COVID-19: TOP TIPS FOR WORKPLACE PENSION SAVERS

Covid-19 has caused significant disruption to economies worldwide, with policymakers, businesses and individuals dealing with a wide variety of challenges brought about by the rapidly evolving situation.

People have been facing up to wide range of work disruption including school closures, remote working, reduced hours, enforced holiday, being furloughed and, in some cases, even being laid off. Market volatility and uncertainty over employment may prompt you to look at your short and long-term household finances. You might be worried about paying your immediate bills, or worry that your pension payments might stop.

This guide is designed to explain what happens to your workplace pension under a range of circumstances brought about by the virus and provides tips on what to do about your pension.

The Pensions and Lifetime Savings Association (PLSA) represents more than 1,300 workplace pension schemes serving 20 million savers and pensioners. Our members include defined benefit (DB) and defined contribution (DC) schemes, master trusts and local government pension funds, together controlling £1 trillion of investments in the UK and global economy. Our membership also includes 400 businesses – including asset managers, investment consultants and legal advisers – that provide essential services and advice to UK pension providers. Our mission is to ensure that everyone has a better income in retirement.

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TOP TIPS AT A GLANCE

- Retirement benefits for those with defined benefit pensions are not directly affected by stock market movements resulting from Covid-19. In cases of employer insolvency, defined benefit pensions are protected firstly by having a ring-fenced fund and secondly by the Pension Protection Fund.

- Your savings in defined contribution schemes are also ring fenced from your employer's assets, and in addition are generally protected against insolvency of the pension provider. The funds are well diversified to weather the worst of falling share prices and benefit from a future recovery.

- In the majority of cases the best action is to stay the course with your workplace pension. Past experience suggest that share and other asset prices will recover over time.

- Think very carefully before deciding to stop contributing to your workplace pension – you could miss out on employer and government contributions to your pension, growth to your pot from a future stock market recovery and even death benefits associated with your scheme.

- For people in a defined contribution scheme who are close to retirement, it may be necessary to take stock of when you plan to retire and how much income you can expect to have. You should consider getting free government advice from the Pensions Advisory Service or Pension Wise.

- Furloughed employees could get 80% of wages, up to a monthly cap of £2,500, under the Government-backed Coronavirus Job Retention Scheme plus 3% minimum statutory employer automatic enrolment contributions.

- Be wary of criminals who may try to scam you out of your pension. Be especially careful of cold calls asking for your pension information or offering you unusually high investment returns or urging you to act by a short deadline.

- With both types of pensions, like with wills, it is worth checking that your nominated beneficiaries have been updated to reflect your family circumstances and your wishes.

- Seek guidance or financial advice if you are unsure what to do. There are links below to free guidance from the government.

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IF YOU HAVE A DEFINED BENEFIT (DB) WORKPLACE PENSION

A defined benefit (DB) pension scheme is one where the amount you're paid is based on how many years you've worked for your employer, the salary you've earned and the age you retire. There are over 28 million people in the UK with this type of pension, according to ONS data. You may have one if you have worked for a large employer or in the public sector.

Your employer or former employer is responsible for ensuring there is enough money at the time you retire to pay your pension income. This means the amount you are receiving, or are set to receive upon retiring, will not change as result of movements in the stock market resulting from the coronavirus or any other reason.

If you work in the private sector and your employer goes out of business, you won't lose your pension benefits if the scheme is fully funded. In addition, even if the scheme is underfunded, your pension is protected by the Government-backed Pension Protection Fund (PPF). It ensures that people who have already retired continue to receive 100% of their pension income and those that have not yet reached their retirement age will receive 90% of their benefits, up to a cap of £41,461 per annum.

The PPF is well funded and builds reserves precisely for this kind of market situation so savers with DB schemes should feel confident they are protected.

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IF YOU HAVE A DEFINED CONTRIBUTION (DC) WORKPLACE PENSION

For the 17.5 million people with defined contribution workplace pensions, the impact of the coronavirus on your eventual retirement income is less certain, but that doesn't mean you necessarily have to be more worried.

With DC pensions, your pot is built up over time through a combination of your own contributions, contributions from your employer and the returns on investments made by the scheme that manages your pot(s). The Government also helps contribute, in effect, through tax relief.

You might be worried by headlines telling of dramatic falls in the value of the stock market and wonder how it impacts your pot. Historically financial markets have always recovered from shocks. In any case, the shares that have been hit hardest by the coronavirus outbreak are only one type of a diversified range of investments your scheme holds on your behalf. If you still have many years until you retire, you have plenty of time to recover short-term paper losses.

