

2020

Global Regulatory Responses and Pension Fund Challenges Related to the COVID-19 Pandemic



Introduction

In this paper the World Pension Alliance aims to provide an overview of the challenges that both pension funds and pension plan members faced during 2020 and promote the adoption of policies with a long-term view toward retirement security. While not overlooking the current difficult economic situation of many workers around the world, this research underscores the damaging effects of specific policies such as pension withdrawals. With that in mind, this paper summarizes the challenges and global regulatory efforts made in 2020 in different regions around the world in response to the COVID-19 pandemic and provides a brief analysis on sector developments since the beginning of the pandemic. In this endeavor, the WPA would like to promote the important role of funded retirement schemes, in line with the International Labour Organization's multipillar pension model and always in respect of its design principles for pension systems.¹

Role of Pension Funds

Even more so during the current pandemic crisis, pension funds serve a significant social function in supporting economies and citizens. They ensure benefits for old age income while they work as automatic stabilizers in times of economic strain. Because employers' and employees' representatives are involved in the management of workplace pension schemes, such schemes help to promote transparency, inclusiveness, and democratic legitimacy. Workplace pensions are intrinsically linked with active social dialogue as well the social partners' involvement and thus address in a collective and democratic manner the issue of the members' retirement income.

Most notably, pension funds are important institutional investors and can foster long-term investment and sustainable economic growth while maintaining financial stability. They often act countercyclically by maintaining their long-term strategic asset allocation in stressed market conditions, in that they rebalance and buy assets whose prices have diminished abruptly. In the current economic environment of persistent low interest rates and the detrimental effects of the COVID-19 pandemic, these institutions can invest in the real economy, thus contributing to the recovery process around the world.

¹ International Labour Organization, *Social Protection for Older Persons: Policy Trends and Statistics 2017–19*, Social Protection Policy Paper 17 (Geneva: International Labour Office, 2018), www.ilo.org/wcmsp5/groups/public/---ed_protect/---soc_sec/documents/publication/wcms_645692.pdf.

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Overview of Challenges

The WPA members share and support the recent analysis of the Organisation for Economic Co-operation and Development on the main challenges affecting pension funds in the time of COVID-19.²

The OECD reports the following main impacts:

- A decline in the value of assets in retirement savings accounts from falling financial markets
- An increase in liabilities from falling interest rates in retirement savings arrangements with retirement income promises (e.g., defined-benefit retirement plans and life annuity arrangements)

- A lower capability to contribute to retirement savings plans by individuals, as they see their wages reduced or lose their jobs, and by employers suffering financial distress
- Operational disruptions as a result of working remotely
- Cyberattacks, frauds, and scams directed at individuals, regulators, supervisors, and providers of retirement savings schemes (e.g., pension funds)
- A reduction in savings and compound interest earned from measures aimed at providing relief in the short term that can have a large negative impact in the long term, especially on retirement income adequacy (e.g., contribution holidays, early access to retirement savings)

These challenges have affected pension funds in different ways in different parts of the world, and countries across the globe have reacted differently, introducing different policies. In section 3, we provide some insights and comments on policymakers' main policy responses.

Notwithstanding the above-described challenges, pension funds are proving resilient to the challenges of COVID-19, and in the jurisdictions covered by WPA members we have not observed major liquidity issues.

² See OECD, *OECD Pensions Outlook 2020* (Paris: OECD Publishing, 2020), www.keepeek.com/Digital-Asset-Management/oecd/finance-and-investment/oecd-pensions-outlook-2020_67ede41b-en#page25.

Broad Policy Recommendations

We make the following policy recommendations based on the common experience of the WPA members; they are meant to broadly underline policy directions for supporting workplace pension schemes. Importantly, our recommendations align with the OECD's latest relevant recommendations related to the COVID-19 pandemic, as laid out in the *OECD Pensions Outlook 2020*.³

It is important that policymakers understand the social character of pension plans, as pension plans should not be treated as mere financial institutions. The significant role that such schemes play in social cohesion and alleviation of old age poverty as well as in the recovery and stability of economies should be reflected in the priorities and policy choices of legislators and regulators. In addition, we emphasize that pension funds act in a very heterogeneous legal and institutional landscape, depending on the historical, social, and economic particularities of their respective national jurisdictions.

