TACKLING CORONAVIRUS (COVID-19): CONTRIBUTING TO A GLOBAL EFFORT

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# Retirement savings in the time of COVID-19

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This policy brief details the impact of COVID-19 on retirement savings schemes, describes some of the policies already being implemented in different countries and provides policy guidelines.

## Challenges facing retirement savings

The outbreak of the COVID-19 pandemic, the associated lockdowns and the related economic downturn are impacting retirement savings, retirement savings schemes, providers, regulators and supervisors, potentially leading to future lower incomes in retirement and important dysfunctions in the market. The main potential impacts are:

- A decrease 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 benefits 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;
- Cyber-attacks, 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 as a result of measures intended to provide 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).

## Policy responses affecting retirement savings

Countries have introduced a number of policies to tackle these challenges (see Figure 1). These policies target plan members; employers; retirees; and/or providers of retirement savings plans (e.g. pension funds). OECD analysis has identified several policy responses:

- Policies to limit the materialisation of short-term investment losses.
- Policies to secure the solvency of plans with guarantees and the business of pension providers.
- Policies that provide subsidies to cover pension contributions and support the accrual of assets.
- Policies to address operational disruptions
- Policies to protect providers and participants from cyber risks and COVID-19 related scams.
- Policies to provide short-term relief to individuals or their employers.

The first five policy responses focus on ensuring the resilience of the funded and private pension system and protecting future retirement income and its adequacy from the consequences of the COVID-19 outbreak. The last response, however, provides short-term relief but it may come at a potential cost to future retirement income.

*Figure 1. Main policy responses that affect retirement savings*

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| ✅ **Limit the materialisation of investment losses** (e.g. communicating the consequences of switches and withdrawals) | • Australia, Canada, Colombia, Chile, Germany, Hungary, Latvia, Mexico, New Zealand, United Kingdom, United States |
| ✅ **Secure the solvency of retirement plans and the business of providers** (e.g. lengthening recovery periods of DB plans failing to meet funding requirements) | • 29 OECD countries + Croatia, Kazakhstan, Kenya, Mauritius |
| ✅ **Subsidise contributions** (e.g. providing wage subsidies covering pension contributions) | • Iceland, Netherlands, New Zealand, North Macedonia, Slovak Rep., Sweden, Switzerland, United Kingdom |
| ✅ **Address operational disruptions** (e.g. improving online procedures) | • Most OECD countries |
| ✅ **Protect from scams and cyber attacks** (e.g. warning plan members and giving them tips to avoid them) | • Australia, Austria, Luxembourg, Mauritius, New Zealand, Slovenia, Sweden, United Kingdom |
| ❌ **Provide short-term relief with potential long-term risks** (e.g. facilitating early access to retirement savings) | • Australia, Belgium, Canada, Colombia, Denmark, Estonia, Finland, France, Iceland, Peru, Portugal, Slovak Rep., Spain, United Kingdom, United States |

## *Policy considerations*

The response to the decline of asset values in retirement portfolios is to stay the course avoiding materialising value losses by selling. Saving for retirement is for the long haul. Fluctuations in asset values are inevitable during the life of a retirement portfolio. Over the long-term, portfolio investment provides a return to people’s savings for retirement. Experience shows that selling when markets go down and buying when they go up, is far from appropriate as ‘timing the market’ (i.e. attempting to predict future market movements) does not work. Selling assets when shocks occur risks materialising the reduction in value and precludes opportunities to recover those losses.

Policy makers should communicate to members the important of staying the course, keeping long-term investments plans. It took around two years for most countries, for the value of of assets in retirement savings accounts, which experienced big valuation losses during the 2008 financial crisis, to recover to 2007 levels.[1] Therefore, as long as people do not sell their assets, they do not materialise the losses and their portfolios eventually could recover and resume their long-term trend upwards.

It is important to allow for regulatory flexibility in recovery plans to address liability problems stemming from retirement promises. Regulatory rules, including mark-to-market valuation principles and recovery plans, remain essential for the long term but need to be flexible during exceptional circumstances. However, it is also important to reverse that flexibility once the exceptional circumstances have faded.