You might be thinking about opting out of your workplace pension. Before doing so, you must think very carefully about how this will impact your income in retirement and what it means for any death benefits that might be tied to your pension. For one thing, opting out means you will no longer receive the benefit of contributions from your employer of at least 3% of your overall pay – and even more in many cases.

The best course of action for the majority of savers under these circumstances is likely to be to stay the course. The contributions you and your employer make to your pension now will buy a greater number of shares at a cheaper price than they did before the outbreak. It is also worth noting, the professional investors managing your workplace pension pot have likely already acted to position how your savings are invested to benefit most from the eventual recovery.

Your defined contribution pension savings benefit from a range of protections if companies looking after your savings get into trouble. If the company you work for is pushed to the brink by the economic fallout of the virus and your scheme is run directly by your employer or is within a master trust, the funds are held in a trust arrangement, completely separate and safe from your employer's business finances. If your scheme is run by a pension provider, in the unlikely event they go bust, the Financial Services Compensation Scheme offers protection for investments in most cases. In all cases, your pension fund is held in a separate, protected, fund from the companies running your pension.

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IF YOU HAVE A DC PENSION AND ARE NEARING RETIREMENT

For those approaching retirement, rest assured that pension schemes understand you cannot afford to lose money in the vital years before they retire. You will likely have seen your pension pots automatically tilted towards less risky investments like cash and bonds as you near your retirement date. This is known as 'life styling' and it is still worth checking if this has been done and if your scheme is working towards the same retirement date as you.

Nevertheless, if you are very close to retirement, recent falls may mean now is not the best time to begin drawing your pension or purchase an annuity. It may be a good idea to delay or reduce the amount you take out if you can afford to. However, in these unprecedented times, it is difficult to predict with certainty when a recovery will take place.

Seek financial advice if you are unsure what to do. Free pension guidance is available over the phone from the Pensions Advisory Service. Call 0800 011 3797 or visit www.pensionsadvisoryservice.org.uk.

If you are over 50, have a workplace pension and want to make sense of your options when you retire, you can also book a free and impartial online or telephone appointment with Pension Wise, a government scheme set up to provide specialist pension guidance.

IF YOU ARE FURLOUGHED

If you have been furloughed by your company, you could get paid 80% of your wages, up to a monthly cap of £2,500 under the Government-backed Coronavirus Job Retention Scheme.

The Government will also give support for your employer on top of this amount to provide 3% minimum statutory automatic enrolment contributions.

If your salary is reduced as a result of these changes, you may be eligible for support through the welfare system, including Universal Credit.

IMPACT ON THE STATE PENSION

The state pension is paid by the Government and is therefore unaffected by fluctuations in the stock market. The amount of state pension you will receive is based on the number of years you work or undertake specific caring activities such as bringing up children. Currently, someone will a full State Pension will receive an annual income of £9,110.

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BEWARE SCAMS

Criminals will stop at nothing to try and illegally get their hands on your savings, and are even using the global pandemic as an opportunity to con people. Be especially vigilant against this sort of activity in the coming months and never be rushed into making a decision about your pension.

You should be especially wary of cold calls in relation to your pension, which are against the law. Legitimate pension schemes or advisers will never contact you in this way.

Scammers may contact you in other ways, promising returns that beat the market in exotic investments. They use high pressured sales tactics such as sending a courier to your door with papers to sign. One key to beating a scammer is never be rushed into making a decision.

Look out for your friends, family members and colleagues too. Times of uncertainty can make people more vulnerable to making rash decisions that could affect the rest of their lives.

The Financial Conduct Authority and the Money and Pensions Service are urging savers to take their time and visit the Pensions Advisory Service website for free plain English pensions guidance before making any decisions about their retirement savings.

The FCA also has a Scam Smart tool that shows some of the key signs to watch out for. If you are in any doubt don’t sign and call the Pensions Advisory Service on 0800 011 3797 or visit www.pensionsadvisoryservice.org.uk.

Additional protection is provided by the Pension Scams Industry Group (PSIG) Code of Good Practice in Combating Pension Scams, which has been adopted by all pension providers, schemes and reputable advisers.

ADDITIONAL RESOURCES

Free pension guidance is available over the phone from the Pensions Advisory Service. Call 0800 011 3797 or visit www.pensionsadvisoryservice.org.uk. If you are over 50, have a workplace pension and want to make sense of your options when you retire, you can also book a free and impartial online or telephone appointment with Pension Wise, a government scheme set up to provide specialist pension guidance.

The Government website also includes important guidance for employees.

Other useful links:

- Latest Government information on the coronavirus
- Financial Conduct Authority and the Money and Pensions Service joint statement on pension scams
- Code of Good Practice in Combating Pension Scams
- Pension Protection Fund's preparation for Covid-19
- Citizens Advice Bureau
- The Pensions Regulator