Given the long-term and countercyclical role of retirement plans, it is of the utmost importance to support their funding adequacy. In that regard, we appreciate the efforts undertaken in many countries to provide more flexibility vis-à-vis the recovery periods for those defined-benefit

plans that are struggling to meet their legislated funding requirements, such as postponing the deadline for presenting the recovery plan, extending the recovery period, or lowering the funding ratio threshold that triggers the recovery mechanism. In that respect, we urge decision makers to continue displaying flexibility in the implementation of supervisory practices and regulations as current circumstances dictate, always in close consultation with the industry. As the WPA members have a long-term perspective, we recognize that pension savings should not be considered as an alternative for obtaining short-term resources. As the OECD opines, one can consider withdrawal of pension funds due to an exceptional situation, but only as a temporary measure of last resort. And withdrawal must be accompanied by clear and explicit mechanisms for recovering the withdrawn funds.

³ See more at www.oecd.org/pensions/covid-19-crisis-adds-pressure-to-private-and-public-pensions-systems.htm.

The members of the WPA acknowledge that under the current unprecedented circumstances a key priority should be funds' ability to serve their obligations. That points to the importance of ensuring the continuity of operational activity of pension funds – whether that refers to day-to-day tasks or decision-making processes – as well as ensuring a good level of services to members and beneficiaries.

The WPA member organizations acknowledge the need for the possible adoption of specific measures that could alleviate pressures arising from funding obligations, as those have been exacerbated by the current situation.

Especially in these times, information is crucial for maintaining trust in pension plans.

As sponsoring companies are under considerable financial pressure, we do not preclude a more flexible approach in the collection of contributions, through their deferral to a later date, their decrease, or even their temporary waiver. At the same time, policymakers should reflect on the possibility of subsidizing contributions.

Especially in these times, information is crucial for maintaining trust in pension plans. In that regard, retirement schemes should actively communicate to their members the potential negative consequences of transfers or other short-term-driven decisions, such as early redemption, on their future ability to receive an adequate benefit.

Finally, pension funds should advise their members and beneficiaries of the increased risk exposure to fraud, and at the same time they should address the issue of enhancing their cybersecurity and data protection procedures, given the acceleration of digitalization and remote working trends as a result of the pandemic.

Overview of Regulatory Responses and Challenges in Regions Where WPA Members Are Active

Funding Relief Measures

The measures European Union member states take to address the crisis vary considerably from country to country, because the European pension landscape is very diverse. To give a national example, Dutch occupational pension funds are permitted to delay the collection of contributions by a maximum of two months. But waiving contributions is not an option, as pension rights are accrued irrespective of whether contributions are received.

In Canada, there has been considerable discussion about allowing employers and members of pension plans to reduce contributions that are subject to plan amendments. In certain types of plans employers have been permitted to amend their plans in order to remit below the 1 percent compensation floor. That measure was not provided for, nor supported by, multiemployer pension plans.

In some Canadian jurisdictions, legislation extended the funding period for solvency deficiencies or deferred the funding of margins for adverse deviation (i.e., the provision for adverse deviation, or PfAD). The period of economic upheaval, particularly the extreme lowering of interest rates, has shone a bright light on provincial funding requirements since margins, which should have dropped during a period of crisis, in fact rose – revealing a deep flaw the pension industry has been educating about for some time.

States and localities in the United States have pressed for federal assistance as they anticipated a loss of state or local revenue due to the COVID-19 pandemic. In the more than 150 years of their existence, governmental plans have never sought federal assistance, nor is there any anticipation that they would during this crisis. Multiemployer pension plans have sought federal relief on three fronts for plans that have been severely impacted by the COVID-19 pandemic. First, plans that are currently facing insolvency have sought to partition liability to the federal pension insurance to enable the remaining plan to remain solvent. Second, sponsors have sought an extended period over which to repay any investment or contribution losses plans have incurred as a result of COVID-19. Finally, multiemployer plans have sought the ability to establish new plan designs that are more resilient to future market volatility. It is important to note that no funding relief

has yet been granted, and final action is still pending on these requests. Sponsors of single-employer plans have also sought reform of the funding rules to provide an interest rate more in line with historical norms for several years as well as to allow funding shortfalls to be amortized over a 15-year period. Final action on those proposals is still pending as well.

Contribution Holidays

No specific measures have been taken to date in Australia.

As mentioned earlier, the regulatory measures adopted to cope with the effects of the pandemic vary among EU countries. For example, according to the Belgian association of institutions for occupational retirement provision, PensioPlus, the introduction of flexibility on contributions for defined-contribution plans would not be considered as a good practice in Belgium, unless the pension plan and the pension rights would be modified.

Regarding North America, in Canada no relief measures, other than lowering the floor level of contributions as noted earlier, have been introduced. As previously noted, some plans are allowed a longer time period in which to amortize funding deficiencies but no contribution holiday per se has been granted.