Flexibility with respect to regulatory compliance and supervisory oversight in a proportionate, flexible and risk-based manner could help alleviate the on-going pressures that could lead to poor decisions or exacerbate the financial difficulties that the sponsor faces. Flexibility in regulation and supervisory oversight should focus on making sure that the increase in the liabilities of DB pension plans and insurance

[1] OECD Pension Markets in Focus.

companies offering life annuities would not put further strain on those offering retirement income promises during difficult times.

Additionally, funding and solvency rules for DB plans should be counter-cyclical. Introducing flexibility in meeting funding requirements would help to avoid ‘pro-cyclical policies’ and allow pension funds to act as long-term investors and potentially stabilizing forces within the global financial system.

Disclosure of the type of scams and frauds on the websites of national authorities and retirement savings plan providers, as well as advice to trustees and advisors to send regular and clear information to plan members as scammers may exploit misunderstandings and people’s fears, could reduce frauds and scams.

Some countries may have implemented measures to provide short-term relief that may have lasting consequences on retirement well-being. Measures such as contribution holidays and access to retirement savings accounts may affect the adequacy of future retirement income. It is important to avoid allowing premature access to balances accumulated to finance retirement as much as possible, especially if access is universal. The goal of retirement plans is to finance retirement. Allowing withdrawals from retirement pots may lead not only to lower retirement income adequacy but also to materialising asset value losses, and liquidity and investment management disruptions.

Withdrawing assets from retirement plans should be a measure of last resort. Notwithstanding this, there can be room for the need for flexibility in exceptional personal circumstances. Most jurisdictions already include provisions allowing for partial withdrawals of retirement savings based on specific exceptional circumstances: hardship situations like unemployment accompanied by protracted and large losses of income, or terminal illnesses. These programmes should be maintained for people in the greatest need. The main emergency mechanisms that governments have, and may want to continue to use, to assist people with the large temporary losses in income, are aid programmes such as unemployment programmes. Access to retirement savings should remain an exceptional measure based on individual specific circumstances and based on regulations already in place for that purpose.

### *Policy messages*

Policy makers should make sure that people saving for retirement stay the course:

- Saving for retirement is for the long-term. Maintain investments in retirement portfolios to avoid selling and materialising value losses.
- Continue contributing to retirement plans. Governments may provide income transfers or subsidise the income of people as part of the many programmes to assist the populations facing the economic fall from COVID-19, the lockdown and the associated economic downturn.

Policy makers, regulators and supervisors should:

- Allow for regulatory flexibility in recovery plans to address funding problems stemming from retirement promises (e.g. DB pension arrangements, and lifetime income products).
- Make sure that funding and solvency rules for DB plans are counter-cyclical. Introduce flexibility in meeting funding requirements, thereby avoiding ‘pro-cyclical policies’ and allowing pension funds to act as long-term investors and potentially stabilizing forces within the global financial system.
- Provide proportionate, flexible and risk-based supervisory oversight coupled with adequate communication to reduce frauds, and facilitate efficient operations. Supervisory oversight should concentrate on prudential and market conduct regulation, including ensuring protection of members and beneficiaries against COVID-19 related scams, especially of the most vulnerable individuals. Supervisors should communicate to market participants and individuals on their prudential expectations and recommendations in time of the crisis and actions made to facilitate pension funds’ operations and to ease administrative burden.

- Allow access to retirement savings as a measure of last resort and based on individual specific exceptional circumstances. Retirement pots are to finance retirement. Accessing retirement savings could lead to materialising temporary asset value losses, liquidity and investment management problems to pension funds, and, more importantly to retirement income adequacy shortfalls. Current regulatory frameworks already allow for tapping retirement savings in exceptional circumstances when substantial income losses occur, and should not be expanded further.
- Develop close co-operation with stakeholders, regulators and supervisors at the national and international levels, to share solutions and effective ways to deal with the current crisis.

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