the same level of death in service benefits.

If you would like to opt out or reduce your contributions, please speak to your Human Resources (HR) or payroll team to establish what your options are and the potential implications and to request the appropriate form to complete if you decide to proceed. We recommend that you seek financial advice before deciding whether to opt out or reduce your pension contributions.

If you are under the age of 55 and struggling for cash because of the coronavirus crisis, you may be tempted to cash in your pension. Be aware that if you release or unlock money from your pension pot, your pension provider will notify HMRC and you will have to pay a 55 percent tax bill on the money you take out on top of fees to the companies offering this service. The firms offering this type of service are not regulated by the Financial Conduct Authority and while doing this is not illegal, it is not advisable to take money out of your pension pot unless you are covered under some very specific circumstances.

If you are over age 55 we recommend that you seek financial advice about taking your pension savings earlier than planned (<https://www.unbiased.co.uk/advisers>).

Q Can I re-join the scheme if I have opted out?

You should contact your HR team to establish the options available to you if you wish to temporarily opt out for a short period and re-join at a later date.

Q: I recently received a transfer value quotation. What should I do now?

We recommend that you speak to a financial adviser before taking any decisions about transferring your benefits (<https://www.unbiased.co.uk/advisers>). Please note that since this quotation was provided, the investment markets have changed. You should log onto the scheme/plan website which will provide your current fund value. As you consider your next step, you should be mindful of pension scammers (further details and resources are referenced below).

Q: Someone has suggested that I transfer my pension fund to their product. What should I do?

Some key things to remember, especially in these uncertain times, are: -

- If you access your pension savings before you are 55, you will be liable for a large tax bill (55% of the money you have taken out). The companies offering this type of access are not regulated by the Financial Conduct Authority and the service they are offering you may be a pension scam. Scammers will also want a “cut” of your savings. So, the value of your pension savings will be severely hit before you get the money in your bank account.
- Even if you are over 55, your pension savings need to last you for the rest of your life so accessing them at this point in time may not be the right thing for you to do.
- If an offer looks too good to be true, it probably is. And you will not be the one to benefit – the scammer will.

‘Scamsmart’ is a campaign set up by the Financial Conduct Authority to help pension scheme members like you avoid pension and investment scams. Visit <https://www.fca.org.uk/scamsmart> for further information and to check an investment or pension opportunity you may have been offered.

The Money Advice Service and Pension Wise websites, both of which are free and backed by the Government, also have some useful information on pension scams and wider pensions and money information that might be able to help you at this challenging time.

<https://www.moneyadviceservice.org.uk/en>

<https://www.pensionwise.gov.uk/en>

Q: What will happen to my DC pension, if I were to die?

If you were to die before retirement, the Trustee, taking into account your wishes, will pay the value of your pension savings to a beneficiary. It is important that you let the Trustee know your wishes by completing the Expression of Wish or Pension Beneficiary Nomination form on the scheme/plan website.

Q: I have been furloughed. What will be the impact on my pension contribution?

You should contact your HR or payroll department, who will be able to answer your questions relating to your ongoing pension contribution.

Q: I have been advised that the property fund I have invested in, is not currently allowing any trading. What does this mean?

The suspension in trading in the property fund is due to the COVID-19 pandemic and the fact that the people who value the properties that the fund holds cannot do this accurately at the moment. This means that the property fund you are invested in cannot be confident of the values of the properties that the fund holds to price your units in the fund.

For members who are contributing to their pension- This means you will not be able to invest money into your property fund or take any money out of the fund for the time being. It also means you will not be able to switch any money into or out of the fund until it opens again. At the moment, we do not know when the fund will re-open, but we will be in touch when it does.

You will have been contacted by the Trustee of your scheme/plan regarding the contributions you normally pay into the property fund and where these have been transferred to. Once the property fund re-opens again, we will contact you to let you know. At that point, we will ask if you would like your contributions to be invested in the property fund again. If you would like to review your investments, you can log into the scheme/plan website.

For members who are no longer contributing to their pension - There is no immediate action for you. At the moment, we do not know when the fund will re-open, but we will be in touch when it does. The Trustee, along with your investment adviser, will continue to monitor the situation and will let you know once the property fund has started to trade again. These are difficult times for all of us and we know that this will create some uncertainty for you, particularly if you are close to your selected retirement date. If you feel you need to speak to someone, please feel free to contact your pension administrator.

Q: I recently received a benefit statement which included the value of my pensions savings at the statement date. Is it possible to get a current fund value?

You should log onto the scheme/plan website which will provide your current fund value.

Q: I recently received a benefit statement which included an illustration of my pension in retirement. Will this be much lower now?

The illustration takes into account the current value of your pension savings, and the amount of future contributions you and your employer are expected to pay into your savings and the future investment return. If you are still contributing, and are not close to retirement, the impact on your illustration may not be significant. You can get a revised illustration by using the Pension Planner on the scheme/plan website.

Q: I have not previously logged into pensionsWEB, can you tell me how to do this

You should contact your pension administrator who will help you to register, their contact details can be found in the accompanying correspondence and in the Contact Us pages of the scheme/plan website.