The United States has no federal regulations or guidance relative to contribution holidays for GPs. Plan sponsors are the ones who generally make the decision to fully fund, partially fund, or not fund. Contributions for single-employer defined-benefit pension plans due in 2020 were delayed until January 4, 2021. This was the result of the CARES Act, which extended the due date to January 1, which was then extended to January 4 by the Department of the Treasury/IRS to avoid its being on a holiday. No contribution relief has been provided for multiemployer plans.

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We see certain policy variations among several South American countries. Colombia and Peru have approved contribution holidays for a period of two months and one month, respectively. A three-month contribution holiday is under discussion in both Chile and the Dominican Republic.

Actuarial Valuations

No specific measures have been taken to date in Australia.

Canadian plans were allowed to file special valuations at December 31, 2019. Some provincial regulators imposed additional restrictions so that such plans filing valuations earlier than on their normal three-year cycle may not change that cycle for nine years.

The United States has no federal regulations or guidance for GPs relative to actuarial standards, so these generally follow the standards of the actuarial societies. To date we are aware of no actuarial society guidance referring to COVID-19. For multiemployer and single-employer plans, the annual return/report filings that would otherwise be due on or after April 1 and before July 15, 2020, were delayed until July 15, 2020. Likewise, the multiemployer certifications of funding status and the development of any required improvement plans due on or after March 31, 2020, were delayed until July 15, 2020.

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Pension Withdrawals

The European Insurance and Occupational Pensions Authority (EIOPA) has said that national competent authorities (NCAs), where relevant in collaboration with the national legislature, should encourage flexibility to safeguard members' pension rights and, particularly in defined-contribution schemes, allow plan members to choose delayed application of lump sum payments or of mandatory annuitization. Liquidity risk due to early withdrawal is generally not an issue in EU countries. In several countries early withdrawal is not allowed, and the majority of those that do allow it under strict conditions are not experiencing liquidity risks as the number of requests are close to the usual levels. In March 2020, Spain introduced an exceptional liquidity measure for pension plans, allowing members/beneficiaries of pension plans under certain circumstances to withdraw their pension rights, up to a maximum and for a limited period of time (until September 14), so as to augment their income and thus mitigate the consequences of being unemployed or affected by a suspension of economic activity in the context of the current crisis. Under this temporary measure more than EUR 100 million has been paid.

Pension withdrawals have been allowed in Australia and New Zealand – in particular, up to AUD 20,000 for Australian and New Zealand citizens and permanent residents as well as AUD 10,000 for temporary visa holders, all of it tax free. The early release scheme finished on 31 December 2021 with AUD 36 billion taken out of the system by 3.4 million people. The initiative will see many Australians face a large COVID-19-related

pension savings gap that will be difficult to rebuild. Nearly one million Australians under the age of 35 closed their superannuation account or now have less than AUD 1,000 in superannuation as a result of withdrawing their savings early under the scheme.

Furthermore, temporary relief measures were taken to expand timely financial advice on early release in Australia. But also, temporary reduction measures have been introduced regarding minimum account-based pension drawdown requirements.

In North America, on the one hand Canada has not allowed pension withdrawals, so registered pension plan funds are locked in. However, individual accounts in registered retirement savings plans (RRSPs) already allow taxable withdrawals without limits. Financial institutions are granted the latitude to allow taxable withdrawals from locked-in RRSPs if the account owner demonstrates financial hardship.

On the other hand, in the United States withdrawals of up to USD 100,000 from defined-contribution plans have been allowed, including a waiver of the otherwise applicable 10% early withdrawal penalty and the ability to spread the income tax due on the distribution over three years. Participants may also repay the withdrawal over a period of three years. At the same time, we see no COVID-19-related developments in either country to address the age limits of the payout phase or pension commencement. In Canada, the current requirement that members must commence a pension no later than December of the year they turn 71 has not changed. Also, the United States had already passed in 2019 the SECURE Act,

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which increased the age at which individuals must start distributing retirement plan assets to 72 from 70½. There were proposals raised in the last Congress and expected to be reintroduced as part of bipartisan US legislation that would increase the age to 75 and make other adjustments to minimize the impact of minimum distribution rules and allow for longer-term savings. In addition, the United States provided a one-year exemption in 2020 from the requirement to take such minimum distributions.

