Brexit Checklist

Considering the implications of the UK leaving the EU for your pension schemes

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This checklist is a reference for trustees. It is intended to assist you with identifying early actions you should take, now that the result of the Brexit vote and the immediate consequences are known.

We will provide future updates when further developments take place. For further discussion on these topics you can watch our DB and DC webinars.

Step 1: Consider the sponsoring employer's covenant	
How might an exit from the EU affect the covenant? If you need further information from the employer to do this, ask! The implications will be different for every business, and employers are already considering this from the business' perspective.	
Ask the employer to comment on the potential implications for its trading and cash generating prospects. For example: - Is the employer a significant importer/exporter from/to the EU? - What has been the impact of the fall in sterling against major currencies? - How reliant is the employer on EU migrant workers? - Where the sponsoring employer's group is not based in the UK, could operating in the UK become a less or more attractive prospect?	☐
Could the value of any of the employer's balance sheet assets and/or liabilities materially change?	☐
Could there be any implications the next time the employer refinances? Could its borrowing costs have changed?	☐
Where there is an overseas parent, has the UK pensions deficit or upcoming deficit contributions reduced in operating currency terms as a result of foreign exchange movements?	☐
If the scheme has a contingent asset in place, how might its value be impacted? For example: - If it is a security over property, how might the property value be impacted? - If there is a parental company guarantee, has the guarantor's ability to underwrite its obligations changed? - If the guarantee is from an EU-based parent company, has the enforcement risk increased?	☐
Key Action: Consider whether there have been any adverse changes in the sponsor covenant.	☐

Brexit risks should be considered in the context of the Regulator's guidance on Integrated Risk Management – which encourages trustees to consider covenant, funding and investment risks together

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Step 2: Consider the short-term impact on your funding position

Gilt yields have fallen significantly since the Brexit result. In some cases this will have been offset by an increase in asset values, but in others deficits will have increased materially. With the recent cuts in central rates, gilt yields may fall further.

Consider obtaining a funding update and notifying the employer if they do not have access to this information.	☐
Where a funding valuation is currently in progress, consider post-valuation experience and whether to allow for it in the funding plan.	☐
Where no valuation is currently in progress, consider whether any further action should be taken at the next opportunity, for example discussing additional funding or other support with the employer.	☐
Key Action: Review latest funding information and consider whether any short-term action is required	☐

Step 3: Consider your investment strategy

Already facing a world of likely slow and uncertain growth, Brexit accentuates these pressures. In light of the significant gilt yield falls and a weakened sterling, you should understand your exposure to these risks in the context of the employer covenant supporting the scheme.

Consider whether the current level of interest rate and inflation hedging remains appropriate.	☐
Review the level of currency exposure. Is this now an opportunity to change the level of currency hedging?	☐
If the scheme has investment triggers in place, review them to ensure they remain appropriate following the sharp drop in yields.	☐
Review your overall equity allocation in light of the greater uncertainty for the UK's economic prospects.	☐
Review any property allocation – is the manager currently suspending redemptions for example?	☐
Key Action: Identify any areas of the current investment strategy that may need to be monitored and/or reviewed.	☐

Step 4: Consider on-going pension scheme management issues

Consider on-going administration, in particular where benefits are being crystallised, for example by transfer value payments

The fall in gilt yields has increased transfer values for many schemes. Consider whether to review the transfer value basis, and monitor volumes of quotations/take up from members.	☐
If relevant, agree the approach to be taken when a scheme member requests multiple transfer value quotations within a 12 month period.	☐
If the scheme is currently materially underfunded, consider whether a temporary hold or underfunding cutback in transfer value quotations is appropriate. (Note there is a legal obligation to provide a quote within 3 months and so a temporary hold could last no longer than that.)	☐
Is your Risk register up to date? If not, consider reviewing it.	☐
Have conflicts relating to key individuals changed or heightened as a result of Brexit?	☐
Consider adding some Brexit-related commentary in your next newsletter or bulletin to members.	☐
Key Action: Consider whether to review your approach to transfer values.	☐

Step 5: Consider the implications for key pensions de-risking actions	
If you are currently taking action to manage risks, for example through liability management exercises or insurance de-risking, there may be further issues to consider.	
For schemes currently looking to execute an insurance contract: - Monitor insurer pricing closely to ensure any pricing opportunities can be identified and captured quickly (using ICI's opportunistic buy-in as an example of the benefits of the right governance structure and insurer relationships to meet a stretching price target). - Consider commissioning an independent due diligence report on insurer'(s) financial strength, with consideration of the Brexit outcome included in the scope for the report. For schemes that maybe interested in transacting in the future: - If your employer has an overseas parent, the weakened sterling position makes cash investment in "parent currency" terms cheaper. Consider whether to open up a de-risking conversation with employer/overseas parent at this time.	☐
Consider how movements in the funding position and transfer value factors impact on-going ETV/ Flexible Retirement Offer projects: - High transfer values may increase take-up BUT if yields revert back then transfers paid out may look relatively expensive.	☐
Key Action: Carefully consider the impact on on-going de-risking exercises.	☐

Step 6: Consider the implications for DC schemes	
Has your DC provider commented on the impact of Brexit on their business?	☐
What (if any) communications are you or providers planning to send to employees/members? Consider the differing needs of the membership population.	☐
Are the risk warnings in your communications up to date and clear?	☐
Consider the short and long-term impact on your default portfolio. Does it need reviewing?	☐
Key Action: Don't ignore the impact that Brexit may have on your DC scheme.	☐

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