In the Latin American countries belonging to the International Federation of Pension Fund Administrators (FIAP), as a result of the COVID-19 pandemic, there have been proposals to allow early access to the pension funds accumulated by workers in their individually funded accounts. In these countries (Bolivia, Colombia, Costa Rica, El Salvador, Mexico, and the Dominican Republic) the maximum limit of the proposed withdrawal ranges between 10 and 100 percent of the balances.

In the cases of Bolivia and Colombia, the proposal considers the withdrawal of up

to 10 percent of the funds. In Colombia, the opinion of the industry is that workers who lose their jobs have access to the money in unemployment accounts (a kind of “unemployment insurance”), and that has hindered the implementation of any initiatives regarding pension fund withdrawals.

In the case of Costa Rica, the proposed withdrawal is up to 50 percent of the funds. In El Salvador, with the pandemic, it has been proposed that between 30 and 100 percent of the balance be withdrawn and without the obligation to reimburse it. In El Salvador, it is important to note that before the pandemic there was already the figure of withdrawal of up to 25 percent of pension funds subject to compliance with requirements and with the commitment to repay the money or postpone the retirement age.

In the case of Mexico, since the financial crisis of 2008, withdrawals from the individually funded pension funds due to unemployment are allowed. In this case, the mechanism works as an “unemployment insurance,” where the amount that can be withdrawn is the lesser of the equivalent of three months of the last registered salary or 11.5 percent of the funds accumulated in the account (withdrawal can be done up to once every five years). In the context of COVID-19, a proposal arose to eliminate the five-year waiting time and to set the amount of withdrawal at approximately USD 620, but it was scrapped.

In the case of the Dominican Republic, the proposed withdrawal is up to 30 percent of the funds.

The only Latin American country where an early withdrawal of pension funds has not been proposed in the face of the COVID-19 contingency is Uruguay. The reasons for this are basically three:

- Pension issues are concentrated in a bill to reform the pension system, which would be processed in 2021.
- Uruguay is the country least affected by COVID-19 in Latin America, so the pandemic’s impact on the economy and labor sources has been more limited.
- Unemployment insurance exists that grants income of up to USD 400 per month to those who lose their job, and it was made more flexible in this period to grant partial income to those who have suffered a reduction in their working hours.

The only Latin American countries where withdrawals of funds have materialized in the face of the COVID-19 pandemic are Chile and Peru.

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Chile

In Chile, a first measure allowing withdrawals of up to 10 percent of pension fund balances has been operational since July 30, 2020. In this case, the minimum amount to withdraw is USD 1,361 and the maximum is USD 5,834. If workers have less than USD 1,361 in their individual account, they can withdraw the total of their fund balance.

In addition, on December 3, 2020, the Congress approved a second exceptional withdrawal of up to 10 percent of one's pension fund balances, and the withdrawal process began to become operational as of December 10. This second regulation established the same minimum and maximum amounts to be withdrawn as in the first withdrawal. There will be no obligation to repay the withdrawn funds. If workers have less than USD 1,361 in their individual account, they can withdraw the total of their fund balance. Withdrawals greater than USD 1,361 and up to USD 5,834 will be paid in two equal installments: the first within a maximum of 10 business days after the withdrawal request is submitted, and the second payment up to 10 business days after the first payment. As with the first withdrawal approved in July 2020, in the second withdrawal the funds withdrawn will not be subject to any commissions or discounts applied by the pension fund manager (AFP, by its acronym in Spanish) or the financial institution that makes the payment, but this time the withdrawal is subject to income tax (for income greater than USD 2,047 per month), whose rate and application are defined by the Internal Revenue Service.

Regarding the effect the first withdrawal has had in Chile, it should be noted that, according to the official statistics of the Superintendency of Pensions, as of November 20, 2020, 10.2 million workers, or 92 percent of members in the individually funded system, had asked to withdraw funds. Of this universe, 98 percent have already received the requested resources, which in total amount to USD 18.5 billion, implying an effective average amount withdrawn of USD 1,813 per person.

According to estimates, this first withdrawal of funds left 1.9 million people with a zero balance in their individual pension savings account. We can summarize the negative effects of the first withdrawal of funds as follows:

- **Lower future pensions:** The greatest impact on pensions would be on those of young people with low incomes and few years of contributions, with a fall in the total pension that a person can self-finance in the mandatory program of individual accounts of around 24 percent. On average, the pensions of all workers would fall by 13 percent.
- **Lower taxes collected:** The first withdrawal is made without paying taxes, which corresponds to about USD 1 billion that the state forgoes.
- **Significant portion of the funds used for purposes other than emergencies derived from the pandemic:** A high percentage of people who withdrew continued to contribute to their pension fund, so they were not the most vulnerable (in fact, the figures show that 10 million people withdrew funds, but only 350,000 stopped making contributions).

With the second withdrawal approved in December, the negative effects of the first will worsen:

- **Even lower savings balances and lower pensions:** Considering the first withdrawal, with a second withdrawal it is estimated that 4.4 million people would have no balance for their retirement. On average, members will keep 51 percent of their initial savings and the pensions of all affiliates would fall by 23 percent. The total withdrawn could reach USD 35 billion, 17 percent of the total value of the funds.
- **Higher fiscal expenditure:** It is estimated that a second withdrawal will cost the Treasury USD 4 billion. That is because the state will have to give those who remain without a balance a greater subsidy in the Solidarity Pillar (noncontributory pensions) using resources of all Chileans.
- **Much less impact on those who need it most:** As was demonstrated with the first withdrawal, a significant proportion of the funds were not used to address emergencies derived from the pandemic. Those who withdraw money from their individual accounts a second time will be those who still have a positive balance after the first withdrawal, which are precisely the people who have more stable work careers and higher salary levels (not workers in the informal sector, who are the most affected by the COVID-19 pandemic).

Peru

In Peru, in response to the COVID-19 pandemic, pension fund withdrawals of 25 percent have already materialized, up to a maximum of PEN 12,900 soles (approximately USD 3,573). That law went into effect May 1, 2020. A withdrawal of USD 550 from individual accounts has also already materialized (operational since April 15, 2020).

In addition, a project in process would allow the withdrawal of contributions in the pay-as-you-go (PAYGO) system (in Peru, the PAYGO pension system competes with the individual account system). This is a total contradiction since by definition, in a PAYGO pension system, the contributions collected are used to pay the pensions of current retirees, so there is no accumulated money to withdraw (that is, if this policy is approved, it will imply disbursement of fiscal resources to allow the withdrawal of contributions).

Regarding the effect of the first (25 percent) withdrawal, data available as of September 30, 2020, indicate 4.95 million members (65 percent of the total) have withdrawn funds from their accounts, with the total amount withdrawn being USD 6,744 million. It is estimated that the total pension that a person can self-finance in the mandatory program of individual accounts will fall between 12 and 19 percent, depending on retirement age.

Finally, it should be noted that on November 18, 2020, Peru's president promulgated a law that allows a second partial withdrawal of private pension funds (effective beginning December 9). Under the law, members may

voluntarily and extraordinarily withdraw up to USD 4,765 from their pension funds. Those who can access this maximum withdrawal are (i) members who do not register contributions in 12 consecutive months as of October 31, 2020, and (ii) members with an oncological diagnosis. Meanwhile, the rule establishes that members who do not register contributions in October 2020 and who are not beneficiaries of the USD 4,765 withdrawal may request a withdrawal of up to USD 1,191.

In Europe the rules on transfers vary from country to country. In Italy, for example, the law always allows the transfer of commuted value between funds with the possibility to choose a guaranteed line.

Commuted Value Transfers

No specific measures have been taken to date in Australia.

In Europe the rules on transfers vary from country to country. In Italy, for example, the law always allows the transfer of commuted value between funds with the possibility to choose a guaranteed line. But in this extraordinary period, occupational pension organizations at the national level are strongly recommending to funds to not adopt this practice for their members but rather wait for the recovery of the economy.

In Canada, most regulators have rules that prohibit such transfers – made on the basis of solvency factors – if the plan is known to have incurred a loss of 10 percent or more. However, a prior approval by the regulator is required for this kind of transfer.

Communications to Regulators, Sponsors, and Plan Members

Australian regulators have suspended non-time critical consultations as well as regulatory reports and reviews. Additional time has been provided to respond to complaints, and a six-month suspension was implemented on issuance of new licenses.

At the EU level, EIOPA has encouraged NCAs to expect pension funds to communicate with sponsors, members, and beneficiaries in a balanced way regarding the impact of the coronavirus developments on IORPs' service continuity and, as the financial and economic impacts of COVID-19 start to become clearer, on the impact on (future) retirement income of members and beneficiaries. In particular, in defined-contribution schemes, pension funds' communications should aim to discourage potential short-term decisions by plan members that may jeopardize long-term pension outcomes. At the national level, many pension funds have taken the initiative to contact their members on their own. In some EU countries, they have proactively communicated to their members the potential negative consequences of transfers or other short-term-driven decisions (e.g., early redemption).

As for reporting to NCAs, at the EU level EIOPA invited NCAs to accommodate pension funds' focus on key operational activities: in particular, NCAs should be flexible with respect to deadlines for publication of documents and data considered less urgent given the current circumstances as well as in respect of national reporting requirements. The reporting deadlines for the provision of occupational pension information to EIOPA were extended by two weeks for information on the first quarter of 2020 and by eight weeks for the annual reporting of year-end 2019 information. It is important to note that many NCAs are following the recommendation. Along the same lines, the European Central Bank extended its deadlines for pension funds to report statistical information. The bank gave pension funds an extra eight weeks to report annual data (for the reference year 2019) and extended their quarterly data obligations by two weeks.

In North America, Canadian regulators have allowed additional time for filing regular reports to both supervisory authorities and plan members, recognizing the importance of communicating with plan members at this time. In the United States, no federal regulations or guidance relative to communications exists for GPs; hence each state has its own rules about communications. As mentioned earlier, for multiemployer plans, notifications of funded status that were normally due on or after March 31, 2020, were delayed until July 15, 2020. Deadlines for the provision of other participant notices have been extended through 60 days after the announcement of the end of the COVID-19 emergency, as long as a good faith effort is made to provide such notices as soon as possible.

Electronic Payments / Reporting

Australian regulators revised commencement dates for new prudential and reporting standards. In particular, they extended the annual anti-money laundering and counterterrorism financing obligations compliance report requirements from March 31, 2020, to June 30, 2020. Moreover, the due date for the annual returns for self-managed superannuation funds was extended to June 30, 2020. There have been deferrals in unclaimed super money reporting and payment and, finally, the tax office allowed super funds to electronically submit their release authority statements and end benefit notices.

Various European national regulators provided operational relief to pension funds. In addition, in several EU countries pension fund active members and retirees can use online services. Thus, in several national contexts, personalized and secure information is already available to pension fund members. For example, Belgium and the Netherlands already have such nationwide systems in place. On the other hand, measures in adaptation to the coronavirus have been more visible in France, where members of the Agirc-Arrco scheme were encouraged to create their own online account in order to use available services.

In North America, some Canadian regulators endorsed electronic communication with members, but they issued no endorsement for required contributions to be remitted electronically. Canadian regulators were quick to acknowledge that even they were

not technologically advanced enough to permit quick responses to remote work and other telecommunications requirements. The United States has adopted a default electronic disclosure system to be used for most single-employer retirement plan communications, extending, for example, to remote notarization. This was a US Department of Labor regulatory initiative; however, it is not coronavirus-related. In the United States, certain retirement plan-related signatures, such as spousal consents to certain forms of benefits, generally must be witnessed in the physical presence of a notary or a plan representative. In light of the pandemic, that requirement has been made inapplicable for 2020 and the first half of 2021.

In South America, the Chilean Institute of Social Security (IPS) – the entity in charge of payments under the country’s old PAYG system – makes payments electronically. In Columbia, in response to the effects of the pandemic, alliances have formed to open bank accounts to elders.

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Essential Services

The Australian state and territory governments have outlined a list of prohibited venues and activities, with everything else being considered an essential service. Superannuation funds and their service providers are not on the prohibited list.

Since the beginning of the pandemic, the overarching priority of occupational pension funds across the EU countries has been to ensure business continuity. At the EU level, EIOPA has called on NCAs to ensure that IORPs prioritize the continuity of key operational activities (including outsourced ones) such as the timely investment of contributions, the management and safekeeping of assets, the timely and accurate payment of retirement benefits, and service continuity toward members and beneficiaries. NCAs should allow IORPs flexibility in the collection of contributions from employers facing liquidity pressures, also in anticipation of envisaged wage support measures. EIOPA also stated that NCAs should expect IORPs to carefully consider and effectively manage the increased risk exposure to fraud, other criminal activity, cybersecurity, and data protection due to the disruption of society and, in particular, staff working remotely. Finally, EIOPA recognized the importance of IORPs by stating that they can play a stabilizing role in current volatile markets. Many NCAs are providing guidance to pension funds to ensure business continuity and/or the setting of exceptional measures on organizational issues. To give but a few examples, in Germany and in Italy pension and insurance services have been declared

essential services. On the contrary, in Belgium the Ministerial Decree of April 17, 2020, defined a list of essential services that failed to include pension or insurance services.

In Canada, pension plans have been declared essential services. To that end, the majority of employees have adopted teleworking.

Funding

Australia has seen a reduction in deeming rates⁴ for social security purposes.

At the EU level, EIOPA called on NCAs to closely monitor the impact of financial market developments on the financial position of IORPs providing defined-benefit schemes and their compliance with national funding requirements. It also recommended that NCAs find “an appropriate balance between the primary goal of safeguarding the long-term interests of members and beneficiaries and the aim of avoiding short-term procyclical impacts on the real economy, most notably sponsoring employers, and the wider financial system.”⁵ Some EU member states have allowed longer or more flexible recovery periods to recover from underfunding, while NCAs provided recommendations on investment policy, guidance on schemes funding, and more flexibility on deviations from investment policy.

In Canada, relaxation is allowed only for special payments for solvency deficiencies, so in general it is not possible to relax funding requirements before plans reduce their benefits. The United States has no federal regulations or guidance relative to funding of GPs, and no measures have been taken so far to relax the funding requirements of multiemployer plans or single-employer pension plans.

Although no measures have been enacted affecting US single employer or multiemployer plans, proposals are under active consideration. Stable pension funding for single-employer plans is urgently needed. For many companies that maintain such plans, the pandemic has created the perfect storm. The combination of continued low interest rates coupled with sharply reduced company revenue that many have experienced threatens the economic health and even viability of some defined-benefit pension plan sponsors, including those in the supply chain of many other companies. In response to concerns about single-employer pension funding, proposals awaiting action would provide greater interest rate “smoothing” for funding purposes by aligning the interest rate to determine funding more closely with historical norms over a 25-year period, consistent with prior temporary policy that is set to expire in 2021, and delay any phaseout of such rate until 2026. The proposals include permanently reducing all shortfall

⁴ For more information on deeming rates and rules in the Australian social security system, see <https://guides.dss.gov.au/guide-social-security-law/4/4/1/10>.

⁵ EIOPA, *Statement on Principles to Mitigate the Impact of Coronavirus/COVID-19 on the Occupational Pensions Sector*, April 17, 2020.

amortization bases to zero for all plan years beginning before 2021 and allowing amortization over 15 years rather than seven.

Similarly, multiemployer plans in the US have been deeply impacted by the COVID-19 pandemic, and urgently need relief. Multiemployer plans are funded by negotiated contribution rates, and contributions are generally paid per hour worked. The government-mandated shutdown of the US economy in response to the pandemic has decimated the finances of workers, families, employers, and their pension plans. COVID-19 has also resulted in the US Federal Reserve taking actions that directly and negatively impact pension plans as well as their investments in fixed-income securities. While the Federal Reserve's actions are necessary to prevent a complete collapse of the financial markets and the broader economy, its actions have further crushed the yields on Treasury securities, agency securities, and corporate fixed-income securities. Given the role that all of these fixed-income securities play in a well-diversified portfolio (a statutory requirement under US ERISA), the Federal Reserve's actions, however necessary, have directly and negatively impacted a large portion of the investment portfolio of pension plans. All of these factors necessitate federal assistance. Proposals under consideration focus on partition of liabilities for plans facing insolvency, extended time to recover from investment and contribution losses for plans on firmer footing, and new optional plan designs to stabilize the system going forward.

In Chile, the president of the republic confirmed in April 2020 the creation of a fund of USD 2 billion to help informal

workers and the most vulnerable families affected by Covid-19.

Liquidity

No specific measures have been taken to date in Australia, although a joint regulator statement referred to liquidity as one of the primary areas of regulatory focus.

At the EU level, EIOPA called on NCAs to monitor the liquidity position of IORPs carefully and proportionately. EIOPA recognizes that IORPs may face significant liquidity pressures due to a number of factors, including delayed or missing contributions from employers and employees; the potential need to cover cash margin calls on derivative hedging positions; any moratorium on payments on loans and mortgages; expected declines in dividend payments on IORPs' equity holdings; and difficulties in selling assets under current market circumstances. It is important to note that members identified missing contributions as the most pressing factor. As a national example, the Belgian NCA has requested to be notified by IORPs without delay should the valuation or trading of certain assets in their portfolio be suspended. Particular attention should be paid to collective investment instruments, which, in view of the current market conditions, should take special liquidity measures.

Similarly, no specific measures have been taken to date in Canada; however, some pension regulators contacted pension plans early in the pandemic to ascertain whether they had any concerns around liquidity

due to contribution timing. The Canadian financial markets, as with other markets, saw some temporary illiquidity around fixed-income, real estate, and infrastructure assets. The United States has no measures so far for multiemployer pension plans to relax funding status determination metrics, which encompass liquidity measures; in addition, for GPs there are no federal regulations or guidance relative to liquidity.

In South America, the Chilean state will be the guarantor of certain loans made to small and medium-sized enterprises (SMEs) while it has been proposed that pension funds invest in SMEs. In Mexico, it was proposed that pension funds invest in stabilized government assets, and the pension supervisor (CONSAR, or National Commission for the Pension System) established that, in the face of the COVID-19 emergency, the unemployment withdrawals of workers contributing to the IMSS must be settled in a single installment. In Peru, it was proposed that pension funds could be used as a guarantee for low-cost loans. Finally, in Colombia and Costa Rica the withdrawal of unemployment insurance funds was approved for workers affected by the COVID-19 crisis.

Australian policymakers have supported workers through the JobKeeper subsidy payment given to employers in order to retain staff.

Measures to Support Employment

Australian policymakers have supported workers through the JobKeeper subsidy payment given to employers in order to retain staff. Through that, workers receive a fortnightly payment of AUD 1,500 before tax and without pension contribution.

Major government measures have been taken nationally in most EU countries. More than 30 million workers in the five largest economies of the EU (the United Kingdom, Germany, France, Italy, and Spain), estimated at around one-fifth of their total workforce, applied to acquire short-term leave schemes against unemployment during the first wave of the pandemic. In addition, the EU will provide additional financial support to member states to protect jobs and workers affected by the coronavirus pandemic. The European Commission has made available a new instrument, the temporary Support to mitigate Unemployment Risks in an Emergency (SURE), to allow for financial assistance up to EUR 100 billion in the form of loans from the EU to affected member states. In addition, the European Parliament is calling for a permanent European Unemployment Reinsurance Scheme (EUBS) to ensure that workers in Europe are protected from income loss. Such a scheme aims to reduce pressure on EU countries' public finances by providing support to national measures to preserve jobs and skills and to facilitate the transition back into work.

Canada has launched several major federal government programs for employers who retain their staff by paying up to 75 percent of earnings up to CAD 59,000. Enhanced and ongoing unemployment payments were made available to unemployed Canadians. At the time of this report, 8.7 million Canadians had applied for relief. Canadian provincial and municipal governments have created customized programs to assist with tax burdens and to provide tax deductions for Canadians who have moved home to work.

In the United States, states and localities are asking for federal assistance to compensate for the loss of public revenue due to COVID-19; however, for the moment GPs are not asking for direct federal assistance.

In Chile and Costa Rica, recently introduced laws allow the use of unemployment insurance funds to pay salaries and prevent layoffs. In the Dominican Republic, it was proposed that pension funds be used to pay salaries for three months to prevent layoffs.

In Chile and Costa Rica, recently introduced laws allow the use of unemployment insurance funds to pay salaries and prevent layoffs.

Finally, in regard to fiscal market stimuli, the European Central Bank announced in March an initial stimulus package of EUR 750 billion in government and corporate bond purchases (under the name Pandemic Emergency Purchase Programme) as part of its efforts to support the eurozone. Additionally, at the end of April the Central Bank lowered the interest rate on cheap loans it provides to banks and eased requirements for bank capital cushions, meaning that banks will not be pressed to restrict their lending activities. Similarly, Australia introduced a reduction in the cash rate while Canada introduced a reduction of the baseline interest rate.

About the WPA

The World Pension Alliance (WPA) is a collective organization made up of the main advocacy associations representing pension plans and providers in the world, including Europe, the United States of America, Canada, Latin America, and Australia.

Founded in 2011, under the name of Global Pension Alliance, the network kept growing and made a decisive step in 2016, when it created its governing rules, appointed a chair and a coordinator, and changed its name to World Pension Alliance. Today, through its members, the WPA represents more than 400 million people covered by retirement plans, and roughly 5,000 pension providers managing more than USD 7 trillion.

The primary long-term objective of the WPA is to be recognized at the international level as the common voice of the not-for-profit pension industry representing millions of retirement income plan members.

To achieve its long-term objective, members of the World Pension Alliance:

- facilitate an open exchange of ideas, experiences, and best practices among WPA participants;
- advocate on issues of common interest in order to globally defend and promote the voice of the not-for-profit pension community by supporting WPA member positions with local, regional, national, and international decision makers; and
- provide independent thought and education on issues impacting retirement income including subjects such as investment management, governance and legislation.



European Association of Paritarian
Institutions of Social Protection
(AEIP)



Australian Institute of
Superannuation Trustees



Canadian Public Pension
Leadership Council
(CPPLC)



International Federation
of Pension Fund Administrators
(FIAP)



Multi-Employer Benefit Plan
Council of Canada
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National Coordinating Committee
for Multiemployer Plans
(NCCMP)



National Conference on Public
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